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The Influence of Liquidity and Profitability on Firm Value with Capital Structure as The Intervening (Study on Mining Sector Listed on IDX 2016-2020)

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Abstract

This study aims to determine The Influence of Liquidity and Profitability on Firm Value with Capital Structure as The Intervening that study on the Mining Sector listed on IDX 2016-2020. The population used in this study were all mining sector companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2020. The population in this study were 52 mining sector companies conducted at the Indonesia Stock Exchange (IDX). The Indonesian Stock Exchange was determined as the research location by considering that the Indonesian Stock Exchange is one of the centres for selling shares of companies that go public in Indonesia. Secondary data which contains dependent and independent variables which were carried out in mining sub-sector manufacturing companies listed on the IDX for the period 2016 – 2020. In this study, the authors used a quantitative method with a descriptive and verification research approach. The technique of taking research samples using purposive sampling technique (8 companies). The results show that liquidity has a significant negative effect on firm value. profitabilityhas a significant negative effect on firm value, liquidity has a significant negative effect on capital structure, profitability has a significant negative effect on capital structure, capital structure has a significant positive effect on firm value, capital structure is unable to mediate the relationship between liquidity and firm value, capital structure is unable to mediate the relationship between profitability and firm value.

Keywords

Liquidity, Profitability, Firm Value and Capital Structure

INTRODUCTION

Today's dynamic economic and business developments make business people, investors, and human resources within the company must adapt their capabilities to these developments. Entering the ASEAN Economic Community (AEC) and facing the challenges of the global financial crisis, companies and resources must adapt to remain competitive and exist in an increasingly tight business world.

Management must be able to analyze and read market developments to determine the right strategy and method of maintaining business continuity. All established companies must have clear goals, and the company's goal is to maximize the value of the company.

The short-term goal is to get the maximum possible profit with existing resources, while the company's goal is to maximize the prosperity of shareholders or company owners. This long-term goal can be realized by maximizing the company's value or stock price.

One alternative for companies to obtain funds or additional capital is through buying and selling shares. According to Sitepu and Effendi (2014), stock prices reflect information and indicate company value. The higher the value of the stock price, the higher the value of the company, thereby reflecting the company's performance or the better the profit earned to encourage the level of investor confidence to invest.

The financial statements illustrate a company's financial condition, which can

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facilitate management in assessing the company's management performance. In this case, management utilizes financial reports as a means of accountability for managing the company's resources and as a basis for consideration for management decision-making.

The capital market is an institution that is highly recognized for the development of the country's economy because the capital market carries out economic and financial functions. Hence, the government is interested in supervising and regulating the capital market's running. Capital market activities are generally carried out by various institutions, including securities trading centers or stock exchanges, in which various institutions, such as clearing houses and other financial institutions, are related to one another.

The purpose of stock valuation is to determine whether a stock's market price is overvalued or undervalued. Several methods can be used to value stocks: the Price Earnings Ratio (PER) and Price Book Value (PBV) approaches. Each approach, both PER and PBV, has a different valuation basis so that investors can choose the desired method based on certain considerations. The Price Earnings Ratio is used to see how the market appreciates the company's performance as reflected by Earning Per Share.

Among the company's financial ratios, profitability is a financial ratio to assess the company's ability to seek profits or profits within a certain period. As a measuring tool for profitability, one can use Return on Assets or the rate of return on assets owned by the company. The greater the ROA, the better the performance because the rate of return is greater. Furthermore, the contribution of the liquidity in the form of a current ratio (CR) in increasing firm value is seen from the way it provides an overview of the company's ability to fulfill its short-term obligations, where the greater the current percentage ratio (CR), the company has a liquidation level.

The issue of capital structure is a very important issue for every company because the good or bad of the company's capital structure will directly influence the company's financial position. According to Fahmi (2015), the capital structure's condition will directly impact the company's financial position, thereby affecting the company's performance. Companies with a capital structure that is not good, which has a very large debt, will burden the company heavily.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT (TAHOMA 10 BOLD, UPPERCASE)

Agency Theory

In general, agency costs are defined as costs incurred due to conflicts of interest between company owners and management. Agency costs can be indirect, such as loss of opportunity to gain profits and direct costs. Direct costs can be in the form of company expenses that are beneficial to management but are costs to shareholders. In addition, in the form of expenses related to the need for supervision or monitoring of management. For management to act in line with the interests of company owners, Jesen and Mackling argue that owners can guarantee management will make optimal decisions only if given sufficient incentives and management is a minority party (Sudana, 2015).

Signalling Theory

Signalling Theory is an action taken by company management to provide guidance or information for investors regarding how management views the company's prospects (Suripto, 2015).

Pecking Order Theory

Pecking Order Theory states that companies prefer funding internal versus external funding, safe debt compared to risky debt and final ordinary shares (Corey and Myers,1984). The pecking order theory proposed by (Corey and Myers, 1984) uses the premise that there are no target debt-to-certainty equity ratios where there is only a hierarchy of funding sources most preferred by companies. The essence of this theory is that there are two types of capital external financing and internal financing.

Firm Value

Firm value is an investor's perception of a company often associated with stock prices. High corporate value is the desire of company owners because, with a high value, it shows the prosperity of shareholders is also high (Hemastuti, 2014: 3).

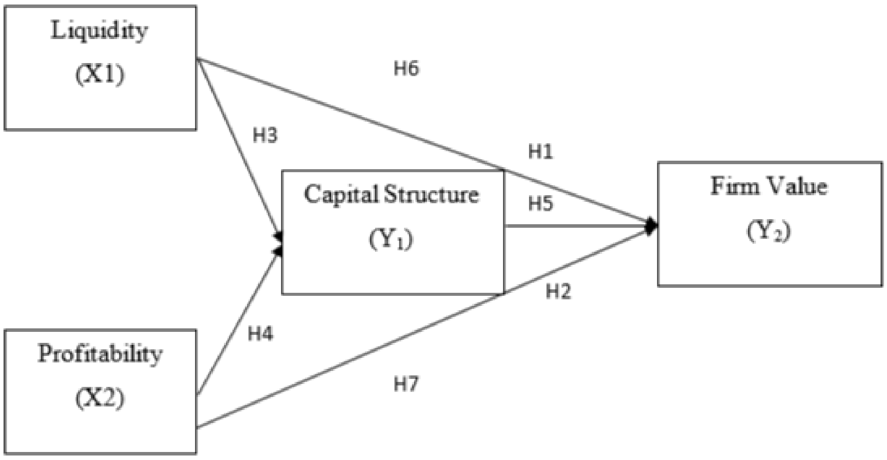

Figure 1. Research Framework

Hyphotese Development

H1: Liquidity has an effect on Firm Value
H2: Profitability has an effect on Firm Value
H3: Liquidity has an effect on Capital Structure
H4: Profitability has an effect on Capital Structure
H5: Capital Structure has an effect on Firm Value
H6: Liquidity has an effect on Firm Value with Capital Structure as Intervening Variable
H7: Profitability has an effect on Firm Value with Capital Structure as Intervening Variable

METHODS

This study, the authors used a quantitative method with a descriptive and verification research approach, because there are variables that will be examined and the purpose is to present a structured, factual picture of the facts of the relationship between the variables studied. According to Sugiyono (2010), the descriptive method is a method used to analyze data by describing or describing the data that has been collected as it is without making generally accepted conclusions or generalizations. Meanwhile, according to Jonathan Sarwono (2006), the Verification Method is a method used to re-examine the results of previous research with the aim of verifying the truth of the results of the previous research.

This research examines all manufacturing companies listed consecutively in 2016-2020 on the Indonesia Stock Exchange (IDX). Then in this study to collect data using the documentation method, while the documentation method is collecting, recording and studying secondary data needed in research in the form of company annual financial reports (LKT), Indonesian Capital Market Directory (ICMD) contained in the Indonesia Stock Exchange on the website [www.idx.co.id.](http://www.idx.co.id)

Data Analysis

Descriptive analysis aims to describe the variables in the study to determine the amount of data, minimum value, maximum value, mean value, and standard deviation. The variables in this study are company value, profitability, company size, liquidity, and capital structure.

Classical Assumptions

Table 1. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Liquidity	40	0.73	2.56	1.52	0.54
Profitability	40	0.14	39.41	8.60	8.16
Capital Structure	40	0.29	1.95	0.83	0.47
Firm Value	40	0.30	1.04	0.56	0.21
Valid N	40				

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Table 2. Normality Test

N		40
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.13157281
Most Extreme Differences	Absolute	.167
	Positive	.167
	Negative	-.101
Test Statistic		.167
Asymp. Sig. (2-tailed)		.006[c]

Table 3. Multicolinearity Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Constant	.581	.598		.971	.334		
Liquidity	-.407	.114	-.471	-3.562	.001	.882	1.134
Profitability	-.018	.008	-.322	-2.434	.020	.882	1.134
Dependent Variable: Capital Structure							

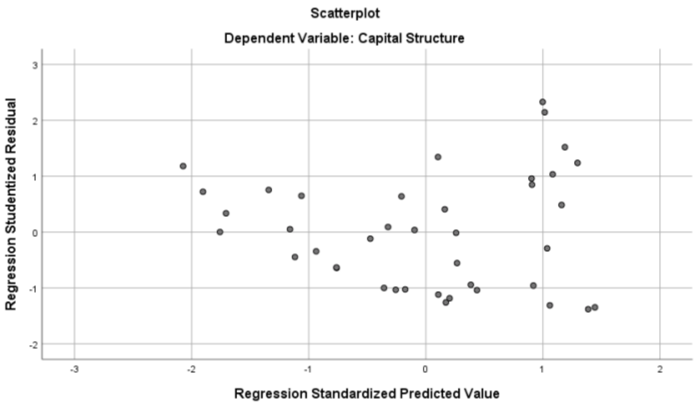

Figure 2. Heteroscedasticity Test Capital Structure

This classic assumption test was conducted to test the assumptions in the multiple linear regression model. According to Rahmawati et al (2015) a good regression model must meet the BLUE criteria (Best, Linear, Unbiased, and Estimated). In this study, the equation model will be tested which includes multicollinearity test, heteroscedasticity test and autocorrelation test.

Hypothesis Test

Path Analysis

The analysis technique used in this research is path analysis. Path analysis is a form of multiple linear regression analysis, or path analysis is the use of regression analysis to estimate the causal relationship between variables that has been determined previously based on the theory. Path analysis itself cannot determine causal relationships and cannot be used as a substitute for researchers to see causal relationships between variables (Ghozali, 2011).

Determination Coefficient (R2)

According to Rahmawati et al (2015), the coefficient of determination (R 2) describes how far the ability of the model is to explain the dependent variable. The coefficient of determination is between zero and one. A small R2 value indicates the limited ability of

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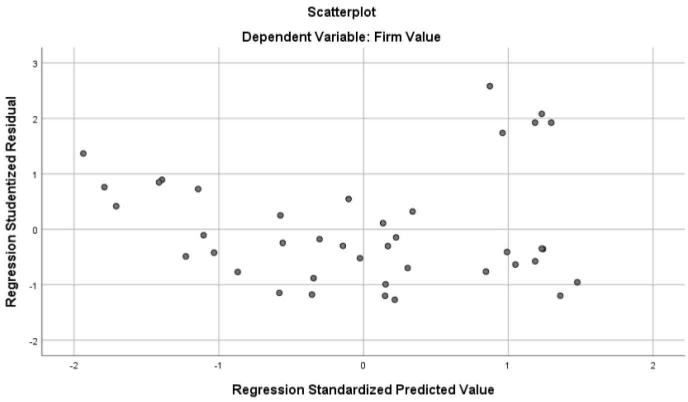

Figure 3. Heteroscedasticity Test Firm Value

Table 4. Autocorrelation Test

Model	DL	DU	DW	4-DU	Conditions
1	1.3908	1.6000	2.115	2.4000	DU < DW <4-DU
2	1.3384	1.6589	1.758	2.3411	DU < DW <4-DU

Table 5. Multiple Linear Regression Analysis Result

Model		B	Std. Error	t	Sig
1	(Constant)	1.604	.173		
	Liquidity → Capital Structure	-.471	.114	-3.562	.001
	Profitability → Capital Structure	-.322	.008	-2.434	.020
2	(Constant)	.910	.120		
	Liquidity → Firm Value	-.554	.050	-4.276	.000
	Profitability → Firm Value	-.276	.003	-2.292	.028
	Capital Structure → Firm Value	.112	.062	.803	.427

all independent variables to explain variations in the dependent variable. Predicting the variation of the dependent variable is indicated by a value close to one, which means that almost all the independent variables provide the required information.

T-Test

Rahmawati et al (2015) explained that statistical tests explain how far the influence of the independent variables individually in explaining the variation of the dependent variable.

RESULTS AND DISCUSSION

RESULT

Descriptive Statistical Analysis

Model Robustness Test

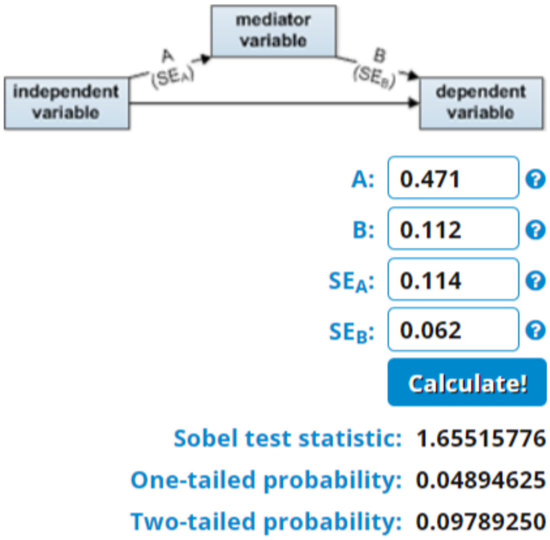

Figure 4. Sobel Test

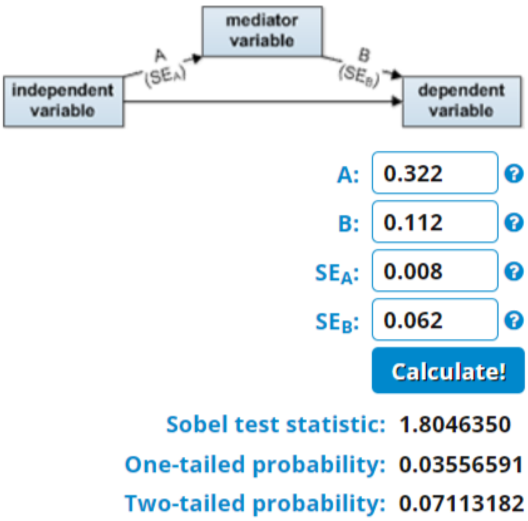

Figure 5. Sobel Test (Cont.)

Goodness off fit testing uses the total coefficient of determination (R^2) of the two equations. Equation 1 (first) obtained an r2 value of 0.43 and equation 2 (second) obtained an R^2 of 0.57. The following is the determination of the model obtained by the formula:

$$Q^2 = 1 - \{(1 - R1^2)\ x\ (1 - R2^2)\}$$

$$Q^2 = 1 - \{(1 - 0{,}43)\ x\ (1 - 0{,}57)\}$$

$$Q^2 = 1 - (0.57\ x\ 0.43\ )$$

$$Q^2 = 1 - 0.245$$

$$Q^2 = 0.755$$

Based on the results of measuring the determination of the model, the Q^2 value is 0.755, this explains that the contribution of the model to explain the structural relationship of the four variables studied is 75.5% and the rest is explained by other variables not included in the model. A Q^2 value greater han 0 (zero) shows that the model has predictive relevance, while a Q^2 value of less than 0 (zero) shows that the model lacks predictive relevance.

Table 6. Path Test

Model	Variable	Sable-test	Sig
1	Liquidity → Capital Structure → Firm Value	-1.655	0.098
	Profitability → Capital Structure → Firm Value	-1.806	0.071

Table 7. Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.656[a]	.430	.399	.36099
2	.777[a]	.603	.570	.13695

Table 8. T-test

Model	Variable	B	T	Sig
1	Liquidity → Capital Structure	-.471	-3.562	.001
	Profitability → Capital Structure	-.322	-2.434	.020
2	Liquidity → Firm Value	-.554	-4.276	.000
	Profitability → Firm Value	-.276	-2.292	.028
	Capital Structure → Firm Value	.112	.803	.427

DISCUSSION

Liquidity has an effect on Firm Value

The Liquidity variable has a significance value meaning that Liquidity has a significant negative effect on Firm Value. The high assets of each company are financed by debt or see the high and influence of corporate debt on how to control assets. So, the greater the ratio level, the greater the loan capital used for investment in assets in obtaining profits for the company (Prakarsa and Setiawan, 2018).

Profitability has an effect on Firm Value

The Profability variable has a significance value, this means that Profability has a significant negative effect on Firm Value.

Total Debt is the total liabilities (both long-term debt and short-term debt), while Total Equity is the total equity capital (total paid-up share capital and retained earnings) owned by the company. A high Debt to Equity Ratio (DER) has a bad impact on company performance because a higher level of debt means that the interest expense will be greater, which means it will reduce profits. The results of the study state that the debt to equity Ratio partially has a real effect on profitability, the results of this study are in line with research conducted by Yusnita (2019), Safitri (2022) and Febriansyah (2022) have research results that the independent variable in the study, namely Debt to Equity Ratio (DER) has a significant effect on profitability partially.

Liquidity has an effect on Capital Structure

Liquidity variable has a significance value, this means that Liquidity has a significant negative effect on Capital Structure.

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Table 9. F-test

Model		df	Mean Square	F	Sig.
Regression		2	1.816	13.939	.000[b]
Residual	nal Parameters[a,b]	n	.130		
Total		Deviation			
a. Dependent Variable: Capital Structure					

Equity or also known as capital is the right owned by the owner of the company which is shown in share capital, profits and retained earnings or the excess value of assets owned by the issuer against all its debts (Hidayat 2018: 19).

Profitability has an effect on Capital Structure

Profitability variable has a significance, this means that Profitability has a significant negative effect on Capital Structure.

Basically, profitability shows the company's ability to obtain net profit and net sales and can also measure the company's management ability to carry out its operational activities by minimizing company expenses and maximizing company profits.

Capital Structure has an effect on Firm Value

The Capital Structure variable has a significance value, this means that Capital Structure has a significant positive effect on Firm Value.

Liquidity has an effect on Firm Value with Capital Structure as Intervening Variable

The Liquidity variable has a significance value, this means that Capital Structure is not able to mediate the relationship between Liquidity and Firm Value.

Profitability has an effect on Firm Value with Capital Structure as Intervening Variable

The Profability Stucture variable has a significance value, this means that Capital Structure is not able to mediate the relationship between Profability and Firm Value.

CONCLUSION

Based on the research results above, it can be concluded as a statement below:

1. Liquidity has a significant negative effect on Firm Value, this means that if liquidity increases, the firm value will decrease, and vice versa.
2. Profitability has a significant negative effect on Firm Value, this means that if profitability increases, the firm value will decrease, and vice versa.
3. Liquidity has a significant negative effect on Capital Structure, that means if liquidity increases, the capital structure will decrease, and vice versa.
4. Profitability has a significant negative effect on Capital Structure, that means if profitability increases, the capital structure will decrease, and vice versa.
5. Capital Structure has a significant positive effect on Firm Value, this means that if capital structure increases, the firm value will increase too, and vice versa.
6. Capital Structure is unable to mediate the relationship between Liquidity and Firm Value, which means that the implementation of capital structure in the company not be able to strengthen the effect of profitability on firm value significantly.
7. Capital Structure is unable to mediate the relationship between Profitability and Firm Value, which means that the implementation of capital structure in the company not be able to strengthen the effect of profitability on firm value significantly.

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