

THE RELATIONSHIP BETWEEN PROFITABILITAS AND COMPANY VALUE IN SUB INDUSTRI HEAVY CONSTRUCTIONS & CIVIL ENGINEERING

Dian Ermayanti⁽¹⁾ Nekky Rahmiyati⁽²⁾

1. Faculty of Economics and Business, Universitas 17 Agustus 1945 Surabaya
 2. Faculty of Economics and Business, Universitas 17 Agustus 1945 Surabaya
- E-mail: dianermayanti6@gmail.com, nekky@untag-sby.co.id

Abstract

The purpose of this study was to examine the effect of activity, liquidity, capital structure on firm value with profitability as a mediating variable in Sub Industri Heavy Constructions & Civil Engineering listed on the Indonesia Stock Exchange for the 2018-2021 period. The population in this research is the Sub Industri Heavy Constructions & Civil Engineering listed on the IDX for the 2018-2021 period, totaling 23 companies. After taking the sample using the purposive sampling method, a sample of 10 companies was obtained. The technique of collecting data is by studying documentation from financial reports published on the website www.idx.co.id and the websites of each sample company. The research method is quantitative and uses Partial Least Squares (PLS), which is a Structural Equation Models (SEM) approach that allows researchers to analyze relationships simultaneously. The results showed that Liquidity and Capital Structure directly affect the company's value. However, activity and profitability directly do not affect the company value. Liquidity, Capital Structure and activity directly do not affect the Profitability. Profitability can does not mediate the influence of Liquidity, Capital Structure and activity on company value.

Keywords: Liquidity, Capital Structure, Profitability, and Company Value

INTRODUCTION

The construction industry plays a role in the development process to produce infrastructure such as dams, irrigation buildings, roads, schools and

housing. The capabilities of the construction sector include improving living standards, cost efficiency, time and quality of work and self-esteem as a nation. The construction industry as one of the producers of the multiplier effect also has backward and forward linkages as well as linkages with other sectors. Dependency relationships that occur with other economic sectors are not only static but can also be dynamic. In the sense that if the demand for the construction sector for a construction is built, it will automatically move the building materials/materials industry, consulting services and various small/home industries, while the construction product in the form of buildings can move the sectors in front of it such as manufacturing, agriculture, and other sectors.

The company's goal in financial management is to increase the company's value indicated by the share price. A company's value is influenced by internal factors such as activity, liquidity, capital structure and profitability.

Anju et al (2020)ⁱ states that the activity variable has a significant effect on firm value. Research by Agustian Zisokhi Lase (2019)ⁱⁱ activity and profitability had a positive effect on firm value. while Yofhi Septian Panglipurningrum (2020)ⁱⁱⁱ stated that the activity ratio had a positive and insignificant effect and profitability has a negative and significant effect on firm value , Liquidity has a negative and insignificant effect on firm value.

Astuti Research (2017)^{iv} liquidity affects firm value. It can be said that the level high liquidity means high firm value and vice versa. Fransisca Rusgowanto's research (2018)^v states that Liquidity Ratio has a significant effect on profitability, however, different results by Awulle et al.,(2018)^{vi} that liquidity does not have influence on company value. Results Similar findings were also found Jenny Ambarwati (2021)^{vii} suggest that Liquidity does not affect firm value and profitability affects firm value

Research by Resi Yanuesti Violita, Sri Sulasmiyati (2017)^{viii} stated that capital structure which represents a significant effect towards profitability, Dedi Supiyadi dkk (2018)^{ix} capital structure is a significant positive effect on

profitability and Research by Bunga Asri Novita Sofi (2015)^x stated that the capital structure and liquidity together have a significant effect on profitability

FORMULATION OF THE PROBLEM

Problem Formulation, Based on the description of the background of the problem, the formulation of the situation in this study is ::

1. Activity affect on Profitability of Sub Industry Heavy Constructions & Civil Engineering in Indonesia
2. Activity affect on Company Value of Sub Industry Heavy Constructions & Civil Engineering in Indonesia
3. Liquidity affect on profitability of Sub Industry Heavy Constructions & Civil Engineering in Indonesia
4. Liquidity affect on Company Value of Sub Industry Heavy Constructions & Civil Engineering in Indonesia
5. Capital Structure affect on Profitability Sub Industry Heavy Constructions & Civil Engineering in Indonesia
6. Capital Structure affect on Company Value of Sub Industry Heavy Constructions & Civil Engineering in Indonesia
7. Profitability affect on Company Value of Sub Industry Heavy Constructions & Civil Engineering in Indonesia

PURPOSE

1. The purpose of this study is directed to analyze the factors activity , liquidity, capital structure and profitability that affect the company value of of Sub Industry Heavy Constructions & Civil Engineering
2. This research is expected to contribute, increase scientific knowledge in the field of economics, especially in the management of of Sub Industry Heavy Constructions & Civil Engineering so that they are able to compete and have good prospects in the future and can increase company value.

Literature Review

Company's Value

The purpose of financial management is to increase the company's value as indicated by the share price. Internal and external factors influence the company's

value. The completeness, accuracy, and timeliness of information can help investors and business players to make investment decisions. Information can give positive and negative signals, which can be known from the market's reaction toward the information

According to Fahmi (2015:82)^{xi} company value is the market value ratio, which is a ratio that describes the conditions that occur in the market. This ratio is able to provide an understanding for the company's management regarding the conditions of implementation that will be carried out and their impact in the future.

The value of the company is the exchange rate per share that will be received if the company's assets are sold according to the share price. Measurement of Firm Value according to Brigham and Daves, (2014: 54)^{xii}

Price to Book Value (PBV)	$= \frac{\text{Market price per share}}{\text{Book Value per share}}$
Price Earning Ratio (PER)	$= \frac{\text{Market price per share}}{\text{Earning per share}}$

Activity

According to (Harahap, 2013:308) ^{xiii}the activity ratio describes the overall activities carried out by the company in carrying out its operations, both sales, purchasing, and other activities. Kasmir (2009:175)^{xiv} states that the activity ratio is used to determine the use of all company assets compared to sales in a certain period. Activity can be measured by Total Asset Turnover (TATO) and Fixed Asset Turn Over (FATO).

Total Aset Turn Over (TATO)	$= \frac{\text{Net Sales}}{\text{Total Aset}}$
Fixed Aset Turn Over (FATO)	$= \frac{\text{Net Sales}}{\text{Fixed Aset}}$

Research by Anju S. et al (2020) stated that the activity variable had a significant effect on firm value. Meanwhile, according to Dwi Astutik (2017), the activity ratio has no significant negative effect on firm value

Liquidity

According to Kasmir (2013: 128)^{xv} the liquidity ratio is the issuer's inability to pay off short-term liabilities that are past due. The causes of the company's inability include: lack of funds; waiting for the disbursement of assets and SSB. The liquidity ratio is measured using the Current Ratio, it is useful to know the company's ability to pay off short-term liabilities. A good CR measure for the company is 200% (2:1) While the opinion of Riyanto (2013:25)^{xvi} states, "liquidity is a problem related to the problem of a company's ability to meet its financial obligations that must be fulfilled immediately".

The Effect of Liquidity and Profitability on Firm Value From the opinion of Brigham and Joel (2010: 150)^{xvii} it also shows that simultaneously liquidity and profitability have a significant effect on firm value. To get a good company value, the company must be able to manage its liquidity and profitability ratios well, so that the market value and share price are also getting better. Liquidity can be measured by Current ratio, quick ratio, cash ratio

<i>Current Ratio</i>	$= \frac{\text{Current assets}}{\text{Current liabilities}} \times 100\%$
<i>Quick Ratio</i>	$= \frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}} \times 100\%$
<i>Cash Ratio</i>	$= \frac{\text{cash} + \text{bank}}{\text{Current liabilities}} \times 100\%$

Capital Structure

According to Fahmi (2014)^{xviii}, the capital structure is an illustration of the form of the company's financial proportions, namely between owned capital sourced from long-term liabilities and own capital (shareholders equity). Meanwhile, according to Sudana (2015)^{xix} capital structure is a company's long-term expenditure as measured by the comparison of long-term debt with its own capital. The capital structure is a collection of funds that can be used and allocated by the company where the funds are obtained from long-term debt and own capital. Another definition suggests that the capital structure is a mixture or collection of debt, preferred stock and own capital used to raise capital (Brigham and Houston, 2014)^{xx} The capital structure is the long-term funding of a company as measured by the ratio of long-term debt to its own capital. Capital structure can be measured by Debt to Assets Ratio (DAR) and Debt to Equity Ratio (DER).

$$DAR = \frac{Total\ Debt}{Total\ Aset}$$

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

Research by Ni Luh Putu Widyantari & I Putu Yadnya (2017) states that capital structure has an insignificant negative effect on firm value, profitability has a significant positive effect on firm value.

PROFITABILITY

According to James C. Van Horne and John M. Wachowicz, Jr. (2012:180)^{xxi} Profitability ratio is a ratio that connects profit with sales and according to Brigham and Houston (2006:78)^{xxii}, the company ratio is a group of ratios that show the combination and influence of asset and debt management

liquidity from operating results. According to I Made Sudana (2015:22), the following is to measure the company's profitability ratio:

<i>Return On Asset</i>	$= \frac{\text{Earning After Tax}}{\text{Total Assets}} \times 100\%$
<i>Return On Equity</i>	$= \frac{\text{Earning After Tax}}{\text{Total Equity}} \times 100\%$
Net Profit Margin	$= \frac{\text{Earning After Tax}}{\text{Sales}} \times 100\%$

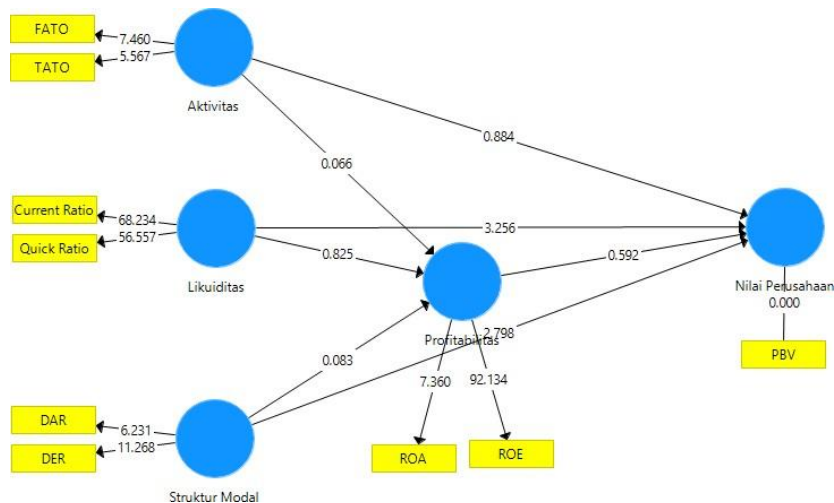
Research Methods

In this study, with purposive sampling 10 companies Sub Industry Heavy Constructions & Civil Engineering listed on the Indonesia Stock Exchange from 2018–2021 are used as samples. The research method uses a quantitative approach. The annual report (balance sheets, profit, and loss, capital report www.bei.co.id. This study used construct variables (latent variables) and manifest variables (indicators). Variables in this study consisted of exogenous variables (activity, liquidity, capital structure,), endogenous variables (company value) and intervening variables (profitability). The analysis method used in this study was the structural equation model (SEM) based on variance Partial Least Square (PLS). PLS-SEM is a method of structural equation modeling that allows estimating complex cause-effect relationship models with latent variables.

Result

Analysis Outer Model The use of the Partial Least Square (PLS) analysis tool requires testing the validity and reliability of the construct as a test of goodness of fit on the outer model. Tests were carried out on the variables of , Activity, Liquidity, Capital Structure, Profitability, Company Value . Convergent Validity in PLS requires that an indicator accurately measures its construct. Testing the

Convergent Validity of the outer model, by looking at the outer loading value of each indicator, is declared to be convergent valid if the loading value is > 0.5 . The results of the smart PLS output for the loading factor give the results as presented in Figure 1



Outer Model Analysis

Smart PLS to assess the outer model, namely Convergent Validity, Discriminant Validity and Composite Reliability.

- a. **Convergent Validity** This study uses a reflective measure of 0.7 which is indicated by each variable having an outer loading value of > 0.7 so that all indicators can be declared feasible or valid to use.

Table 1 Outer Loading After Adjustment

	Activity	Liquidity	Company Value	Profitability	Capital Structure
Current Ratio		0,958			
DAR					0,750
DER					0,978
FATO	1,000				
PBV			1,000		
Quick Ratio		0,968			
ROA				0,993	
ROE				0,995	
TATO	0,884				

Source: PLS Data Processing Results

b. Discriminant Validity

To see discriminant validity is to look at the value of the square root average variance extracted (AVE). The recommended value is above 0.5. The AVE values obtained in this study are as presented in Table 1 shows all the Average Variance Extracted (AVE) values above 0.5 for all variables contained in the research model.

Table 2 Score Average Variance Extracted (AVE)

<i>Variable</i>	<i>Average Variance Extracted (AVE)</i>	<i>Note</i>
Activity	0.891	Valid
Liquidity	0.927	Valid
Company Value	1.000	Valid
Profitability	0.988	Valid
Capital Structure	0.759	Valid

Source: PLS Data Processing Results

c. The Reliability Test

The reliability test was carried out by looking at the composite reliability value of the variable. The results of composite reliability will show a satisfactory value if it is above 0.7

Table 3 Composite Reliability

<i>Variable</i>	<i>Composite Reliability</i>	<i>Note</i>
Activity	0.942	Reliable
Liquidity	0.962	Reliable
Company Value	1.000	Reliable
Profitability	0.994	Reliable
Capital Structure	0.861	Reliable

Source: PLS Data Processing Results

2. Structural Model Testing (Inner Model)

Structural Model Testing (Inner Model) is carried out after the estimated model meets the criteria for the Outer model. In evaluating the structural model, measures such as R-square, Stone-Geisser Q-square test are used for predictive relevance and t-test and significance of structural path parameter coefficients.

Table 4 Score R Square (R^2)

	R Square	R Square Adjusted
Company Value	0.592	0.545
Profitability	0.043	-0.036

Source: PLS Data Processing Results

The conclusions from table 4 can be explained as follows:

- a. The R-square company value variable was obtained as 0.545 or 54,5%. This shows that the Company Value variable is explained Activity, Liquidity, Capital Structure, Profitability, Company Value by 54,5 % and the remaining 45,5% is explained by variables other than Activity, Liquidity, Capital Structure, Profitability, variables.
- b. The R-square value of the profitability variable was obtained as 0.036 or 3,6 %. This shows that the profitability variable is explained by Activity, Liquidity, Capital Structure, is 3,6 .% and the remaining 86,4% is explained by other variables besides Activity, Liquidity, Capital Structure.

Hypothesis Testing

Table 5 Direct Effect Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Ket
Activity -> Company Value	-0.145	-0.126	0.165	0.878	0.380	Negative Not Sign

						if ica nt
Activity -> profitability	-0.009	-0.028	0.125	0.070	0.9 44	Neg ative Not Sign ifica nt
Liquidity -> Company Value	0.627	0.658	0.195	3.219	0.0 01	Posit iv Sign ifica nt
Liquidity -> profitability	0.229	0.242	0.284	0.806	0.4 20	Posi tive Not Sign ifica nt
profitability -> Company Value	-0.075	-0.046	0.132	0.564	0.5 73	Neg ative Not Sign ifica nt
Struktur Modal -> Company Value	0.873	0.768	0.311	2.803	0.0 05	Posit iv Sign ifica nt
Struktur Modal -> profitability	0.038	-0.098	0.469	0.081	0.9 36	Posi tiv Not Sign ifica nt

Source: PLS Data Processing Results

Hypothesis testing in this study was conducted by looking at the significance of the influence between variables on the parameter coefficients and the significance value (t statistic). Hypothesis testing is carried out using the bootstrapping technique, namely recalculation of sample data at random to obtain the t statistic value on each path. The path coefficient value of the structural model is said to be significant if it produces two hypothesis tests, namely t statistic >

1.96, or $p\text{-value} < 0.05$. The path coefficient value of the structural model is said to be significant if it produces two hypothesis tests, namely t statistic > 1.96 , or $p\text{-value} < 0.05$.

1. The effect of Activity (X1) on Profitability (Z) which shows the t -statistic value of Activity variable (X1) on Profitability (Z) is smaller than t -table which is 0.070 with Original Sample of -0.009 and P Values of 0.944 . Based on the results of these calculations, H1 is rejected and it can be concluded that Activity (X1) has an insignificant Negatif effect on Profitability (Z)
2. The effect of Activity (X1) on Company Value (Y) which shows the t -Statistic value of the Activity variable (X1) on Company Value (Y) is smaller than t -table which is 0.878 with the Original Sample of -0.145 and P Values of 0.380. Based on the results of these calculations, H2 is rejected and it can be concluded that Activity (X1) has an insignificant negative effect on Company Value (Y)
3. The effect of Liquidity (X2) on Profitability (Z) which shows the t -Statistic value of the Leverage (X2) variable on Profitability (Z) is smaller than t -table, which is 0.806 with an Original Sample of 0.229 and P Values of 0.420 Based on the results of these calculations, H3 is rejected and it can be concluded that Liquidity (X2) has an insignificant positive effect on Profitability (Z)
4. The effect of Liquidity (X2) on Company Value (Y) which shows the t -Statistic value of the Liquidity (X2) variable on Company Value (Y) is greater than the t -table which is 3.219 with Original Sample of 0.627 and P Values of 0.001. Based on the results of these calculations, H4 is accepted and it can be concluded that Liquidity (X2) has significant positive effect on on Company Value (Y)
5. The effect of Capital Structure. (X3) on Profitability (Z) which shows the t -Statistic value of the Capital Structure variable (X3) on Profitability (z) is smaller than t -table which is 0.081with Original Sample is 0.038 and P

Values is 0.936. Based on the results of these calculations, H5 is rejected and it can be concluded that Capital Structure. (X3) has an insignificant positive effect on Profitability (Z)

6. The effect of Capital Structure. (X3) on Company Value (Y) which shows the t-Statistic value of the Capital Structure (X3) variable on Company Value (Y) is greater than t-table which is 2.803 with Original Sample of 0.873 and P Values of 0.005. Based on the results of these calculations, H6 is accepted and it can be concluded that Capital Structure. (X3) has an significant positive effect on Company Value (Y)
7. The effect of Profitability (Z) on company value (Y) which shows the t-Statistic value of the Profitability (Z) variable on company value (Y) is smaller than t-table which is 0.564 with Original Sample of -0.075 and P Values of 0.573 Based on the results of these calculations, H7 is rejected and it can be concluded that Profitability (Z) has an insignificant negative effect on company value (Y)

CONCLUSION

This study investigated the relevance of Activity, Liquidity, Capital Structure. Profitability affect to the company value of Sub Industry Heavy Constructions & Civil Engineering in Indonesia using selected Sub Industry Heavy Constructions & Civil Engineering as a representation of other Sub Industry Heavy Constructions & Civil Engineering. The results of the study are that 1) 1. Activity has no significant effect on Profitability in Sub Industry Heavy Constructions & Civil Engineering in Indonesia; 2) . Activity has no significant effect on the company value in Sub Industry Heavy Constructions & Civil Engineering in Indonesia; 3) Liquidity has no significant effect on Profitability in Sub Industry Heavy Constructions & Civil Engineering in Indonesia; 4) Liquidity has an significant effect on the Company Value in Sub Industry Heavy Constructions & Civil Engineering in Indonesia. 5). Capital Structure has no significant effect on Profitability in Sub Industry Heavy Constructions & Civil Engineering in Indonesia; 6). Capital Structure has an

significant affect on value of the firm in Sub Industry Heavy Constructions & Civil Engineering in Indonesia; 7.) Profitability has no significant effect on the company value in Sub Industry Heavy Constructions & Civil Engineering in Indonesia

Liquidity have a significant affect on the company value. The level of liquidity for the company is to assist the process of analysis and interpretation of short-term financial conditions. So, by knowing the level of liquidity, the company can improve its financial condition when it is known that there are things that make business performance less than optimal and efficient. Where the higher the level of company liquidity, the higher the company's performance. In addition, companies with high levels of liquidity have a better chance of getting support from various parties ranging from creditors, financial institutions and suppliers.

While high profitability reflects the company's ability to generate high profits for shareholders, the greater the profits obtained, the greater the company's ability to pay dividends which have an impact on increasing company value.

Liquidity has no significant effect on profitability, because a high liquidity ratio indicates that there are idle funds in the company but a low liquidity ratio is also not good because it shows problems in liquidation, but investors do not care about the high and low liquidity ratios in the company because the focus of investors is on the company's ability to generate profits.

SUGGESTION

Further research is expected to use other ratio options to measure activity, liquidity, capital structure And Profitability of the Company Value and can consider other proxies so that the results obtained are more maximal. Furthermore, it is expected to be able to add variables to be studied, besides that, it can also consider other tools to measure firm value.

For investors, it is suggested that the variables in this study indicate future profitability. So hopefully it can be the right consideration for investors and also

potential investors in making decisions when they will invest their capital in a particular company, especially in Sub Industri Heavy Constructions & Civil Engineering.

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