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Financial Performance and Company Value: Trading, Service, and Investment Companies in Indonesia

Wijianto
Student of Magister Management, Perbanas Institute
Jakarta, Indonesia

Abstract:- This study was intended to investigate about current ratio, return on assets, return on equity, debt to equity ratio, and value of trading, service, and investment companies. The subject of this study was trading, services, and investment companies listed on Indonesia Stock Exchange for 2015-2017 period. Research samples of 96 data were taken using purposive sampling. Linear regression is used to do the analysis using SPSS version 24. This study resulted that current ratio (CR) and return on assets (ROA) affect positively and significantly to company value, while return on equity (ROE) and debt to equity ratio (DER) affect positively and not significantly to company value.

Keywords:- *Current Ratio (CR), Debt To Equity Ratio (DER), Return On Assets (ROA), Return On Equity (ROE), Company Value.*

I. INRODUCTION

All companies that go public have the same goal, which is to gain profits. According to Salvatore (2005) publicly traded companies have a goal to improve the welfare of owners and shareholders by increasing the company value. Some variables that might affect to company value include current ratio (CR), debt to equity ratio (DER), return on assets (ROA), and return on equity (ROE).

Previous studies have shown that factors that influence company value have inconsistent relationships and influences. Research by Farooq & Masood (2016), Siahaan, et. al. (2014) showed that the current ratio (CR) positively and significantly on company value, while Tahu and Susilo (2017) proved that current ratio (CR) had no effect to company value. Zuhroh's research (2019) showed that debt to equity ratio (DER) positively and significantly effect on company value, while Fajaria & Isnalita (2018) showed negatively and significantly effect. Muliawati & Saifi's research (2019) showed that return on assets (ROA) positively and significantly effect on company value, while Hakim and Sugianto's research (2018) no effect on company value.

II. LITERATURE REVIEW

A. The Value Of The Company

Prasetyorini (2013) stated that the aims of establishing companies are to improve welfare of shareholders through increasing company value. According to Hermuningsih and Wardhani (2009) corporate value can be defined as investor perceptions of the company. Mardiyati, Ahmad, and Putri (2012) explained that the bargaining power of its shares reflected company value. According to Puspitaningtyas (2012) the bargaining power of shares is influenced by investors' perceptions to the company performance to the next years.

According to Sukamulja (2004) Tobin's Q can be used to determine company value. One of the advantages of Tobin's Q is compared to measuring company value using other calculations is that Tobin's Q provides a broader insight into the understanding of investors because Tobin's Q calculates company debt.

B. Current Ratio

The Research by Kahfi, Pratomo, and Aminah (2018), Farooq & Masood (2016), Siahaan, et. al. (2014) found current ratio (CR) positively and significantly effect on company value.

Tahu and Susilo research (2017) showed current ratio (CR) no effect on company value. Research by Febriyanto (2018), Fajaria & Isnalita (2018), Rafid, Poohan, & Noor (2017) showed that CR negatively and significantly effect. Zuhroh (2019), Latifah and Murniningsih (2017) showed CR negatively and not significantly effect on company value.

Hypothesis 1 (H1): Current Ratio (CR) positively and significantly effect on company value.

C. Debt to Equity Ratio

Zuhroh (2019), Febriyanto (2018), Andawasatya, Indrawati, and Aisjah (2017), Farooq & Masood (2016), Gamayuni (2015), Safitri, Handayani, & Nuzula (2014), Siahaan, et. al. (2014) showed DER positively and significantly effect on company value. Research by Fajaria & Isnalita (2018), Kahfi, Pratomo, and Aminah (2018), Tahu and Susilo (2017), Rahmawati, Topowijono, & Sulasmiyati (2015) showed DER negatively and significantly effect on company value, while Alamsyah (2018), Rahmantio, Saifi, and Nurlaily (2018), Dhani & Utama (2017) negatively and not significantly effect on company value.

Hypothesis 2 (H2): Debt to Equity Ratio (DER) positively and significantly effect on company value.

D. Return on Assets

The research results of Muliawati & Saifi (2019), Zuhroh (2019), Akmalia, Dio, and Hesty (2017), Dhani & Utama (2017), Tauke, Murni, and Tulung (2017), Latifah and Murniningsih (2017), Sucuahi & Cambarihan (2016), Gamayuni (2016), Rahmawati, Topowijono, & Sulasmiyati (2015), Safitri, Handayani, & Nuzula (2014), Siahaan, et. al. (2014), Rizqia, Aisjah, and Sumiati (2013), Mahendra, Artini, and Suarjaya (2012), Sudiyatno, Puspitasari, & Kartika (2012) found ROA positively and significantly effect on company value. Research by Hakim and Sugianto (2018), Hermawan and Ma'ulah (2016) showed that company value not affected by ROA. Research Rafid, Poohan, & Noor (2017) ROA negatively and significantly effect.

Hypothesis 3 (H3): Return on Assets (ROA) positively and significantly effect on company value.

E. Return on Equity

Research by Fajaria & Isnalita (2018), Rahmantio, Saifi, and Nurlaily (2018), Andawasatya, Indrawati, and Aisjah (2017), Tahu and Susilo (2017), Monika & Khafid (2016), Safitri, Handayani, & Nuzula (2014) showed that ROE positively and significantly effect on company value. Latifah and Murniningsih (2017) found ROE positively and not significantly effect on company value. Kahfi, Pratomo, and Aminah (2018), Alamsyah (2018) found ROE negatively and not significantly effect on company value

Hypothesis 4 (H4): Return on Equity (ROE) positively and significantly effect on company value.

F. Framework of Thinking

Based on the description above obtained the relationship between the independent variables and the dependent variable is shown by the research model as follows:

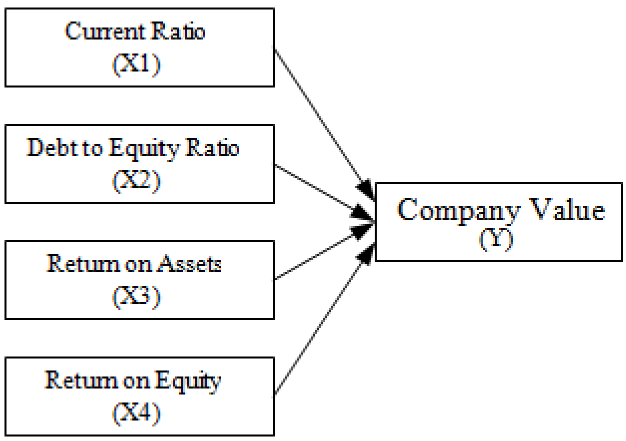

Fig 1:- Hypothesis Analysis Model

III. RESEARCH METHODS

Quantitative research design is used in this study. Trading, service, and investment companies listed on the Indonesia Stock Exchange (IDX) during 2015-2017 periods were the subjects of this study. Data obtained from the summary of company performance in www.idx.co.id. This study has population of 167 companies. The purposive sampling used to determine sample selection based on criteria as follows: 1. Trading, service, and investment companies that fall into the main category. 2. Trading, service and investment companies that were consistently listed on the Indonesia Stock Exchange during 2015-2017. 3. Trading, service, and investment companies that always record profits during 2015-2017. From this method a sample of 32 companies was obtained with a total of 32 companies that will be examined for 3 years, namely 96 companies. Data processing is performed using SPSS for Windows version 24.

The independent variables are Current Ratio/CR (X1), Debt to Equity Ratio/DER (X2), Return on Assets/ROA (X3), and Return on Equity/ROE (X4).

The Current Ratio (CR) variable is determined using the formula as follows:

CR = Current Assets : Current Liabilities

The Debt to Equity Ratio (DER) variable is determined using the formula as follows:

DER = Total Debt : Total Equity

The Return on Assets (ROA) variable determined using the formula as follows:

ROA = Net Profit : Total Assets

The Return on Equity (ROE) variable is determined using the formula as follows:

ROE = Net Profit : Total Equity

The dependent variable in this study is Company Value Tobin's Q (Y). Tobin's Q can be formulated as follows:

Tobin's Q = (MVE + TD)/TA

Where:

MVE : Market Value of Equity (determined by multiplying price of shares at the end of last year by the number of ordinary outstanding shares).

TD : Total Debts

TA : Total Assets

IV. RESULTS AND DISCUSSION

A. Regression Model Feasibility Test Resultsl

Regression Model	Independent Variable	Dependent Variable	F	Sig.
1	CR	Tobin's Q	37.186	0.000
	DER			
	ROA			
	ROE			

Table 1:- The Regression Model Feasibility Testing
Source: Output of SPSS for Windows version 24

Table 1 above shows the Sig. value of the F-Test is 0,000 < 0.05 so regression model used in this study suitable for testing hypotheses.

Regression Model	Independent Variable	Dependent Variable	*Adjusted* R^2
1	CR	Tobin's Q	0.604
	DER		
	ROA		
	ROE		

Table 2:- Test Results for Multiple Linear Regression
Source: Output of SPSS for Windows version 24

The adjusted-R^2 value shown in Table 2 is 0.604. It can be concluded that the independent variables, namely CR, DER, ROE, and ROA are explain the independent variable (Tobin's Q) by 60%, while other variables that not examined explained 40%.

B. Hypothesis Testing

Regression Model	Independent Variables	Dependent Variable	β	Sig.
1	CR	Tobin's Q	0.002	0.017
	DER		0.017	0.946
	ROA		0.185	0.001
	ROE		0.019	0.404

Table 3:- Hypothesis Testing
Source: SPSS Output for Windows version 24

Table 3 above showed that:

- The Current Ratio (CR) variable has a β value of 0.002 and a Sig. value of 0.017 < 0.05. This showed that the Current Ratio (CR) variable has a positively and significantly effect on Tobin's Q.
- The Debt to Equity Ratio (DER) variable has a β value of: 0.017 and a Sig. value of 0.946 > 0.05. This showed that the Debt to Equity Ratio (DER) variable has positively and not significantly effect on Tobin's Q.
- The Return on Assets (ROA) variable has a β value of 0.185 and a Sig. value of 0.001 < 0.05. This showed that the Return on Assets (ROA) variable has a positively and significantly effect on Tobin's Q.
- The Return on Equity (ROE) variable has a β value of 0.019 and a Sig. value of 0.404 > 0.05. This showed that the Return on Equity (ROE) variable has positively and not significantly effect on Tobin's Q.

C. Analysis and Discussion

- The results of hypothesis testing showed that hypothesis 1, namely current ratio (CR) positively and significantly effect on company value received. Based on this result, higher value of current ratio cause greater company value. The results in line with Kahfi, Pratomo, and Aminah (2018), Farooq & Masood (2016), Siahaan, et. al. (2014) which shows that the current catio (CR) has a positively and significantly effect on company value.
- The results of hypothesis testing showed that the debt to equity ratio (DER) positively and not significantly effect on company value, so that hypothesis 2: Debt to Equity Ratio (DER) has a positively and significantly effect on the company value being rejected. The results of this study are not in line with research results by Zuhroh (2019), Febriyanto (2018), Andawasatya, Indrawati, and Aisjah (2017), Farooq & Masood (2016), Gamayuni (2015), Safitri, Handayani, & Nuzula (2014), Siahaan, et. al. (2014) which showed that the debt to equity ratio (DER) has a positively and significantly effect on company value.
- The results of hypothesis testing showed that return on assets (ROA) positively and significantly effect on company value so that hypothesis 3, namely return on assets (ROA) positively and significantly effect on company value received. The results are consistent with research findings by Muliawati & Saifi (2019), Zuhroh (2019), Akmalia, Dio, and Hesty (2017), Dhani & Utama (2017), Tauke, Murni, and Tulung (2017), Sucuahi & Cambarihan (2017) 2016), Gamayuni (2015), Rahmawati, Topowijono, & Sulasmiyati (2015), Safitri, Handayani, & Nuzula (2014), Siahaan, et. al. (2014), Rizqia, Aisjah, and Sumiati (2013), Mahendra, Artini, and Suarjaya (2012), Sudiyatno, Kartika, and Puspitasari (2012) showed that ROA was proven to have a positively and significantly influence on company value.
- The results of hypothesis testing showed that return on equity (ROE) has a not significantly and positively effect on company value so that hypothesis 4, namely return on equity (ROE) has a positively and significantly effect on company value is rejected. The results of this study are in accordance with the results of Latifah and Murniningsih (2017) and not in line with Fajaria & Isnalita (2018), Rahmantio, Saifi, and Nurlaily (2018, Andawasatya, Indrawati, and Aisjah (2017), Tahu and Susilo (2017), Monika & Khafid (2016), Safitri, Handayani, & Nuzula (2014) which show that ROE has a positive and significant effect on company value.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusion

From the results above we can draw the following conclusions:

- Current ratio (CR) has a significantly and positively effect on company value.
- Debt to equity ratio (DER) has not significantly and positively effect on company value.
- Return on Assets (ROA) has a significantly and positively effect on company value.
- Return on equity (ROE) has not significantly and positively effect on company value.

B. Suggestion

- *For Investors*

Investors who will invest their capital in trading, service, and investment companies listed on the Indonesia Stock Exchange should pay attention to the current ratio (CR) and return on assets (ROA) because based on the results of this study both of these variables have a positive and significant effect on the value of trading companies, services and investments listed on the Indonesia Stock Exchange during 2015 - 2017.

- *For Further Researchers*

- Researchers can then use other independent variables of financial performance such as net profit margin (NPM), debt to assets ratio (DAR), or other dependent variable.
- Researchers can then conduct research on other sector companies, such as manufacturing companies, financial companies, or other.
- The next researcher can take a longer period of time, five years, six years, or ather.

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