

**DOES GROWTH OPPORTUNITIES MODERATE THE RELATIONSHIP
BETWEEN PROFITABILITY AND LIQUIDITY TOWARD FIRM VALUE?**

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ABSTRACT

The objective of this study is to analyze (1) the factors that affecting firm value, and (2) the impact of growth opportunities to profitability and liquidity and firm value. Sample used is manufacture companies listed in Indonesia Stock Exchange 2012-2015 Data were analyzed using multiple regression analysis and moderate regression. Based on the findings, we conclude that profitability has a positive relationship to firm value. Liquidity has a positive relationship to firm value. Growth Opportunities are able to moderate the relationship between profitability and liquidity toward firm value.

Keywords: growth opportunities, profitability, liquidity, firm value

Introduction

Corporate value is one of the main factors to optimize the value of the company, if the higher value of the company, the more prosperous its shareholders. So, the higher value of the company, greater the prosperity that will be accepted by the company owner.

The main purpose of a company that has gone public is to increase the prosperity of the owner or shareholders through increasing the value of the company (Salvatore, 2005). Corporate value is very important because with high corporate value will be followed by high shareholder wealth (Bringham and Gapenski, 2006). The higher stock price is the higher value of the company. High corporate value is a desire of the owners of the company because with a high value shows the prosperity of shareholders too.

Several factors that can affect value of the company, including profitability, growth opportunities, and liquidity. Profitability is the ability of a company to earn profits in a certain period. Husnan (2001), profitability is the ability of a company to generate profits at a certain level of sales, assets and capital stock. Liquidity is the ability of a person or company to fulfill obligations or debts that must be paid immediately with the current wealth. The liquidity ratio consists of: 1) Current Ratio: is to compare the total current assets with current assets/ current liabilities. Current Assets are items that are one year old or less or a normal operating cycle of a larger business. 2) Quick Ratio: is to compare current assets minus inventories with current liabilities.

The Growth of opportunity is a growth opportunity for a company in the future (Mai, 2006). Another definition of growth opportunity is the change in total assets owned by the company (Kartini and Arianto, 2008). Companies with high growth opportunities will tend to require substantial funds to finance these growths in the future, therefore the company will maintain its earnings to reinvest in the company and at the same time the company is expected to continue to rely on funding through larger debt (Baskin, 1989)

The purpose of this study is to analyze the factors that influence the value of the company (Tobin's Q), and whether growth Opportunities can improve the relationship between profitability and liquidity against corporate value

The Hypotheses

Liquidity and Firm Value

Liquidity is the company's ability to pay its short-term liabilities. Liquidity becomes serious attention to the company because liquidity plays an important role in the success of a company Owolabi (2012) in Putra and Lestari (2016). So, companies that have good liquidity will be considered to have good performance also by investor (Putra and Lestari, 2016). The higher the liquidity ratio owned by a company, the higher the company's obligations are covered by the current assets, thereby increasing public confidence, this means the value of the company is also getting better. Increasing the value of a company is an achievement because this means the welfare of the company and the owner is also increasing. While the liquidity ratio that describes the company's financial performance in terms of liabilities may affect the valuation of the community, especially investors in order to give confidence to the company to invest capital (Susilaningrum, 2016).

Based on the description then the hypothesis as follows:

H₁: There is a positive relationship between liquidity and firm value.

Profitability and Firm Value

High profitability reflects the company's ability to generate high returns for shareholders. The greater the profitability, the greater the company's ability to pay dividends, and this affects the increase in the value of the firm Sudiani and Darmayanti (2016) profitability is the level of net profit that a company can make when operating its operations. High profits provide an indication of good corporate prospects that can trigger investors to increase share demand. Investors put a stake in the company to get a *return*. The higher the company's ability to make a profit, the greater return which investors expect, thus making the company's value even better (Dewi and Wirajaya, 2013). From the description of the researcher proposed hypothesis as follows:

H₂: There is a positive relationship between profitability and firm value.

Growth opportunities will moderate the relationship between liquidity and firm value.

If the Growth Opportunities variable can improve the relationship between liquidity and firm value, then Growth Opportunities are said to moderate the relationship between liquidity and firm value and vice versa. If by entering Growth Opportunities variable decreasing the relationship between liquidity and firm value, then Growth Opportunities is a moderation variable The relationship between liquidity with firm value. The finding in a study conducted by Rahimian *et. al.*, (2012) that, the results of data analysis showed that there was a significant relationship between capital structure and dividend and firm value which in the case of presence of growth opportunities, this relationship was negative and significant but in the case of absence of it, that was positive and significant. Also results showed that there was a non-linear and significant relationship between ownership structure and firm value and that growth opportunities exerted a significant effect on this relationship.

From the description of the researcher proposed hypothesis as follows:

H₃: Growth opportunities will moderate the relationship between liquidity and firm value.

Growth opportunity will moderate the relationship between profitability and firm

If by entering the Growth Opportunities variable will be able to improve the relationship between profitability and firm value, then Growth Opportunities is said to successfully moderate the relationship between liquidity and firm value. So that Inserting the Growth Opportunities variable lowers the relationship between liquidity and firm value, then Growth Opportunities is said to be unsuccessful moderating the relationship between profitability and firm. In research conducted by Ansori and Ardianto (2015) finding that growth opportunity act as quasi-moderator in the relationship between each of financing decision, profitability, and liquidity toward firm value, but growth opportunity is unable to moderate the relationship between dividend policy and firm value.

From the description of the researcher proposed hypothesis as follows:

H₄: Growth opportunity will moderate the relationship between profitability and firm value.

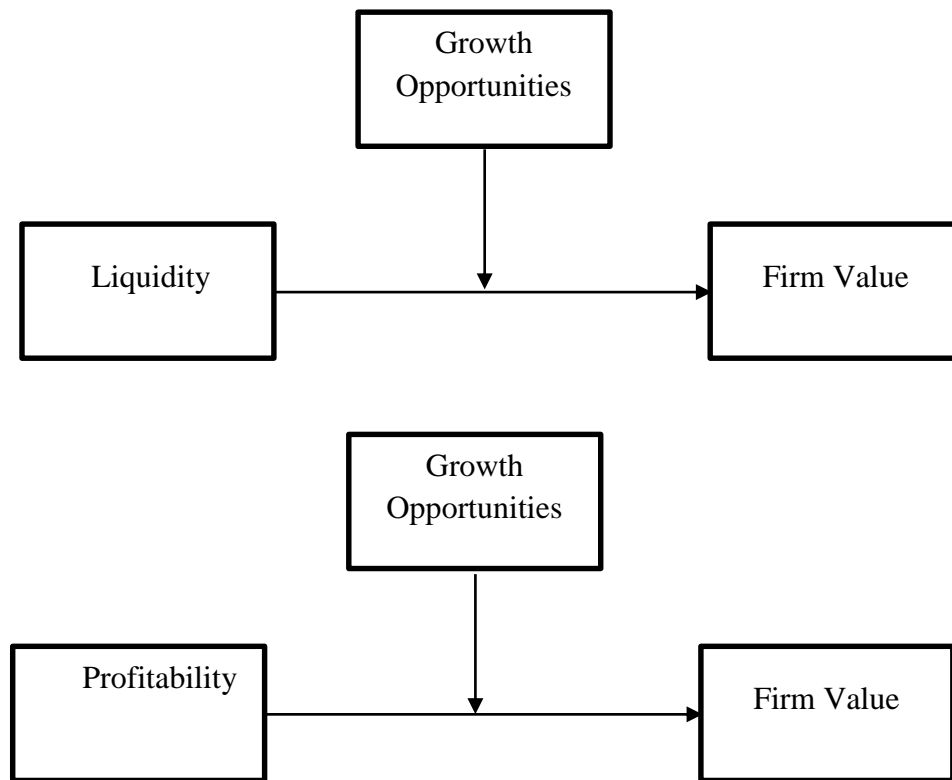


Figure 1. Conceptual Model for Research

Research Method

The sample used is a manufacturing company listed on Indonesia Stock Exchange 2012-2015. Data is analyzed by using multiple regression analysis and moderate regression. Hypothesis calculation and testing using SPSS.

Table 1. Result Regression Moderator

Regression Stage	Variable	Coefficient	R ²
1	Constant	25.773	0.046
	Liquidity	0.670	
2	Constant	21.639	0.274
	Liquidity	0.513	
	<i>growth opportunities</i>	0.12	
	Int. liquidity and <i>growth opportunities</i>	0.585	

Liquidity variable of 0.670 indicates that the liquidity variable has a positive effect on firm value variable. The better the liquidity, then the value of the company will also be higher, and vice versa the worse liquidity, then the value of the company is also lower.

The coefficient of determination (R²) of 0.046 shows the influence of liquidity to the change of firm value is equal to 0,046 or 4,6 % and the rest equal to 95,4% influenced by another variable besides variable used. The regression coefficient liquidity of 0.513 indicates that the

liquidity tends to have a positive influence on firm value. The better the liquidity, the higher the company's value and the worse the liquidity, the lower the value of the company with the assumption of variable growth opportunities and the interaction of liquidity with growth opportunities is constant.

The regression coefficient growth opportunities of 0.12 indicates that growth opportunity tends to have a positive influence on firm value. The higher the growth opportunities, the higher the company's value, the lower the growth opportunities, the lower the assumption of the liquidity variable and the liquidity interaction with growth opportunities is constant.

The regression coefficient variable of liquidity interaction and growth opportunities of 0.585 indicates that the liquidity interaction and growth opportunities tend to have a positive influence on firm value variable. The higher the interaction of liquidity and growth opportunities, the higher the company's value, the lower the interaction of liquidity and growth opportunities, the lower the value of the company with the assumption of variable liquidity and growth opportunities is constant.

The coefficient of determination (R^2) of 0.274 shows the influence of liquidity, growth opportunities and liquidity interaction with growth opportunities to change the value of the company is 0.274 or 27.4% and the rest of 72.6 is influenced by other variables besides the variables used in this research.

Table 2. Hypothesis Test Result for H_1 and H_3

Regression State	Variable	Coefficient	t-test	Sig.
1	Constant	25.773	13.398	0.000
	Liquidity	0.670	1.802	0.076
2	Constant	21.639	11.184	0.000
	Liquidity	0.513	0.906	0.368
	Growth opportunities	0.12	1.304	0.197
	Int. liquidity and the growth opportunities	0.585	1.583	0.118

Based on table 2 hypothesis test, it is known that the first regression stage obtained the result that the liquidity of 0.076. The value of significance is greater than a significant level of 0.05, so it can be concluded that liquidity does not affect the value of the company. The results show that the first hypothesis that liquidity has no effect on firm value is proven so that the first hypothesis is rejected. This condition can be interpreted that, the value of current wealth (which can soon be used as money) with the ratio of short-term debt does not give a positive effect in increasing the value of the company, although current ratio also shows the level of security (margin of safety) short-term creditors, Pay off short-term debt (Kretarto, 2005:55). Liquidity is measured by current ratio. The value of the company is not assessed from the ability to pay short-term debt. Investors rate the company unlimited how the company pays its short-term debt but sees profit-making ability.

Pursuant to result of the test of hypothesis data table to interaction variable between liquidity and growth opportunities obtained result 0,118. The significance value is greater than the 0.05 significance level, so growth opportunities proxied by Growth Opportunity are not able to moderate the liquidity relationship with firm value. The insignificant results indicate that the

market does not use information about Growth opportunities in conducting investment appraisal.

Table 3. Hypothesis Test Result for H₂ and H₄

Regression Stage	Variable	Coefficient	t-test	Sig.
1	Constant	26.341	48.023	0.000
	Profitability (X_1)	0.555	5.594	0.000
2	Constant	26.236	31.037	0.000
	Profitability (X_1)	0.362	0.777	0.440
	growth opportunities (X_2)	0.002	0.265	0.792
	Int. Profitability and growth opportunities (X_1, X_2)	0.132	0.336	0.738

Explanation of hypothesis test result in Table 3 is as follows:

1. Hypothesis Test Result 1

Based on the above table on the first stage regression obtained t-count value of 5.594 with a significant level of 0.000 is smaller than 0.05, then H₀ rejected and H₂ is accepted. This means that profitability has a significant effect on company value.

2. Hypothesis Test Result 2

Based on the above table obtained t-count equal to 0.336 with a significant level of 0.738 is greater than 0.05, then H₀ accepted and H₄ is rejected. This means growth opportunities do not affect the relationship profitability with the value of the company

Conclusion

Based on the results of the analysis of this study concluded that:

1. Liquidity does not affect the value of the company. This indicates that the worse the liquidity the lower the value of the company.
2. The Growth opportunity does not affect the liquidity relationship with firm value. This result is due to the incentive nature of managers who tend to emphasize the personal interests and conditions of Indonesia where the growth opportunities in the company are still low.
3. The Growth of opportunity does not affect the liquidity relationship with firm value. This result is due to the incentive nature of managers who tend to emphasize the personal interests and conditions of Indonesia where the growth opportunities in the company is still low.
4. Growth opportunities can strengthen the relationship Profitability with the value of the company, meaning that with the relationship profitability with the value of the company will increase along with the company's chance to grow the company.

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