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THE EFFECT OF PROFITABILITY AND SOLVENCY RATIOS ON COMPANY VALUE WITH *GCG* AS A MODERATION VARIABLE IN PLASTICS AND PACKAGING SUB SECTOR MANUFACTURING COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE FROM 2017 TO 2021

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Abstract: This study aims to determine the effect of profitability and solvency ratios on company value with *good corporate governance* as a moderation variable in the plastics and packaging sub-sector manufacturing companies listed on the Indonesian Stock Exchange from 2017 to 2021. The statistical analysis technique uses the EViews 9 application. The Random Effect Model is the most appropriate model for the company. This study found that company management using profitability ratio has a negative and insignificant effect. Solvency ratio has a positive and insignificant effect. *Good corporate governance is* unable to moderate the effect of both profitability and solvency ratios on company value.

Keywords: Profitability, Solvency, Good Corporate Governance, Company Value

1. Introduction

The development in the manufacturing industry continues to grow very rapidly, leading to competition among companies to continue to improve performance in order to achieve the goals of establishing a company. The purpose of the company itself is to maximize revenue or profit, to prosper the company's owners or shareholders, as well as to maximize the value of the company. In companies that *go public*, the value of the company is reflected in the price of the stock traded on the Stock Exchange.

According to Indrarini (2019: 2) company value is the perception of investors of the success rate of company managers in managing the resources available to the company entrusted to managers and related to the company's share price. Company value is something that is very important for the company and must always be considered by the company, this is because the company's value can describe the state or condition of the company and guarantee prosperity for the company's shareholders. The company value proxied by the high value *Price to Book Value* (PBV) is the desire of the company owners, in addition to achieving company goals, of course, it will also increase the prosperity of shareholders or *stakeholders*. *Price to Book Value* (PBV) "is a ratio that compares the share price with the book value of the shares". (Suwardika, Agus I Nyoman and Mustanda, 2017).

The following is a graph of the average company value (PBV) in manufacturing companies in the plastics and packaging sub-sector listed on the Indonesia Stock Exchange from 2017 to 2021.

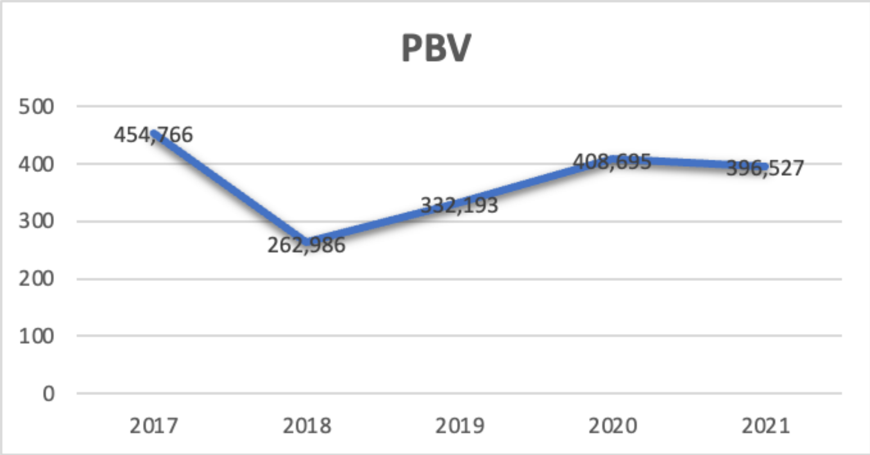

Figure 1 The average movement of the PBV company value per year of the Plastic and Packaging Sub-Sector Manufacturing Companies listed on the Indonesian Stock Exchange, 2017-2021

Based on Figure 1, it can be clearly seen that the average company value proxied by *Price to Book Value* (PBV) in manufacturing companies in the plastics and packaging sub-sector listed on the Indonesian Stock Exchange from 2017 to 2021 fluctuates. This occurs due to the increase and decrease in the company's share price traded in the capital market. A high company value will make investors interested in buying the company's shares, because investors believe in the company's performance in managing the company and the company's prospects in the future. Likewise, on the contrary, low company value will make investors not interested in buying shares, because of the risks that will be incurred. It can be seen that the company’s value in 2017 and 2018 continued to decline, but at the beginning of 2019, 2020, until 2021 it continues to rise.

One of the factors that influence fluctuations in company value is the financial ratio that can be seen in the company's financial statements. The financial report itself is a signal given by the company manager as the manager of the company to potential investors regarding the company situation or condition. In this study, the financial ratios used are profitability and solvency.

2. Literature Review

Signaling Theory

Signaling theory can be interpreted as a signal made by external parties (company managers) to internal parties (investors). This is done by the company with the hope that market participants or investors can provide an assessment of the company (Gumanti, 2011).

Signaling theory can also be interpreted as an action taken by company management to provide guidance to potential investors regarding the company's prospects. (Brigham and Houtson, 2006: 33) This makes signaling theory an encouragement for the company to provide information to potential investors.

Therefore, it can be concluded that signaling theory is an activity from the internal company (managers) to provide information about the company's condition to external parties (investors) through the company's financial statements.

Signaling theory is concerned with understanding on how a signal is valuable or useful. This is because the company's internal parties (company managers) get more information related to the company's operations and prospects compared to the company's external parties (investors) (Gumanti, 2011). Therefore, to respond and reduce the information asymmetry that occurs can be done by providing signals or information to external parties through complete and accurate company financial reports.

Based on this, it can be said that signaling theory functions as a sign or signal from the internal company to the external company so that the company's condition and prospects can be known.

Financial Management

Financial management is a functional management of finance by practicing financial principles in a corporate organization in an effort to create value through decision making and proper management of resources within the company. (Sudana, 2015: 3). Financial management is closely related to making long-term investment decisions, long-term funding decisions, and controlling working capital related to long-term investments. Financial management is a good management of funds that can be the efficiency of allocating funds to certain types of investments, as well as the accumulation of funding for investment financing. (Agus Sartono, 2015:6)

Financial Statement Analysis

Financial reports prepared in accordance with large procedures and assessments, and compiled based on relevant data will be able to show the true financial condition of the company. The intended financial condition is to disclose on how much the amount of assets, short-term and long- term liabilities, and capital of the company. Furthermore, it can tell on how much the amount of revenue earned by the company and how much the amount of costs incurred by the company in a certain period. In analyzing financial statements, we need financial ratio data. Financial ratios will make it easier to analyze the company's financial condition. Financial ratios are obtained from comparing one account to another in the financial statements.

This research will involve Profitability Ratio, Solvency Ratio, Good Corporate Governance and Value Ratio. The following is the ratio formula:

a. Profitability Ratio

Profitability ratio is a ratio used to measure the quality of profit on capital owned. This ratio is also a signal of the profit obtained from the capital invested in the company. Profitability ratio in this study is proxied by using *Return On Equity*. The higher the value, the higher the profit that will be obtained by shareholders. To find *Return On Equity* (ROE) by comparing net profit after tax with shareholders' equity.

$$\textbf{\textit{Return On Equity}}\ \textbf{(ROE)} = \frac{\textit{Earning After Taxes}}{\textit{Total Equity}}$$

(Sudana, 2015:25)

b. Solvency Ratio

Solvency ratio is a ratio used to measure the quality of the company's capital structure. This ratio will describe the comparison between company’s external and internal sources of funds. A good company has more internal sources of funds than external sources of funds. The higher the ratio value, the worse it is, which means that the company's sources of funds are more financed by external funds or debt. To calculate the *Debt to Equity Ratio* (DER) uses the ratio between total debt and total company equity.

$$\textbf{\textit{Debt to Equity Ratio}}\ \textbf{(DER)} = \frac{\text{Total of Debt}}{\textit{Equity}}$$

(Kasmir, 2019:160)

c. Good Corporate Governance

Good corporate governance (GCG) "is a set of arrangements that regulate and control a company". (FCGI, 2011) In this case, *Good Corporate Governance* organizes the relationship among shareholders, company managers, creditors, government, employees and stakeholders both *internal* and *external to* the company regarding their rights and obligations. GCG measurement in this study uses institutional ownership. To calculate the amount of institutional ownership of the company, you can use the proportion of the number of shares owned by institutional parties at the end of the year compared to the number of shares outstanding and expressed as a percentage.

$$\textbf{Institutional Ownership (KI)} = \frac{\text{The } \textbf{\textit{amount}} \text{ of institutional shares}}{\textbf{\textit{The amount of Stock in Circulation}}}$$

(Sartono, 2010:487)

d. Company Value Ratio

Indrarini (2019: 2) states that company value "is the perception of investors of the success rate of company managers in managing the resources of the company entrusted to managers and is related to the company's share price". Calculation of company value with *Price Book Value* (PBV) by using the ratio between the share price and the book value of the shares. The share price will increase if the demand for shares in a company increases.

The following is the measurement of *Price Book Value* (PBV):

$$\textbf{\textit{Price Book Value}} = \frac{\textbf{\textit{current share price}}}{\textbf{\textit{Book Value}}}$$

(Suwardika, Agus I Nyoman dan Mustanda, 2017)

Theoretical Framework

The following is the theoretical framework used in this research:

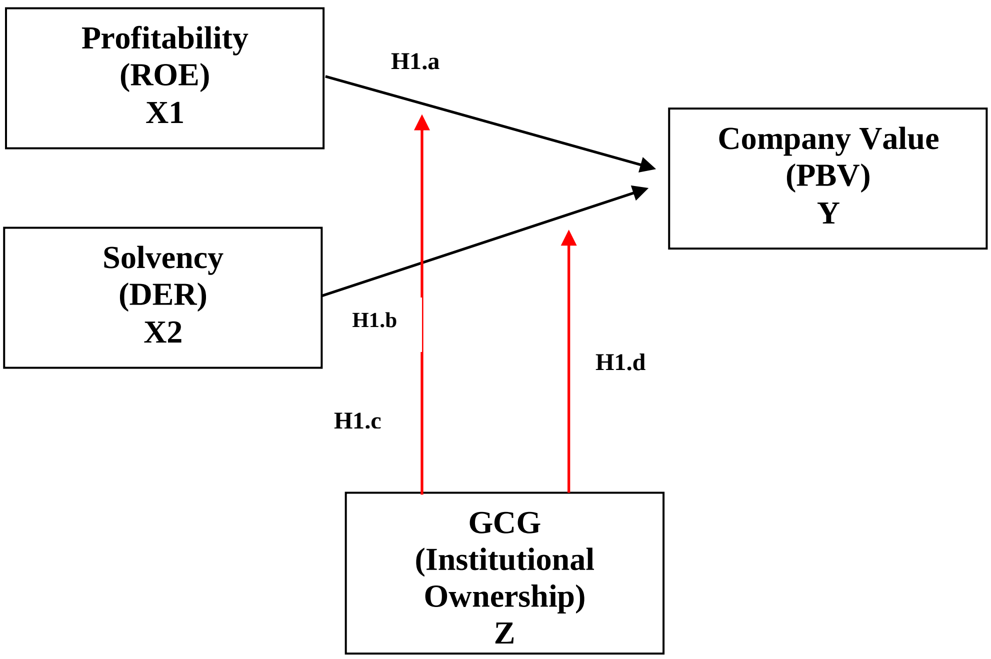

Figure 2
Theoretical Framework

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3. Method

Population and Sample

The population in this study were 15 plastics and packaging sub-sector manufacturing companies listed on the Indonesian Stock Exchange from 2017 to 2021.
The samples taken by researchers are plastics and packaging sub-sector manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021 which then selected based on certain criteria.
This study used the *purposive sampling* technique method. The *purposive* sampling technique itself is a sampling technique with certain considerations to obtain a sample that matches the specified criteria. Based on the criteria for taking the number of samples using the *purposive sampling* technique method, seven companies were obtained with a period of five years, from 2017 to 2021. Thus, the number of samples in this study were 35 samples.
The following is sample data for manufacturing companies in this study:

Table 3. Sample results of plastics and packaging sub-sector manufacturing companies

No.	Emiten Code	Company Name
1	AKPI	PT Argha Karya Prima Industry Tbk
2	IGAR	PT Champion Pasific Indonesia Tbk *d.h Kagoe Igar Jaya Tbk*
3	IMPC	PT Impact Pratama Industri Tbk
4	IPOL	PT Indopoly Swakarya Industry Tbk
5	PBID	PT Panca Budi Indaman Tbk
6	TALF	PT Tunas Alfin Tbk
7	TRST	PT Trias Sentosa Tbk

Source: www.idnfinancials.com , data processed 2023

Data Analysis Technique

The hypothesis testing model used is to test the multiple linear regression equation with moderation variables. The form of multiple linear regression used based on the formulation of the problem and the theoretical framework presented is as follows:

$$\mathbf{Y = \alpha + b\ X_{11} + b\ X_{22} + b\ X_{31}\ Z + b\ X_{42}\ Z + e}$$

Description:

Y	=*Price Book Value* (PBV)
A	=Constant
B	=Coefficient of X_1 and X_2
X_1	=*Return on Equity* (ROE)
X_2	=*Debt to Equity Ratio* (DER)
Z	=Institutional Ownership
e	=*Error*

Moderation variables can be divided into four types, which are *pure moderator (*pure moderation), *quasi moderator* (pseudo moderation), *homologiser* moderator (potential moderation), and *predictor moderator* (moderation as a predictor).(Solimun, 2011)
The analysis in this study was assisted by the EViews version 9 application. This is because the data used is panel data, so that it will be easier using this application.

4. Discussion of Research Results

Based on the results of the Research Model Estimation, the most suitable model for this study is the *Random Effect Model* (REM). The following are the partial test results:

Table 4
Random Effect Model with Moderation Variables

Variable	Coefficient	Std. Error	t-Statistic	Prob.

C	7.297277	8.650286	0.843588	0.4058
X_1	-0.998055	1.104645	-0.903508	0.3737
X_2	5.133273	3.610755	1.421662	0.1658
X_1*Z	6.172991	10.53699	0.585840	0.5625
X_2*Z	-13.71493	9.373622	-1.463141	0.1542

Source: EViews 9 output results, data processed 2023

EViews results show that variable X_1 has a negative and insignificant effect on variable Y, this implies that a low ROE will increase the Company's value. In the sense of a company when its ROE drops but is still in demand by prospective shareholders. Variable X_2 has a positive and insignificant effect on variable Y. While the results of the interaction test between variable X_1 , (profitability) with variable Z or the moderating variable (*Good Corporate Governance)*, have a t-Statistic value of 0.585840 with a probability of 0.5625. The probability value is greater than the α value (0.5625>0.05). This shows that variable Z (moderation) is not able to moderate the effect of variable X_1 on Y. Then H_0 is accepted and H_1 is rejected, where *Good Corporate Governance* (GCG) cannot moderate the effect of profitability ratio on company value. The results of the interaction test between variable X_2 (solvency) with variable Z (moderation), *Good Corporate Governance* (GCG), have a t-Statistic value of - 1.463141 with a probability value of 0.1542. The probability value is greater than the α value (0.1542>0.05). This shows that variable Z is unable to moderate the effect of variable X_2 on Y. Then H_0 is accepted and H_1 is rejected, where *Good Corporate Governance* (GCG) cannot moderate the effect of solvency ratio on firm value.

Based on the results above, it can be concluded that the company's profits are mostly used for retained revenue and not distributed to shareholders so that it becomes a negative signal and reduces the company's value. Companies use debt as a source of funds in order to obtain more profits to prosper shareholders. *Good corporate governance* is long-term, while profitability is periodic. There is a concurrent position that raises *agency costs*, management is more concerned with personal interests than investors. the company gives a negative signal and shows the company's high debt, so investors pay more attention to the company's solvency than the implementation of *good corporate governance*.

Table 5
Determination Results R2 Panel Data with Moderation

R-squared	0,122977	Mean dependent var	0,343601
Adusted R-Squared	-0,028234	S.D. dependent var	2,128165
S.E. of regression	2,157999	Sum squared resid	135,0519
F-statistic	0,813280	Durbin-Watson stat	2,195667
Prob(F-statistic)	0,549942		

Source: EViews 9 output results, data processed 2023

In table 5, it can be seen that the independent variables in this study explain 12.29% of the variation in the dependent variable or company value and the remaining 87.71% by other variables or indicators that are not measured in the panel data regression model with moderation in this study.

5. Conclusion

EViews results show that variable X_1 has a negative and insignificant effect on variable Y, variable X_2 has a positive and insignificant effect on variable Y. Variable Z (moderation) is not able to moderate the effect of variable X_1 on Y while variable Z is not able to moderate the influence of variable X_2 on Y.

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