

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia, a nation composed of 38 provinces is home to numerous enterprises, each established with the shared ambition of attaining optimal profit margins and enhancing the well-being of their proprietors and stakeholders, ultimately contributing to the company's value. The underlying objective of these companies invariably gravitates toward maximizing corporate worth, typically mirrored in the fluctuations of their stock prices. While these goals are largely uniform, companies occasionally diverge in their strategic focus, aligning their efforts with unique visions and values that distinguish one corporation's ethos from another's.

In today's fiercely competitive business environment, Firm Value emerges as a crucial metric for investors, reflecting the market's comprehensive evaluation of a company. This concept aligns with the normative aim of corporations to enhance shareholder wealth, as Firm Value serves stakeholders as an essential gauge of the company's vitality and long-term growth potential (Sudrajat & Setiyawati, 2021). A key factor influencing Firm Value is Profitability, which stands as a central focus in ensuring the company's sustainability and long-term growth. Profitability is an expression of the firm's capability for earnings revenue from its main business activities, underscoring its potential for stable advancement.

A company's long-term viability depends on its profitability, which is a key factor in determining firm value through an assortment of channel. It reflects the returns on financial investments, indicating that an increase in a company's profit-generating capabilities will positively impact its Firm Value (Sari, 2020). Robust Profitability suggests a favorable outlook for a company, encouraging investors to react positively to this indication, which in turn boosts Firm Value. As a result, it is essential for companies to focus on the interplay between Profitability and Enterprise Value in order to enhance their business performance and ensure long-term sustainability.

Because it demonstrates how well a business generates profits from its available resources, profitability was chosen as the study's independent variable. Additionally, it stands as a vital indicator of Financial Performance, reflecting the operational efficiency and financial stability of the organization. A rise in Profitability typically signals improved company performance, which enhances Firm Value, ultimately drawing investors to invest their capital in the enterprise (Olivia et al., 2021). Profitability is considered a key factor influencing Firm Value through increasing investor confidence and strategic management decision-making. The belief that more profitable businesses often have greater market valuations is supported by empirical evidence.

Firm Value was designated as the dependent variable in this research because it serves a comprehensive measure of overall performance and market perception. It encapsulates an evaluation of the company's Assets, Liabilities, Profitability, and future Prospects. Utilizing Firm Value as dependent variable

enables a detailed exploration of how Profitability, acting as the independent variable, impacts both market perception and the overall Firm Value.

The Consumer Non-Cyclicals sector was chosen because it has relatively stable demand characteristics, even in the midst of fluctuating economic conditions. Products and services from this sector, such as basic necessities and daily consumer goods, are still needed by the public, so the performance of companies in this sector tends to be more consistent. With such stability, this sector provides an ideal environment to test interaction between Profitability and Firm Value, as external factors affecting performance fluctuations tend to be more minimal compared to other more cyclical sectors. The financial performance of companies in this sector tends to be strong, with a high level of Profitability, making it interesting to examine how Profitability affects Firm Value. The huge investor interest in stocks in this sector is also another reason for choosing this sector, as it provides important insights for market participants. In addition, regulatory support and proactive government policies towards this sector also boost the competitiveness of the company, which has the potential to affect the Firm Value in the long run.

Table 1. 1 Table of Phenomenon

COMPANY NAME	YEAR	ROA	DER	CR	FS	SG	TQ
PT Budi Starch & Sweetener	2014	0.0113	1.7252	1.0459	14.7226	-0.1108	0.8043
	2015	0.0060	1.9549	1.0008	14.9991	0.0414	0.7458
	2016	0.0115	1.5166	1.0014	14.8911	0.0373	0.7322
	2017	0.0140	1.4604	1.0074	14.8937	0.0174	0.7374
	2018	0.0142	1.7664	1.0032	15.0372	0.0544	0.7658
	2019	0.0204	1.3339	1.0065	14.9140	0.1347	0.7260
	2020	0.0211	1.2410	1.1438	14.9017	-0.0925	0.7041
	2021	0.0278	1.1570	1.1666	14.9119	0.2381	0.8054
	2022	0.0280	1.1962	1.3297	14.9704	0.0022	0.8651
	2023	0.0303	1.0912	1.3647	15.0178	0.1663	0.8976

PT Mayora Indah	2014	0.0392	1.5259	2.0899	16.1475	0.1790	2.4192
	2015	0.1076	1.1836	2.3653	16.2441	0.0458	2.9469
	2016	0.1049	1.0626	2.2502	16.3745	0.2383	3.3614
	2017	0.1069	1.0282	2.3860	16.5179	0.1344	3.5349
	2018	0.0976	1.0593	2.6546	16.6829	0.1558	3.8444
	2019	0.1050	0.9207	3.4397	16.7619	0.0401	2.8869
	2020	0.1042	0.7547	3.6071	16.8001	-0.0220	3.4938
	2021	0.0596	0.7533	2.3282	16.8071	0.1400	2.7197
	2022	0.0872	0.7356	2.6208	16.9190	0.0991	2.9331
	2023	0.1338	0.5620	3.6726	16.9881	0.0266	2.6921
PT Wismilak Inti Makmur	2014	0.0843	0.5767	2.2749	14.1041	-0.3207	1.3492
	2015	0.0975	0.4228	2.8938	14.1102	0.1376	0.9696
	2016	0.0784	0.3658	3.3942	14.1183	-0.0478	0.9504
	2017	0.0331	0.2532	5.3559	14.0190	-0.1503	0.6988
	2018	0.0407	0.2490	5.9185	14.0431	-0.0332	0.4352
	2019	0.0210	0.2578	6.0239	14.0775	0.0069	0.4764
	2020	0.1067	0.3614	3.6633	14.2945	0.2091	0.9678
	2021	0.0934	0.4345	2.9323	14.4527	0.1159	0.7781
	2022	0.1150	0.4450	2.8357	14.5897	0.3330	0.9179
	2023	0.1919	0.3943	3.0836	14.7617	0.5396	1.7106

Source: Prepared by Writer (2024)

The researchers identified the operating measurement ratios utilized in the study based on the phenomenon table presented above. It is evident that the ROA was employed to assess Profitability, while the Tobin's Q Ratio (TQ) was used to evaluate Firm Value.

Based on Table 1.1, the phenomenon shown three consumer non-cyclicals sector companies, there are PT Budi Starch & Sweetener Tbk, PT Mayora Indah Tbk, and PT Wismilak Inti Makmur Tbk.

PT Budi Starch & Sweetener Tbk showed a fairly consistent increase in ROA during the 2014-2023 period, from 0.0113 in 2014 to 0.0303 in 2023. This indicates an increase in the efficiency firm using assets to cause profits. This increase was seen after a decline in 2020 (0.0211), which may have been influenced by the pandemic conditions. Meanwhile, Tobin's Q showed a relatively stable value

of around 0.7 - 0.9. This stability shows consistency in the firm capacity to maintain its performance value from year after year.

PT Mayora Indah Tbk shows that ROA fluctuates, but remains at a fairly good level. ROA reached its highest point in 2023 at 0.1338, although it experienced a significant decline in 2021 at 0.0596. This fluctuation indicates dynamics in the use of assets to generate profits, which may be influenced by market conditions and company strategy. As for Tobin's Q, this company tends to become highest value comparing with other companies in table, with the highest figure in 2018 at 3.8444 and remaining above 2.6 in the following years. This figure reflects the company's stability in maintaining its financial performance at a fairly high level.

PT Wismilak Inti Makmur Tbk showed a significant increase in ROA during the period 2014 to 2023, from 0.0407 in 2018 to 0.1919 in 2023. This increase indicates a consistent improvement in effectiveness of the enterprise asset usage in generate profits. As for Tobin's Q, PT Wismilak Inti Makmur Tbk tends to be lower than the other two companies. However, in 2023, there was a quite striking increase to 1.7106, indicating an improvement in the company's overall performance.

From the phenomenon table above, it can be concluded that PT Mayora Indah Tbk has a high level of effectiveness in managing its assets compared to the other two companies, despite fluctuations. Meanwhile, PT Budi Starch & Sweetener Tbk shows a stable gradual increase, reflecting consistent efforts to improve its operational efficiency. PT Wismilak Inti Makmur Tbk also shows an

improvement trend in the effectiveness of asset use and its performance value, although at a lower level. This analysis can provide an overview of how these three companies manage their assets and maintain their financial performance throughout the 2014-2023 period.

The selection of quantitative methods for this study stems from the necessity to objectively and systematically evaluate interaction from two variables Profitability and Firm Value. This approach enables implementation of robust statistical analysis techniques to quantify the influence of Profitability towards Firm Value. By examining financial data from various companies over an extended period, this research aims to yield comprehensive and widely applicable insights into how Indonesian firms can enhance their value through effective management of profitability. Furthermore, the study focuses on the analysis period from 2014 to 2023, as this timeframe facilitates precise evaluations and offers valuable perspectives on how companies adapt to evolving regulatory frameworks and economic policies in the contemporary business landscape.

According to Murti and Azizah (2024), Profitability pertains to enterprise capacity to generating earnings from operations, subsequently exerting the positive influence towards Firm Value. Bigger Profitability indicates better financial performance, leading to increased investor confidence and a rise in the firm's market valuation. In this context, Profitability is seen as a critical factor that enhances Firm Value by attracting more investments and improving financial stability.

According to Arianto, Samanto, and Kusuma (2023), Profitability denotes enterprise capacity to produce earnings in interaction to its resources and operational activities. This Profitability significantly affects Firm Value, as higher Profitability signals better financial performance, which boosts investor confidence and market valuation. Companies exhibiting robust Profitability are viewed as more adept at maintaining growth and delivering returns, which ultimately contributes to an enhancement in their overall Firm Value.

According to Radja and Artini (2020), Profitability is an indicator of how well a company can generate earnings compared to its expenditures and associated costs. It exerts a favorable influence on Firm Value, as greater Profitability demonstrates superior performance and financial stability, which in turn fosters investor trust and raises the company's market valuation. This relationship underscores the significance of Profitability as a key determinant in increasing Firm Value.

One of the previous researchers has conducted a study by Dang et al (2019), this thesis emphasizes effects of Sales Growth, Firm Size, Capital Structure, and Profitability within context of Vietnam. Unlike prior research, it distinguishes itself through its specific focus and the time frame of the study. In this thesis, researchers focus on companies in Indonesia with a time span of 2014-2023 and specializes this research in the Consumer non-cyclicals sector in Indonesia and adds four control variables including, Leverage, Liquidity, Firm Size, and Sales Growth. These control variables enable a more extensive analysis, allowing for the identification of other factors that might influence the interaction of two variables Profitability

and Firm Value. Conversely, earlier studies focused research in Vietnam on the period from 2012 to 2016, examining 214 enterprise listed on Ho Chi Minh Stock Exchange. These studies employed general regression analysis to explore the interaction between variables and utilized Stata for data testing. However on this study, the Ordinary Least Squares (OLS) method utilized, supported by SPSS software, to validate the linear regression hypothesis, providing a different analytical approach.

This study seeks to clarify how Profitability influences Firm Value specifically within the Consumer Non-Cyclicals sector. The findings are intended to serve as a useful guide for investors and managers, assisting them in making informed financial decisions based on the insights gained. Therefore, the title of this research is **“The Influence of Profitability Towards Firm Value”**, with the aim knowing the relationship of Profitability as measured by Return on Assets (ROA) by having independent control variables are Leverage, Liquidity, Firm Size, and Sales Growth to Firm Value in a dynamic global business context.

1.2 Problem Formulation

From background information provided, below the problem formulation for this research outlined:

1. Does Profitability has influence towards Firm Value in Consumer Non-Cyclicals Companies listed on Indonesia Stock Exchange on period 2014-2023?

1.3 Objective of Research

From the problem formulation outlined can be seen that the purpose of this research is:

1. To analyze whether the Profitability has influence towards Firm Value in Consumer Non-Cyclicals Companies listed on Indonesia Stock Exchange on period 2014-2023.

1.4 Benefit of the Research

This study is anticipated to offer both theoretical and practical benefits, detailed as following:

1.4.1 Theoretical Benefit

Theoretically, this research poised enrich existing body of knowledge and deepen comprehension within the accounting discipline concerning how Profitability influence Firm Value, particularly in the context of Consumer Non-Cyclicals Companies. Such insights are invaluable for both academic scholars and industry practitioners, because they can foster a better understanding of making strategic decisions related to increasing Profitability in order to maximize Firm Value.

1.4.2 Practical Benefit

This research delivers valuable insights, suggestions, and evaluations concerning the elements that influence Firm Value. It is fundamental for enterprise to carefully manage their Firm Value, and this research designed to provide pertinent information regarding conditions of

these enterprises. As a result, it can aid investors in making well-informed decisions about investing in Consumer Non-Cyclicals Companies.

1.5 Problem Limitation

The problem limitation of this research consists of:

1. The research objects are limited to consumer non-cyclical company sector listed on the Indonesia Stock Exchange during the 2014-2023 period. This limitation was carried out to ensure that research results were more relevant and accurate in understanding the relationship between profitability and firm value in this sector. Thus, the research results can provide deeper insight into the relationship between profitability and firm value in this sector.
2. This study is limited to 2014-2023. This limit was chosen in order to capture a fairly long trend and consider various macroeconomic factors that might influence the company's performance in that time period and to provide a comprehensive picture of the relation among profitability and firm value, and can influence the generalizability of research results for the period after 2014- 2023, especially if there are significant changes in economic policies, market conditions, or other external factors outside that time frame.
3. This research model is limited to using profitability as the main independent variable and company value as the dependent variable, with control variables including leverage, liquidity, firm size and sales growth. This model aims to explore the influence of profitability on

company value by considering other factors that can influence the final results, thereby providing a more comprehensive and in-depth analysis.

