THE EFFECT OF PROFITABILITY AND COMPANY'S SIZE ON THE FIRM’S VALUE (EMPIRICAL STUDY OF LISTED FOOD AND BEVERAGE ON INDONESIAN STOCK EXCHANGE PERIOD 2016-2018)

Proposal

Compiled By:

Shintiya Frisilia

01031281621271

Submitted as one of the requirements for earning a bachelor of economics degree

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FACULTY OF ECONOMICS
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COMPREHENSIVE EXAM APPROVAL LETTER

THE EFFECT OF PROFITABILITY AND COMPANY'S SIZE ON THE FIRM'S VALUE (EMPIRICAL STUDY OF LISTED FOOD AND BEVERAGE ON INDONESIAN STOCK EXCHANGE PERIOD 2016-2018)

Composed by
Name : Shintiya Frisilia
NIM : 01031281621271
Faculty : Economics
Department : Accounting
Field of Study : Accounting Management

Approved to be used in the comprehensive exam.

Date of approval
Date : May 7th, 2020

Supervisor
Chair

Mukhtaruddin, S.E., M.Si., Ak., CA
NIP. 196712101994021001

Date : May. 14th, 2020

Member

Rika Henda Safitri, S.E., M. Acc., Ak
NIP. 198705302014042001
SCRIPT APPROVAL LETTER

THE EFFECT OF PROFITABILITY AND COMPANY'S SIZE ON THE FIRM'S VALUE (EMPIRICAL STUDY OF LISTED FOOD AND BEVERAGE ON INDONESIAN STOCK EXCHANGE PERIOD 2016-2018)

Composed by:
Name: Shintiya Frisilia
NIM: 01031281621271
Faculty: Economics
Department: Accounting
Field of Study: Accounting Management

Has attended comprehensive exam on August 7th, 2020 and has been qualified for graduation.

Comprehensive Exam Committees,
Palembang, August 7th, 2020

Member

Member

Acknowledged by,
Head of Accounting Department

Arista Hakiki, S.E., M.Acc., Ak., CA
NIP. 197303171997031002
STATEMENT OF RESEARCH INTEGRITY

Here in undersign
Name : Shintiya Frisilia
NIM : 01031281621271
Faculty : Economics
Department : Accounting
Field of Study : Accounting Management

Stating the fact that my script entitled :

THE EFFECT OF PROFITABILITY AND COMPANY’S SIZE ON THE FIRM’S VALUE (EMPIRICAL STUDY OF LISTED FOOD AND BEVERAGE ON INDONESIAN STOCK EXCHANGE PERIOD 2016-2018)

Script Supervisor
Head : Mukhtaruddin, S.E., M.Si., Ak., CA
Member : Rika Henda Safitri, S.E., M. Acc., Ak
Date of Comprehensive Exam : August 7th, 2020

Is truly the result of my work under guidance of supervisors. There is no other’s people work in this script that I copied without mentioning the original sources.

I made this statement in a good faith. If it turns out that my statement is not true in the future then I will be willing to accept my sanctions in accordance with regulations, including cancellation of my degree.

Palembang, August 10th, 2020

Who gave the statement,

[Signature]

Shintiya Frisilia
NIM. 01031281621271
MOTTO AND DEDICATION

Motto:

"Miracle is another name of Hardwork."

(To The Beautiful You)

"Happiness can be found even in the darkest of times if one only remembers to turn on the light."

(Albus Wulfric Percival Brian Dumbledore)

"If you were born poor it was not your mistake but if you die poor it's your mistake."

(Bill Gates)

Dedicated to:
- Allah SWT.
- My Parent
- My Siblings
- My Friends
- Universitas Sriwijaya
ACKNOWLEDGEMENT

Praise to God The Almighty, for the presence of His grace, so that the author can complete the thesis which titled "The Effect of Profitability and Company's Size on Firm's Value (Empirical Study of Listed Food and Beverage on Indonesian Stock Exchange Period 2016-2018)". This is to fulfill one of the requirements to obtained a Bachelor of Economics degree at Faculty of Economics, Universitas Sriwijaya.

Appreciation and thanks to my beloved parents who (Ibu, Ayah, Mak) have put all their love and positive support during the process of learning. As well as thank you to:

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2. Mr. Prof. Dr. Mohamad Adam, S.E., M.E, as Dean of the Faculty of Economics Universitas Sriwijaya;
3. Mr. Arista Hakiki, S.E., M.Acc., Ak., CA, as Head of Accounting Department Universitas Sriwijaya;
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11. I also place on record, my sense gratitude to one and all, who directly or indirectly, have lent their hand in this venture that I can not be mentioned one by one..

The author realized that in the writing of this thesis is still far from perfection. Therefore, the author is open to any suggestion and constructive criticisms for the sake of improvement in the future.

Palembang, August 10th, 2020

Shintitya Frisilia
RESEARCHER RESUME

Name : Shintiya Frisilia
Gender : Female
Birth Place and Date : Palembang, Juni 6th 1999
Religion : Islam
Marital Status : Single
Address : Jalan Ki Gede Ing Suro Lorong Rela Palembang
Email Address : shintiyatr@gmail.com

Formal Education
Senior High School : SMAN Sumatera Selatan (2013 – 2016)
Higher Education : Faculty of Economics, Sriwijaya University (2016 – 2020)

Organizational Experience
1. Member of UKM Bahasa Sriwijaya University
2. Member of Roemah Baling Palembang

Honors and Rewards
1. Top 8 National Short Movie Competititon PHYF
ABSTRACT

The Effect of Profitability and Company’s Size on Firm’s Value (Empirical Study of Listed Food and Beverage on Indonesian Stock Exchange Period 2016-2018)

By:

Shintiya Frisilia

Firm’s value is the investor’s perception of the company’s success rate which is reflected by its share price. This study was intended to examine the effect of profitability and company’s size. The research population was all food and beverage sector companies listed on Indonesian Stock Exchange during 2016-2018 period. This research uses 2 (two) independent variables to achieve this objective, namely: Profitability and Company’s Size. The profitability was calculated by Return on Sales (ROS) while company's size was represented by the number of subsidiaries. The dependent variable was Firm’s Value that proxied by Tobin’s Q. Probability and random sampling method was used to determine the research sample. The data analysis techniques used multiple regression. Based on the test result, it shows that profitability have positive significant effect on firm’s value while the company’s size have negative significant effect on firm’s value.

Keywords: Firm’s Value, Profitability, Company’s Size

Chairman

Mukhtaruddin, S.E., M.Si., Ak., CA
NIP. 196712101994021001

Rika Henda Safitri, S.E., M. Acc., Ak
NIP. 198705302014040201

Member

Acknowledged by,
Head of Accounting Department

Arista Hakiki, S.E., M. Acc., Ak., CA
NIP. 197303171997031002
ABSTRAK

Pengaruh Profitabilitas dan Ukuran Perusahaan pada Nilai Perusahaan
(Study Empiris pada Perusahaan Makanan dan Minuman Terdaftar dalam
Bursa Efek Indonesia Periode 2016-2018)

Oleh:

Shintiya Frisilia

Nilai Perusahaan adalah persepsi investor atas tingkat kesuksesan perusahaan yang
dicerminkan oleh harga sahamnya. Penelitian ini ditujukan untuk menguji pengaruh
profitabilitas dan ukuran perusahaan terhadap nilai perusahaan. Populasi dalam
penelitian ini adalah semua perusahaan makanan dan minuman yang terdaftar
dalam Bursa Efek Indonesia selama periode 2016-2018. Penelitian ini
menggunakan 2 (dua) variabel tidak terikat yaitu : profitabilitas dan ukuran
perusahaan. Profitabilitas dihitung menggunakan Return on Sales (ROS)
sementara ukuran perusahaan diwakilkan oleh jumlah anak perusahaan. Variabel
terikatnya adalah nilai perusahaan yang diprosikan oleh Tobin’s Q. Metode
probabilitas dan acak digunakan untuk menentukan sampel penelitian. Teknik
analisis data yang digunakan adalah regresi berganda. Hasil uji menunjukkan
bahwa profitabilitas mempunyai pengaruh positif terhadap nilai perusahaan
sedangkan ukuran perusahaan memiliki pengaruh negatif terhadap nilai perusahaan.

Kata Kunci: Nilai Perusahaan, Profitabilitas, Ukuran Perusahaan

Ketua

Anggota

Mukhtarruddin, S.E., M.Si., Ak., CA
NIP. 196712101994021001

Rika Hendra Safitri, S.E., M. Acc., Ak
NIP. 198705302014042001

Diakui oleh,

Ketua Jurusan Akuntansi

Arista Hakiki, S.E., M.Acc., Ak., CA
NIP. 197303171997031002
LETTER OF STATEMENT

We as thesis supervisors state that abstract of thesis from student

Name : Shintiya Frisilia
NIM : 01031281621271
Faculty : Economics
Department : Accounting
Field of Study : Accounting Management

We checked the spelling, grammar, and tenses. We agree for the abstract to be placed on the abstract sheet.

Chairman

Mukhtaruddin, S.E., M.Si., Ak., CA
NIP. 196712101994021001

Member

Rika Henda Safitri, S.E., M. Acc., Ak
NIP. 198705302014042001

Acknowledged by.
Head of Accounting Department

Arista Hakiki, S.E., M.Acc., Ak., CA
NIP. 197303171997031002
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1.1. Background

Today globalization and technological innovation has led the world economy to a tight business competition between companies. As a result, many companies went bankrupt because they could not compete and keep up with developments in this era of globalization and technological innovation. Companies are working to find the cheapest way to execute their investment plans and optimize firm value and shareholder wealth in order to both survive and expand. One of the goals of a public company is to maximize the value of firm. Firm’s value is very important because it reflects the company's performance which can affect investor perceptions of the company. Firm’s value is the investor's perception of the company's success rate which is reflected in its share price. The higher the value of the shares means the higher the value of the company and market confidence in the company's performance and prospects in the future.

Still warmly remembered how the world was shocked by the news of bankruptcy from Kodak, one of the giant companies in the world. During the 20th century, Kodak played a dominant role and became a pioneer in the development of film photography, even in 1976 controlling 90% of the market in the United States. However, who would have thought this giant company in the 21st century has decreased until officially filed for bankruptcy protection
on January 19, 2012. The reason for Kodak's bankruptcy is that Kodak's product sales have declined. Kodak lost the competition because it was unable to innovate following technological developments. Kodak is unable to survive amid the onslaught of various digital camera products, especially from more creative Asian manufacturers. So 2007 was the last year Kodak made a profit (Detik Finance, 2012). Because of the bankruptcy it experienced, Kodak's market value had collapsed below US$ 100 million from the US$ 31 billion that had achieved 15 years before its bankruptcy when its share price perched at US$ 94. In its bankruptcy year, Kodak's share price was only 30 cents (Antaranews, 2012). Profitability is stalled due to a decline in sales which causes the value of Kodak's company to be decreasing and to bring down Kodak.

Another phenomenon related to firm value is the case of PT. Fast Food Indonesia Tbk (FAST). Towards the end of 2016 the company realized debt disbursement from the market through the issuance of bonds. The company plans to manage KFC fast food restaurants in the country with 200 billion in debt. The funds are used to develop business and expansion. Current interest payments for the 2016-2017 period. FAST finally gained 55.79% net profit growth with the company's revenue recorded at Rp 2.31 trillion, increase 11.05% compared to the previous year. This was responded by the market by increasing the company's stock price which showed an increase in the value of the company (Probowo, 2016). Based on the two phenomena above, it is clear that the importance of firm’s value is clear. When the value of the company
increases, it can attract the attention of investors and kreditors so that it can increase the company's capital to develop its business. Meanwhile, when the value of the company goes down, investors compete to sell their shares at low prices and in the end the share price keeps dropping causing the company to not be able to rise.

Profitability is the company's ability to get its relationship with sales, total assets and its own capital. The long-term investors will really consider the profitability analysis, for example, the shareholders will always consider the profit that will obviously be accepted in the form of dividends (Rasyid, 2015). The greater the profit of the company, the greater the company's ability to pay dividends, so that it has an impact on increasing the welfare of shareholders, which means also increasing the value of the company.

Company size is an indicator that shows the financial strength of the company. The company's size is considered capable of impacting the value of the firm, because the bigger the size of the company, the easier it is for the company to receive internal and external funding sources. Large company also have several strategies and face less risks, and therefore have better reputation than small companies. Large enterprises also often have better reputation due to their greater popularity and proportionally lower expected bankruptcy cost as a fraction of assets. All of these aspects make easier for major companies to reach the equity securities market.

Debby, et.al (2014) conducted research on the effect of profitability and company size on firm value in banking companies listed on the IDX. The
results of this study indicate that the profitability and size of the company have positively effects firm's value. This shows that the larger the size of the company, the higher the level of profitability will increase the value of the company. However, different results are shown by the research of Hirdinis (2019) and Languju, et.al (2016). Hirdinis (2019) states that profitability has no significant effect on firm's value. Languju, et.al (2016) states that company’s size has no significant effect on firm’s value.

The object of this research is food and beverage companies listed on the Indonesia Stock Exchange in 2016-2018. The food and beverage industry has become Indonesia's mainstay in recent years. The Ministry of Industry stated that the important role of the food and beverage industry can be seen from its consistent and significant contribution to gross domestic product (GDP), non-oil and gas industry and increased investment realization (Mahardhika, 2018). Data from the Ministry of Industry shows that the growth of the food and beverage industry in 2017 reached 9.23 percent or increased from 2016 which reached 8.46 percent. In 2017 the food and beverage industry contributed 34.33 percent to non-oil GDP. This further strengthens the importance of the contribution of the food and beverage industry to the national industrial world (Mahardhika, 2018).

This study uses the profitability and company size variables as independent variables while the firm’s value as the dependent variable. The difference between this research and previous research is the calculation ratio of profitability and company size. Proxy profitability uses the sales return ratio
(ROS) as its ratio. Return on sales is a profitability ratio that shows the level of profit of the company after payment of variable costs of production such as workers' wages, raw materials, etc. before deducting taxes and interest. This ratio shows the level of profit obtained from each selling rupiah which is also called the operating margin or operating income margin. A company is growing more efficiently indicated by the increasing ROS, while a decreasing ROS can impact the future financial trouble. That kind of impending financial trouble can lead company into bankruptcy as experienced by Kodak. Then, the company size proxy is calculated from the number of subsidiaries of the company. The bigger the company, the more subsidiary and branches it has (Cristansy & Ardiati, 2018). The number of subsidiaries is considered capable of representing the size of the company.

Based on the backgrounds above, researcher is interested in researching “The Effect of Profitability and Company’s Size on The Firm’s Value (Empirical Study of Listed Food and Beverage Sector on Indonesian Stock Exchange Period 2016-2018.”

1.2. Problem Formulation

Based on the background that has been presented, the main issues in this study are:

1. Does profitability affect the value of firm in food and beverage companies listed on the IDX?
2. Does company’s size affect the value of firm in food and beverage companies listed on the IDX?

1.3. Research Purposes

Based on the above problem formulation, this study aims:

1. To test whether profitability has an effect or not on the value of firm in food and beverage companies listed on the IDX.

2. To test whether company’s size has an effect or not on the value of firm in food and beverage companies listed on the IDX.

1.4. Benefits of Research

The results of this study are expected to provide benefits to several parties, namely:

1. For Researchers

   This research is expected to be a means for self-development and applying the theories that have been obtained during the lecture period and adding new insights about the problem under study.

2. For Readers

   To increase knowledge and insight regarding the factors that affect the value of firm in food and beverage companies listed on the IDX, so it is expected to be able to add to the literature on firm’s value.

3. For Future Research
For future research, this research is expected to be a reference, especially research related to the factors that influence firm’s value.

4. For Academics

It is hoped to be able to contribute to the development of theories, especially those related to the value of firm.

1.5. Systematic research

Systematic writing of this research is done by writing chapters that are arranged systematically so that it describes the relationship between one chapter and another chapter. These chapters include:

CHAPTER I INTRODUCTION

This chapter describes the background of the problem, formulation of the problem, objectives and benefits empirically, and the systematic writing.

CHAPTER II STUDY OF LITERATURE

This chapter explains the theoretical basis that supports research, prior research, frameworks, and hypothesis development.

CHAPTER III RESEARCH METHODOLOGY

This chapter describes the scope of research, population and research samples, types and sources of data, data collection techniques, data analysis techniques and operational definitions and variables.

CHAPTER IV RESEARCH RESULTS AND DISCUSSION
This chapter presents the results of data analysis and discussion of the factors that both influence and does not affect the value of firm in banking companies listed on the IDX.

CHAPTER V CONCLUSION

This chapter contains conclusions and limitations of research based on the results of the analysis of this study, as well as suggestions for further research.
REFERENCES


