THE EFFECT OF PROFITABILITY, SOLVABILITY AND COMPANY SIZE ON THE COMPANY VALUE

Taufan1*
Agung Rizki2
Muhammad Arief Budianto3
123Fakultas Ekonomi dan Bisnis, Universitas Trisakti
*Korespodensi: taufan.gunarso@gmail.com

Abstract
This study aims to determine the effect of Profitability, Solvability, and Company Size on Company Values on LQ-45 companies for the period 2015-2017. As many as 99 companies registered in the LQ-45 index were sampled. This study chooses the purposive sampling method to obtain the data. This study uses multiple regression analysis techniques to reach the inferred results.

The results of this study show that profitability and company size have positive influence on company value; solvency does not have an influence son company value.

Keywords: Profitability; Solvency; Company Size; Company Value.

INTRODUCTION
Shareholder’s wealth and affluence play a major share in advancing a company’s expansion. In order to achieve the planned growth and development for a company, this side of the business must also be appeased and cannot be forgotten. Prospective investors would want to see the financial reports to find out how the company is progressing and developing. The financial reports contain one of the indicators to measure the level of prosperity of shareholders the company value. Company value is one way to measure the level of prosperity of shareholders. Company value is an indicator for the market to assess the company’s health and performance as a whole, (Deriyarso, 2014). The long-term goal that a company wants to achieve is a high level of company value. The higher the value of the company, the more attractive it is for shareholders to invest in the company. Hence, the shareholders are very interested about the value of the company before investing capital in a certain company.

Signal theory explains the value of the company. This theory suggests a model where the use of debt in determining the capital structure is a signal that the
management wants to convey to the market. If the management has confidence that the company has good prospects, and the management wants the shares to increase, the management will communicate this to investors. Management can use taking in more debt as a signal of credibility to potential investors. From the increase in corporate debt, it can be concluded that the company is confident in its prospects in the future. Investors are expected to capture this signal.

The value of the company can be influenced by various factors such as profitability, solvency, and company size. Profitability is a level of net profit that can be obtained by the company from its operational activities. Profit can be shared with the shareholders in the form of dividends and can also be saved and used to improve the performance of operational activities. According to (Weston & Brigham, 1997), profitability measures the extent of profits which a company can generate from its sales and investments at an acceptable level. High profitability shows good corporate performance, which will certainly increase the value of the company itself. If the profitability of the company is good, then the stakeholders (suppliers, creditors, investors, et al.) can be confident about the company going forward. Profitability is a key element to a company’s day-to-day activities. A company must record profits in order to raise capital from outside the company to carry out its operational activities on an ongoing basis. In today's competitive business world, the company will not be able to maintain the sustainability of its business without a positive profit margin. In their research, (Gultom & Wijaya, 2014) found that there was a positive influence between profitability and company value.

Solvency ratio, in general, can similarly be used to see the value of the company. The solvency ratio in this study uses debt to asset ratio (DAR). According to (Munawir, 2006), DAR is used to measure how much the company's assets are financed with total debt. The higher this ratio means, the greater the amount of loan capital used for investment in assets to generate profits for the company. This ratio can also project that the company is established for long-term goals. Therefore, the selected proportions of funding sources either from inside and/or outside may have affected the value of the company.

Company size shows the amount of activity the company has. The larger the size of the company, the greater the assets that can be used as collateral to get new funding sources. A large company that can maintain and improve its performance well will have easy access to making money in the capital market when compared to companies that are smaller in size. Because of the easy accessibility of the funding, the company has great flexibility and can collect funds in a relatively short time. The funds collected can be used by companies to continue to expand and strengthen their business lines, which will certainly make more investors interested in investing in the company. The amount of interest in investment will erode up stock prices, which will certainly increase the value of the company. (Hariyawan & Andayani, 2017) in their research, found a positive influence between company size and company value.

There are several previous studies regarding factors that influence company value; however, the results are inconsistent. The research conducted by (Wahyuni, Ernawati, & Murhadi, 2013) states that profitability affects the value of the company, while (Theresia, 2013) found no correlation between profitability and company value. Based on research conducted by (Wahyuni et al., 2013) the size of the company has a positive and significant effect on Company Value, while according to (Gultom & Wijaya, 2014) the size of the corporation does not affect the company value.
Based on the description of each variable and the studies that have been done before, this study poses that many factors can influence the value of a company, but we will limit the scope of independent variables used to profitability, solvency and company size to minimize the inconsistencies that may appear.

LITERATURE REVIEW AND HYPOTHESIS

Signaling Theory
According (Jogiyanto, 2014), information published as an announcement will signal investors in making investment decisions. When information is announced, market participants will interpret and analyze information first to find out whether the signal is good (good news) or bad news. If the announcement of the information is considered a good signal, investors will be interested in trading shares; thus the market will react which is reflected through changes in the volume of stock trading (Suwardjono, 2010). One type of information issued by companies that can be a signal to parties outside the company is financial statements. Information disclosed in annual reports can be in the form of accounting information, namely information relating to financial statements and information that is not related to financial statements.

Company value is how investors and the public view the quality of company performance. Market value is reflected in listing prices, which are the result of the mechanism of demand and supply in the stock market in companies that have gone public. The higher the value of the company, the more interested investors will be to invest their funds in the company. Because with the high value of the company, investors believe that the return that will be obtained is also high. To realize high corporate value, the company must constantly strive to improve its performance. Not only focuses on financial factors, but the company must also align the interests of stakeholders because if not, the company will be difficult to increase the value of the company.

The proxy used in this study is Price to Book Value Ratio (PBV). The ratio of stock prices to the company's book value shows the level of ability of the company to create relative value to the amount of capital invested. A high PBV reflects a high share price compared to the value of a share. The higher the stock price, the more successful the company creates value for shareholders. The success of the company creating this value certainly gives hope to shareholders in the form of greater profits (Sartono, 2010) stated that price to book value (PBV) is the market ratio used to measure performance stock market prices on the value of the book.

Profitability, according to (Saidi, 2004), is the company's ability to earn profits. Investors invest in companies to get returns, which consist of yields and capital gains. The higher the ability to earn profits, the greater the return expected by investors, so that the value of the company will increase.

(Irawati, 2006) states that profitability ratios are ratios used to measure the efficiency of the use of company assets or is the ability of a company to generate profits over a period of time (i.e., semester, quarterly) to see the company's ability to operate efficiently. This ratio consists of:
- Gross Profit Margin is the ratio between gross profit and net sales. This ratio shows the ability of the company to obtain a gross profit on the proceeds of sales at a certain period.
• Operating Profit Margin is the ratio between operating income (EBIT) and net sales. This ratio shows the ability of the company to obtain operations on sales results for a certain period.
• Net Profit Margin is the comparison between net income and net sales. This ratio is used to measure net profit per rupiah of sales.
• Return on Assets is a comparison between net income after tax and total assets. This ratio measures how much the company's net profit is measured by the value of assets.
• Return of Equity is a comparison between net income and total capital. This ratio shows the ability for preferred shareholders and ordinary shares.

In this study, the ratio used is the return on assets (ROA). The higher the ROA, the higher the company's ability to generate profits and will make the company's profitability high. A high ROA value will provide a positive signal for investors that the company produces in favorable conditions. This favors entices investors to own company shares and will increase stock prices so that the value of the company increases.

According to (Sutrisno, 2009), solvency is the ability of a company to fulfill all its obligations if the company is liquidated. Solvency is the ability of a company to pay off all debt by using all assets to become debt guarantor, which is the basic concept of accounting. The solvency of a company is important to know in order to know the company's ability to pay off or repay all loans through the amount of assets owned and influence the types of financial statements. Solvency calculations for each company are easier to do if the accounting system uses the right ratio. According to (Kasmir, 2010), solvency or leverage ratio is a ratio used to measure the extent to which a company's assets can be financed by debt. Where solvency ratio is a ratio that shows how the company can pay off its debt.

This study used debt to asset ratio (DAR) to assess how much the company is based on debt to finance assets. This ratio compares total debt (total liabilities) to total assets held. To grasp the full concept of this ratio, we must first clearly define and understand the difference between assets and equity. Assets are resources obtained from transactions or other activities in the past so that they belong to the company whereas equity is a residual right to the assets of the company after deduction of all liabilities in accordance with the nature of accounting.

The size of the company is an increase from the fact that large companies will have a large market capitalization, a large book value and high profits (Ary & Dewi, 2013). While small companies will typically have a small market capitalization, small book value, and low profit. The size of the company has a different influence on the company's value of a company. In terms of company size seen from the total assets owned by the company, which can be used for company operations. If the company has a large amount of total assets, the management acquires flexibility in using the assets in the company. This study uses the natural logarithm of the total assets of the company to assess the size of the company.

Framework

The value of the company is of the utmost importance to many stakeholders because a high company value would lead to the maximization of shareholders’ prosperity. Company value is time and again associated with stock prices. It has often become the main indicator of how an investor perceives a company's level of success.
In this study, the variables used to determine the effect on Company Value are profitability, solvency, and firm size. Based on the description that has been previously stated, the variables related in this study can be formulated through one framework as follows:

![Research Framework]

**Figure 1**
**Research Framework**

**Hypotheses Development**

With high Return on Assets (ROA), it means that the company's net profit is also high. A high ROA will indicate a good company prospect, and this will have an impact on company value (Hestinoviana, Suhadak, & Handayani, 2013). A high ROA value will attract investors to invest in the company with the expectation of a high rate of return. With a high return, the stock price rises so that it has a positive impact on the value of the company. In the research conducted by (Gultom & Wijaya, 2014) concluded that profitability affects the value of the company.

H1: Profitability has a positive effect on Company Value.

Solvency ratio can be used to measure a company's ability to pay all long-term corporate obligations. The solvency ratio is a ratio to measure the extent to which a company can be financed by debt. That long-term creditors generally prefer a small debt to asset ratio (DAR). The smaller the ratio, the greater the amount of assets funded by the owner of the company, and the greater the credit risk buffer. Also, the research conducted by (Armadi & Astika, 2016) found that leverage has a negative effect on Company Value. Based on the explanation above, solvency has a negative influence on company value. From the explanation above, the following hypotheses can be formulated:

H2: Solvency has a negative effect on company value.

Companies that have large total assets and can maintain their existence will have easy access to the capital market. With the ease of access to the capital market, the company will have great flexibility and the ability to raise funds in a short time. Thus, large companies are usually able to pay higher dividends than small companies. The high dividends will increase the value of the company, which in turn cause more investors to be interested in investing in large companies. The result is in line with the research conducted by (Hariyawan & Andayani, 2017), which states that company size has a positive effect on Company Value. Based on the explanation above, the hypothesis can be formulated as follows:
H3: Company Size has a positive effect on Company Value

RESEARCH METHODS

This research is conducted to test the hypothesis of the influence of the significance of the independent variable on the dependent variable. The independent variables are profitability, solvency, and company size while dependent variable is company value.

Dependent variable is Company value. Company value is a condition that has been achieved by a company as an illustration of public trust in the company after going through a process of activities for several years, that is since the company was established until now (Noerirawan, 2012) The value of the company is symbolized by CV. Company value can be measured using the price to book value (PBV) formula. The following is the formula for price to book value (PBV):

$$Price \ to \ Book \ Value = \frac{Price \ per \ share}{Book \ value \ per \ share}$$

Profitability is the company's ability to obtain returns by using all assets owned. Profitability shows how the effectiveness of management in managing all company assets and liabilities. A company can use several ratios to find out the level of profitability. This research measures the level of profitability by using the Return on Assets (ROA) ratio. ROA is a form of profitability ratios used to measure a company's ability to generate profits using total assets that exist, after capital costs (costs used to fund assets). The ROA formula developed by (Retno & Priantinah, 2012) is as follows:

$$ROA = \frac{Net \ Profit}{Total \ Assets}$$

Solvency is the ability of a company to fulfill all its obligations if the company is liquidated (Sutrisno, 2009). In this study, solvency is symbolized by SLV. Solvency is measured using a formula debt to assets ratio (DAR). The formula of the debt to assets ratio (DAR) is as follows:

$$Debt \ to \ Assets \ Ratio = \frac{Total \ Debt}{Total \ Assets}$$

The size of the company is considered able to influence the value of the company. "Company size is a reflection of the size of the company that appears in the total value of the company's assets on the balance sheet at the end of the year" (Sujoko & Soebiantoro, 2009) The greater the total assets or the total net sales of the company, the greater the size of the company. The size of the company also determines the level of ease of the company in obtaining additional funding. The larger the size of the company, the greater the bargaining power of companies in the capital market in financial contracts. The independent variable in this study is the size of the company developed by (Retno & Priantinah, 2012), which is proxied by:

$$Size = \ln(TA)$$

This research testing performed by multiple linear regression analysis, a method that is associated with the independent variable to the dependent variable. The regression model used:
CV = α + β1 PROF + β2 SLV + β3 CS + e

Information:
CV = Company Value
PROF = Profitability
SLV = Solvency
CS = Company Size
e = error

RESULTS AND DISCUSSION

The data used in this study are secondary data obtained from the Indonesia Stock Exchange (IDX). The data used in this research is panel data, i.e., companies listed in the LQ45 group on the IDX in 2015-2017. The study uses 99 sample firms that meet the purposive sampling criteria:

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Companies included in the class LQ45 Indonesian Stock Exchange listing in the period 2015-2017.</td>
<td>65</td>
</tr>
<tr>
<td>2</td>
<td>Companies that are not included in the LQ45 list for at least 3 (three) consecutive years.</td>
<td>(30)</td>
</tr>
<tr>
<td>4</td>
<td>The company does not present financial statements in IDR</td>
<td>(2)</td>
</tr>
<tr>
<td>5</td>
<td>Companies that publish/present complete financial and annual report data.</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Amount of data (33x5)</td>
<td>99</td>
</tr>
</tbody>
</table>

Table 2

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CV</td>
<td>99</td>
<td>.17</td>
<td>4.39</td>
<td>1.5151</td>
<td>.64555</td>
</tr>
<tr>
<td>PROF</td>
<td>99</td>
<td>.01</td>
<td>.69</td>
<td>.1348</td>
<td>.13788</td>
</tr>
<tr>
<td>SLV</td>
<td>99</td>
<td>.06</td>
<td>2.46</td>
<td>.8078</td>
<td>.55242</td>
</tr>
<tr>
<td>CS</td>
<td>99</td>
<td>27.50</td>
<td>32.21</td>
<td>30.5306</td>
<td>1.13650</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>99</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on the results of the descriptive statistics presented in the table above, it can be seen that the number of samples (N) used in this study is as many as 99 valid samples entered into the data entirely without missing value. The variables used are four variables with interpretations as follows:

- In the Company Value variable (CV), the minimum data value is 0.17, and the maximum value of the data is 4.39 with the data average (mean) of 1.5151, and the standard deviation of 0.64555 is smaller than 1. Thus, the variable Corporate Value is good and homogeneous.
- In the Profitability variable (PROF) the minimum value of data is 0.01, and the maximum value of the data is 0.69 with the average (mean) of data is 0.1348, and the standard deviation is 0.1388 smaller than 1. Thus, the profitability variable is good and homogeneous.
- In the Solvency variable (SLV) the minimum data value is 0.06, and the maximum value of the data is 2.46 with the average (mean) data 0.8076 and the standard deviation of 0.55242 smaller than 1. Thus, the solvency variable is good and homogeneous.
- In the Company Size variable (CS) the minimum value of data is 27.50, and the maximum value of the data is 32.21 with an average (mean) of data 30.5306 and standard deviation of 1.13650 greater than 1. Thus, the variable Company Size is not good and heterogeneous.

**Determination Coefficient Test (R2)**

<table>
<thead>
<tr>
<th>Mode</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.498a</td>
<td>.248</td>
<td>.225</td>
</tr>
</tbody>
</table>

From the results of multiple regressions processing, it is known that the coefficient of determination seen from the adjusted R2 value is 0.225. This value means that all independent variables (Profitability, Solvability, and Company Size) can explain 22.5% the variation of the dependent variable. However, the rest (100% - 22.5% = 77.5%) can be explained by other factors outside the model.

**F-Test**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>10.148</td>
<td>3</td>
<td>3.383</td>
<td>10.471</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>30.692</td>
<td>95</td>
<td>.323</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40.840</td>
<td>98</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From regression testing, by looking at the ANOVA table, it can be seen that the Fcount is 10.471 with a significance value of 0.000 <0.05. It means that Profitability, Solvency, and Company Size affects the Company Value.

**T-Test**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
<th>Sig. One-tailed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-1.885</td>
<td>1.561</td>
<td>-1.208</td>
<td>.230</td>
</tr>
<tr>
<td>PROF</td>
<td>2.257</td>
<td>.419</td>
<td>.482</td>
<td>5.389</td>
<td>.000</td>
</tr>
<tr>
<td>SLV</td>
<td>.045</td>
<td>.104</td>
<td>.039</td>
<td>.434</td>
<td>.665</td>
</tr>
<tr>
<td>CS</td>
<td>.100</td>
<td>.051</td>
<td>.176</td>
<td>1.973</td>
<td>.051</td>
</tr>
</tbody>
</table>
Profitability has a positive effect on Company Value. In testing the first hypothesis (H1), which examines Profitability for Company Value has B1 of 2.257 significance level of 0.000 (0.000 / 2 = 0.000). It means that the value of the company has a positive effect on the value of the company.

Solvency has a negative effect on Company Value. On testing the second hypothesis (H2), which examines Solvency against Company Value, has B2 of 0.045 significance level of 0.332 (0.665 / 2 = 0.332). It means that the Solvency does not influence company value.

Company size has a positive influence on Company Value. In testing the third hypothesis (H3) which examines the Company Size of the Company Value, it has B3 of 0.100 significance level of 0.0255 (0.051 / 2 = 0.0255), It means that Company Size has a positive influence on Company Value.

CONCLUSION, LIMITATION, AND FUTURE RESEARCH

From the results of statistical analysis using panel data regression methods, the conclusions found are as follows. The Profitability variable has a positive effect on the value of the company in companies listed on LQ-45 in the period 2015-2017. The Solvency variable does not affect the value of the company in companies listed on LQ-45 in the period 2015-2017. The company size variable has a positive effect on company value in companies listed on LQ-45 in the period 2015-2017.

REFERENCES


