



THE EFFECT OF LIQUIDITY, CAPITAL STRUCTURE, AND PROFITABILITY ON FIRM VALUE IN COSMETIC COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

Firm value is essential in the company because all company decisions can influence investor decisions. If the company value is good, investors and potential investors will view the company favorably, and vice versa. This study aims to determine the effect of liquidity, capital structure, and profitability on the value of companies listed on the Indonesia Stock Exchange in 2014 - 2021. The population used in this study is cosmetics companies listed on the Indonesia Stock Exchange in 2014 - 2021, totaling 3 companies. The research sample used a saturated sampling technique, where the population in this study was used as a sample. The data analysis technique in this study uses Multiple Regression Analysis. The results of this study prove that liquidity and profitability have a positive and significant effect on firm value. Capital structure negatively affects substantial value in cosmetic companies listed on the Indonesia Stock Exchange.

Keywords: Firm Value, Liquidity, Capital Structure, and Profitability

INTRODUCTION

The company must master its advantages and attractiveness to differentiate itself from others and create added value. A growing business organization is a cosmetics company in the Consumer Goods industry sector listed on the Indonesia Stock Exchange and engaged in producing cosmetics, hair care products, food and beverage products, household care products, and body care products. Book value refers to the value of shares recorded by the issuer; market value is the book value of shares in the market. Market and intrinsic value is the actual value of the stock. A price book is one way to determine a store's inherent value. *Price book value* is a ratio that measures management's ability to create market value for its business above investment costs by comparing the value of shares with their book value (Kasmir, 2009: 116). A higher PBV ratio means that the company is getting higher in getting the value of investors, which also impacts the company's value. The following is presented PBV data for cosmetic companies listed on the Indonesia Stock Exchange from 2014 - 2021, as follows:

Table 1 Value of Cosmetics Companies listed on the IDX in 2014-2021

| No | Code | Company Name | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----|------|------------------------------------|------|------|------|------|------|------|------|------|
| 1. | ADES | PT. Akasha Wira International. Tbk | 2,78 | 1,82 | 1,53 | 1,23 | 1,13 | 1,09 | 1,23 | 2,00 |
| 2. | KINO | PT. Kino Indonesia Tbk | 8,28 | 3,09 | 2,22 | 1,47 | 1,83 | 1,81 | 1,51 | 1,09 |

| No | Code | CompanyName | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------|------|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 3. | MBTO | PT. Martina Berto Tbk | 47,16 | 34,50 | 44,89 | 35,00 | 44,87 | 42,77 | 17,23 | 35,48 |
| 4. | MRAT | PT. MustikaRatu Tbk | 49,41 | 29,52 | 30,44 | 30,05 | 26,02 | 22,20 | 26,40 | 43,02 |
| 5. | TCID | PT. Mandom Indonesia Tbk | 2,81 | 1,93 | 1,41 | 1,94 | 1,76 | 1,10 | 0,70 | 0,59 |
| 6. | UNVR | PT. Unilever Indonesia Tbk | 107,18 | 122,59 | 138,93 | 139,98 | 94,12 | 121,34 | 113,58 | 72,57 |
| Total | | | 217,63 | 193,45 | 219,43 | 209,67 | 169,72 | 190,31 | 160,65 | 333,15 |
| Average | | | 36,27 | 32,24 | 36,57 | 34,95 | 28,29 | 31,71 | 26,77 | 47,59 |

Table 1 shows that the average company value (PBV) of Cosmetics Companies listed on the IDX in 2014 - 2021 tends to fluctuate (up and down). The highest company value (PBV) was obtained in 2017 by PT Unilever Indonesia Tbk, 139.98%, while the lowest company value (PBV) was acquired in 2021 by PT Mandom Indonesia Tbk, 0.59%. Liquidity is measured using the *Current Ratio* (CR). The average *Current Ratio* (CR) in cosmetic companies listed on the Indonesia Stock Exchange from 2014 to 2021 tends to fluctuate (changes every year). In 2014-2016 the average liquidity increased in 2016 by 1.99 to 5.93. then in 2017-2021, decreased by 4.52 to 2.24.

Capital structure is measured using *Debt to Equity Ratio* (DER). The average *Debt to Equity Ratio* (DER) in cosmetics companies listed on the Indonesia Stock Exchange in 2020. Profitability is measured using *Return On Assets* (ROA). The average *Return On Assets* (ROA) of cosmetic companies listed on the Indonesia Stock Exchange in 2014 - 2021 experienced fluctuations (up and down). ROA in 2014 was 0.11; in 2015, it increased by 0.12; in 2016, it decreased by 0.10; in 2017, it decreased by 0.08; in 2018, it increased by 1.05; in 2019, it decreased by 0.12; in 2020 it decreased by 0.11, and in 2021 it increased by 0.14.

Based on the findings above, the subject of this research is a cosmetics company, which is one of the sub-sectors of the cosmetics industry on the Indonesia Stock Exchange. The Indonesian cosmetics industry is proliferating, and business competition is getting tighter and tighter. Cosmetics are an increasing human need, so cosmetics play an essential role in supporting one's appearance, so researchers make them the object of research.

LITERATURE REVIEW

Signaling Theory

Signal theory is a signal that describes the state of the company given by investors for a sense of responsibility for managing the company (Lanawati & Amilin, 2019). For a signal to be effective, it must be captured by the market, perceived as good, and not easily copied by other companies of poor quality (Suryani, Paramaita, dan Andika 2021). The company will generate profits or losses, and these profits and losses will become news in the capital market, and profits will be good news, which will provide positive signals and attract investors, and vice versa (Ratih dan Damayanthi 2016)

Signal theory suggests how companies should signal to users of financial statements, especially

to investors (Angela dan Yanti 2022). Signal theory explains that managers send signals to reduce information asymmetry. Managers provide information through financial reporting that they use conservative accounting policies to produce higher-quality earnings. This principle prevents companies from overstating earnings and helps users of financial statements by presenting earnings and assets that are not overstated (Maheni, Widnyana, and Gunadi, 2022). Signaling theory can also be interpreted as a company's activities for investors (Nurwulandari, 2021)

Trade Off Theory

Modigliani and Miller proposed this theory in 1963 in the American Economic Review, Article 53 (June 1963), entitled "Corporate Income Taxes on the Cost of Capital: A Revision". The trade-off theory assumes that a firm aims to maximize shareholder wealth. This theory explains how much debt a company should have and how much equity it should have to balance costs and benefits.

The theory explains that companies with capital structures that do not use debt and use debt as a whole are poorly managed (Sansoethan & Suryono, 2016). The essence of the trade-off capital structure theory is to balance the benefits and sacrifices caused by using debt.

Company Value

Firm value can reveal the financial performance of potential investors who invest in the company (Sutanto et al., 2019). According to (Lisda & Kusmayanti, 2021), firm value provides information on how much the public values the company so that they want to buy the company's shares at a price higher than the book value of the shares. Firm value can maximize prosperity for shareholders if the stock price rises.

The company's goal is to increase the value of the company itself. A high-value company means that the company is financially healthy and stable, and vice versa. If the company is low value, then the company is not financially healthy. If the company is of ~~high~~ value, investors and potential investors will feel happy with the company, and vice versa.

Liquidity

Liquidity is the company's ability to meet its short-term obligations. Liquidity is significant for companies because it relates to converting assets into cash. Companies and investors often use liquidity to know the level of the company's ability to fulfill its obligations. The greater the liquidity of the company, the better the short-term performance of the company, so it makes investors more confident in the company. When liquidity increases, the company value also increases (Riyanti et al., 2023)

Capital Structure

According to Damayanti and Darmayanti (2019), "Capital structure" is the process by which another business acquires a business through the use of leverage or debt (Damayanti dan Darmayanti 2019). (Cashmere, 2009: 122) explains that the use of long-term debt about equity is the capital structure. Investors will see the capital structure associated with the use of debt as something attractive and indicate that the productivity and prospects of the business will be profitable in the future. Investors

anticipate that businesses with strong leadership will prevent stock trading and prepare to raise new capital using debt (Irawan dan Nurhadi 2016)

Profitability

Profitability is the best way to determine the expected growth rate of investment activity. A rising profitability threshold means that investors' perception of the company's prospects will become more favorable. However, a high profitability ratio indicates that employee morale in the company is below average, and manager morale also leaves concerns among investors (Lestari, 2022). Companies with a high level of profitability can also be highly generated; economic profitability and high-profit margins will encourage managers to provide detailed information (Purwanto dan Wikartika 2014).

Effect of Liquidity Ratio on Company Value

According to Brigham and Joel (2010:150), if profitability, asset management, debt management, and profitability are all rated good or very good, and conditions are stable, then the market rating is also high, and the same is true for the stock rating. In addition, management has performed its duties effectively so that income is received as soon as possible.

According to Agustin and Anwar's research, in 2022, liquidity will contribute to firm value. If the business in question is known to pay its debts on time and in full, it will be able to generate the trust of potential investors to invest their money in the situation at hand. In order to increase the value in the credit market and with investors, the company must have a higher level of confidence in its creditors.

According to signaling theory, liquidity provides a signal to help the business achieve its goals while meeting the requirements for a timely launch. The company's value is high when the business can fulfill its obligations and when the liquidity of the company is low when the company's value is also low.

The Effect of Capital Structure Ratio on Firm Value

The DER value shows the dominant mode designated as debt collateral. The policy of using debt in the capital structure will motivate the company to grow to increase investment, which will increase the company's valuation. As a result of the ongoing analysis conducted by (Arianti, 2022), it has been determined that businesses with large-scale expansion plans will require large amounts of capital, thus requiring the use of external financial assistance as a means to address the capital needs of such businesses. Businesses with a good business expansion in a short period will give investors a significant return on investment. If a company takes on debt from a position without debt, its net profit will decrease.

According to (Krisnando dan Novitasari 2021), the trade-off theory states that if the position of the organizational structure is below the optimal level, each action will increase the company's value. Vice versa, if the organizational structure is in the optimal position, the company's income will decrease every time it performs operations. Therefore, since the optimal structure target has not been achieved, the trade-off theory predicts a positive relationship with the company's financial metrics.

Effect of Profitability Ratio on Company Value

According to Cashmere (2017:115), Profitability Ratio is a metric used to assess the organization's ability to generate revenue or profit during a specific period. The more revenue or profit earned will make the company's share price rise, reducing profitability relative to the share price. According to (Yanti dan Darmayanti 2020), the greater the company's profitability, the greater the likelihood of its successful performance and the more successful the company will be. According to Cashmere (2016: 196), the profitability ratio measures the company's ability to generate profits.

METHOD

The type of analysis used is quantitative analysis. The current analysis uses data from the financial statements of Cosmetics Companies listed on the Indonesia Stock Exchange for 2014 to 2021. The primary reference in this paper is cosmetic companies listed on the Indonesia Stock Exchange at www.idx.co.id. Cosmetics Companies Listed on the Indonesia Stock Exchange Samples that meet the criteria for drawing samples of observations made over eight years and as many as six. This research methodology uses the Saturated Sampling Method. The data analysis method used in this research is Multiple Regression Analysis.

RESEARCH RESULTS AND DISCUSSION

Classical Assumption Test

The general assumptions used are heteroscedasticity test, autocorrelation test, and normality test. Using the results of the analysis, it can be concluded that each variable has a VIF of 1,151, a capital structure of 1,635, and profitability of around 1.553. A tolerance level is also required in the multicollinearity analysis, where the three Xvariables are more than 0.10 to indicate that the data is not affected by multicollinearity.

The eigenvalue and condition index results in the collinearity diagnostics table are output from the linear regression model test. Suppose the condition index is close to 30 and the eigenvalue is greater than 0. In that case, it can be concluded that the multicollinearity error does not occur in the regression model. Based on the analysis results, the eigenvalue is $0.134 > 0.01$, and the condition index is $4.521 > 30$. With this regression model, there is no multicollinearity.

The purpose of the Heteroscedasticity Test is to determine whether, in a regression model, there is an inequality of variation from the residuals of one observation to another. The results of heteroscedasticity research can be seen in the sig value. If the sig value is more significant than 0.05, it can be concluded that the regression does not experience heteroscedasticity.

Heteroscedasticity. Based on the analysis results for the four dependent variables, CR $0.41 > 0.05$, DER $0.101 > 0.05$, and ROA $0.478 > 0.05$, it can be concluded that the hypothesis stating that

there is no heteroscedasticity is rejected. An autocorrelation analysis is performed to determine whether there is a correlation between confounding errors in period t and period t-1 (previous year). In this study, the Durbin-Watson (DW) test was used to detect the presence of autocorrelation, with asignificance level of 5% or 0.05.

Table 2 Durbin-Watson Autocorrelation Test

| Model Summary | | | | | |
|--|-------|----------|-------------------|----------------------------|---------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | ,706a | ,499 | ,464 | 30,26121 | 2,284 |
| a. Predictors: (Constant), X3 ROA, X1 CR, X2 DER | | | | | |
| b. Dependent Variable: Y PBV | | | | | |

The classic assumption test that detects the presence of autocorrelation can be seen from the analysis results, which show that the Durbin-Watson value is 2.284. this value is with a value of N = 48 and K = 3 variables. Has a DL value = 1.4064, DU value = 1.6708, 4-DL value = 2.5936 and 4-DU value = 2.3292. By comparing the calculated DW value, there is no autocorrelation, $1.6708 < 2.284 < 2.3292$ (no autocorrelation occurs).

Hypothesis Test Results in Equation I:

Table 3 Equation I

| Model | Path Coefficient | p-value | Description |
|--------------------------|------------------|---------|-------------|
| Liquidity | 13,459 | 0,36 | Significant |
| R Square = 0.499 | | | |
| F = 50.943 (Sig = 0.000) | | | |

Based on the table above, the significance level of the dependent variable is around 0.037 to 0.05 and is positive. Making independent variables that have a good impact on firm value. "Liquidity variable has a significant positive effect on firm value." The hypothesis is accepted.

Hypothesis Test Results in Equation I:

Table 4 Equation II

| Model | Path Coefficient | p-value | Description |
|--------------------------|------------------|---------|-----------------|
| Capital Structure | -24,186 | 0,00 | Not Significant |
| R Square = 0.499 | | | |
| F = 50.943 (Sig = 0.000) | | | |

Based on the table above, it can be concluded that the significance level of the capital variable is around $0.000 < 0.05$ and has a negative sign. So, the capital structure variable negatively influences the company's valuation. It can be concluded that "the capital structure variable has a significant negative effect on the company's valuation." The hypothesis is accepted.

Hypothesis Test Results in Equation I:

Table 5 Equation III

| Model | Path Coefficient | p-value | Description |
|--------------------------|------------------|---------|-------------|
| Profitability | 58,356 | 0,41 | Significant |
| R Square = 0.499 | | | |
| F = 50.943 (Sig = 0.000) | | | |

Based on the table above, it can be concluded that the profitability variable has a significance level of around $0.041 < 0.05$ and has a positive coefficient of determination. Making variables that are independently favorable and have a positive impact on firm value. It can be said that “the profitability variable is positively correlated with firm value.” The hypothesis is accepted.

DISCUSSION

The Effect of Liquidity on Firm Value

First hypothesis (H_1) Based on the findings of this study, liquidity is the first keyvariable that positively impacts the share prices of companies in the cosmetics sector of publicly listed companies in Indonesia between 2014 and 2021. The significance level for this phenomenon in the hypothesis testing for T-test is about $0.037 < 0.05$. H_1 Accepted.

Liquidity is a random variable, with evidence showing that this variable positively and significantly impacts the company's PBV. Therefore, when liquidity increases, the willingness of creditors to accept payment for goods and services also increases. It can increase the company's value in credit markets and among investors. In previous research conducted by (Agustin dan Anwar 2022), the result of this study is that liquidity contributes to firm value. If the company is considered capable of paying its short-term obligations, it will attract investors to invest funds in the company.

The Effect of Capital Structure on Firm Value

The second hypothesis (H_2) In this study, it is said that the company's capital structure, an independent variable, negatively influences firm value in cosmetic companies listed on the Indonesia stock exchange between 2014 - 2021. It is discussed in the hypothesis test for the T-test, which has a significance level of around $0.000 < 0.05$ and can be used to conclude that H_2 is Accepted.

The effect of capital structure on firm value is that any company that experiences an increase in capital structure can reduce firm value since many companies use debt as their primary source of funding and have high fixed costs, which allow them to increase their profits, business structures that use debt as their primary source of funding from equity experience an increase in the decline in firm value.

Effect of Profitability on Company Value

The third hypothesis (H₃) states that profitability is significant to firm value in cosmetic companies listed on the Indonesian stock exchange between 2014 and 2021. The significance level for this phenomenon in the T-test hypothesis is around $0.041 < 0.05$, and it can be concluded that H₃ is accepted. Profitability has a positive and significant effect on firm value; this can occur because the amount of profitability owned by the company increases, causing the company's value to increase because increased profitability indicates a good company reputation and can attract investors. That way, the demand for shares will increase. The increasing demand for shares can also cause an increase in the company's share price. Research conducted by (Lutfita dan Takarin 2021) shows that the higher profitability obtained by the company makes the company value increase; this is because the increased profitability indicates the company's good prospects so that it can give attention to investors.

CONCLUSION

Based on the results of the analysis and discussion in this study described in the previous chapter, it can be concluded as follows. Liquidity contributes to firm value in Cosmetics Companies listed on the Indonesia Stock Exchange in 2014-2021. Capital Structure impacts firm value in Cosmetics Companies listed on the Indonesia Stock Exchange in 2014-2021. Profitability contributes to the value of the company in Cosmetics Companies listed on the Indonesia Stock Exchange in 2014-2021

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