

THE EFFECT OF PROFITABILITY ON FINANCIAL PERFORMANCE WITH GCG AND STOCK PRICE AS MODERATING VARIABLES

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Abstract

Financial performance is one of the most vital aspects of a company to pay attention to because financial performance is the lifeblood of a company to continue production, attract investors and expand its market share. There are a number of factors that can influence the financial performance of a company, including profitability. Therefore, this research aims to analyze the effect of profitability on financial performance. Different from previous studies, this research uses the Good Corporate Governance variable and the Stock Price variable as moderating variables. This research is a quantitative research with an exploratory approach using secondary data obtained from the IDX and PT financial reports. Pulau Subur Tbk. The data used in the research were analyzed with smart PLS 3.0 software. The research results show that the Profitability variable has a positive and significant relationship with the Financial Performance variable. Apart from that, the GCG and Stock Price variables can moderate the influence of the Profitability variable on Financial Performance.

Keywords: Profitability, GCG, Financial Performance, Stock Price.

1. INTRODUCTION

The company's financial performance is one of the factors looked at by potential investors who will invest their capital. It is necessary to maintain and improve the company's financial performance so that it remains attractive to other potential investors. To measure a company's financial performance, of course you need a benchmark which is usually used, namely the index ratio which is used as a link between financial reports. The company must of course carry out a performance assessment in order to fulfill the company's obligations in achieving its goals and this performance assessment can also be used for investor decision making where investors can see the company's growth from the company's financial performance and decision making can also be carried out by the company's internal parties in improving the company's financial performance. (Lestari & Sapari, 2017). According to (Kasmir, 2018) the definition of "financial performance is the determination of certain measures that can measure the success of an organization or company in generating profits".

Financial performance is a picture that explains the financial condition of a company which is analyzed using financial analysis tools, so that it can be seen about the good and bad financial condition of a company which reflects work performance or performance results in a certain period (Faisal, 2018). The results of the description of financial performance are a description of the company's achievements in business activities, including financial aspects, marketing aspects, financing and distribution aspects, technical aspects and human resources (Esthirahayu, 2014). Because performance reflects a company's ability to manage and allocate resources, performance is an important goal that all businesses must achieve. There are several factors that influence the company's financial performance results, one of which is the company's profitability factor.

Profitability is a description of the company's ability to earn profits from the activities carried out. The profit obtained from this activity in a certain period is whether the company is able to increase profitability or conversely reduce profitability. This increase or decrease in profitability is caused by sales activities. If the company is able to sell food and drink products maximally, the resulting profits will also be maximized, this will increase profitability. On the other hand, if sales activities are not optimal then the results obtained will not be optimal so that profitability decreases which can affect the company's performance. Profitability also plays an important role in companies to maintain company performance in the long term. Profitability is also used as a measure in a company that can be seen whether the company's prospects are able to run well in the future (Jumingan, 2011).

Profitability is an indicator that measures the level of profit (profitability) of a business entity. Profit is a sign of the continuity and success of a company, namely profit is an indicator of the success of a company. The profits obtained by the operating entity will influence the decision making of related parties.

Profitability is very important in business, because it is able to maintain the survival of a company or business entity for a long time, because profitability shows whether the business entity has good prospects in the future (Nur Laily, 2016). Profit margin is used to evaluate the relationship between a company's production capacity and profits. Ratios also provide a measure of the effectiveness of company management. This is reflected in the profits generated from sales and investment income. In fact, the use of this indicator shows the company's efficiency. Profit margin represents the percentage of net revenue earned from each sale. The higher the ratio, the better, because the company's profitability is considered quite high (Sundari, 2021).

There are a number of studies (Lestari & Sapari, 2017); (Haryoko et al., 2020); (Arifin, 2019); (Anggara & Andhaniwati, 2023) & (Sundari, 2021) which states that the Profitability variable has a positive relationship and a significant influence on Financial Performance because the more profits a company has will enable the company to carry out work programs, production and targets desired by the company to achieve well. To smooth profits which will ultimately have a good impact on the company's financial performance, it must be accompanied by good corporate governance or what is usually called Good Corporate Governance.

According to (Sarirati et al., 2021) defines good corporate governance as a collection of laws, regulations, rules that must be fulfilled, which can encourage the performance of company resources to function efficiently in order to produce long-term, sustainable economic value for shareholders. and the surrounding community as a whole. The GCG concept can regulate, control and create added value (value added) for an entity for stakeholders. Thus, Good Corporate Governance is a set of systems that function to supervise, manage, control and create added value for interested parties or stakeholders in accordance with applicable laws and regulations.

Apart from using the GCG variable as a moderating variable, this research also uses the share price variable as a moderating variable because one of investors' considerations in disbursing investment funds to a company is the share price factor. The more investors who come in will certainly increase the company's profits. Based on the explanation above, this research aims to analyze the influence of profitability on the financial performance of PT. Pulau Subur Tbk with Good Corporate Governance and Share Prices as moderating variables.

2. RESEARCH METHODS

The most suitable type and research approach in measuring the influence of Profitability on Financial Performance with CGC variables and Share Prices as moderating variables is

quantitative research with an explanatory approach(Sugiyono, 2019). Therefore, this research uses a quantitative type of research with an explanatory approach(Supriyanto, 2019). The data used in this research is secondary data obtained from the financial reports of Pt. Pulau Subur every 3 months from 2017-2022 and the Indonesian Stock Exchange in the same year with adjustments to the data time period(Jonathan Sarwono, 2016). In this research, 1 independent variable is used, namely company profitability, 1 independent variable, namely company performance, and 2 moderating variables, namely Good Corporate Governance and Company Share Price. The data used in this research was analyzed using the smart PLS 3.0 tool with the following model(Abdurahman, 2016).

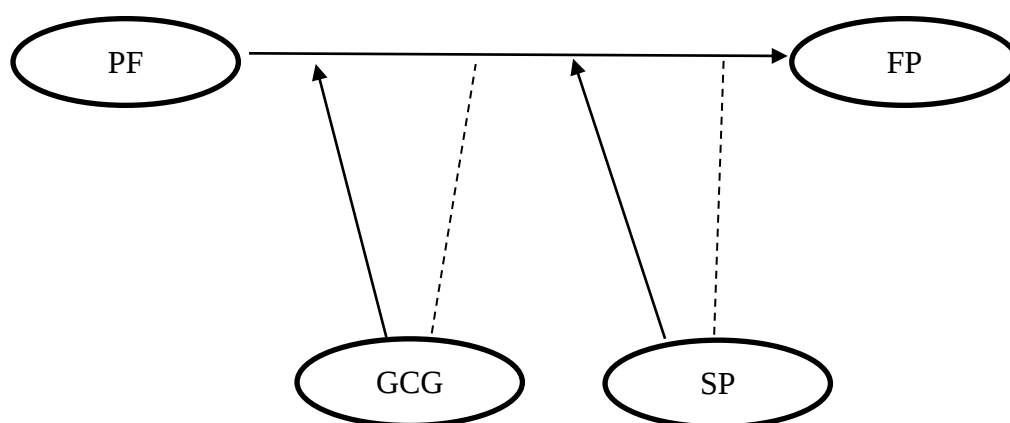


Figure 1
Model

Noted:

1. PF : Profitability
2. FP: Financial Performance
3. GCG : Good Corporate Governance
4. SP: Stock Price

Hypothesis

1. The Influence of Profitability On Financial Performance
2. Good Corporate Governance Can Moderates Profitability On Financial Performance
3. Stock Price Can Moderates Profitability On Financial Performance

3. RESULT AND DISCUSSION

3.1 Result

Validity Test

Although this research uses secondary data from company financial reports and data from the IDX. Researchers are of the opinion that as an anticipatory material to ensure that the data used is valid, the data used should be analyzed using a validity test. In this research, 1 independent variable is used, namely company profitability, 1 independent variable, namely company performance, and 2 moderating variables, namely Good Corporate Governance and Company Share Price with the following table(Sarstedt et al., 2014):

Table 1
Validity Test

Variable	Loading Factor	Noted
Profitability	0.810	Valid
Financial Performance	0.865	Valid
Good Corporate Governance	0.888	Valid
Stock Value	0.875	Valid

Valid : > 0.70

Reliability Test

Setelah variabel Profitabilitas, Financial Performance, Good Corporate Governance, dan Stock Value dinyatakan valid dan dapat digunakan. Maka tahapan selanjutnya adalah mengetahui apakah variabel yang digunakan reliabel dengan menggunakan nilai bawah suatu konstruk variabel atau dikenal dengan istilah Cronbach Alfa dan dengan mengetahui nilai sebenarnya suatu konstruk variabel atau biasa disebut dengan Composite Reliability (Ghozali, 2016).

Table 2
Reliability Test

Variable	Cronbach Alfa	Composite Reliability	Noted
Profitability	0.780	0.820	Reliable
Financial Performance	0.820	0.860	Reliable
Good Corporate Governance	0.850	0.890	Reliable
Stock Value	0.844	0.884	Reliable

Reliable: > 0.70

3.2 Discussion

Path Coefisien

After ensuring that each variable used in this research is valid and reliable through validity and reliability tests, the next stage is to find out the direction of the relationship in each variable used in this research and whether it has an effect or not. To make it easier for readers to understand the results of this research, researchers only use the components in the t-table as follows (Ghozali, 2016):

Tabel 3
Path Coefisien

	Variable	T-Table	Noted
Direct Influence	PF->FP	0.016	Acceptable
	GCG*->PF->FP	0.000	Acceptable
Indirect Influence	SV*->PF->FP	0.006	Acceptable

Significant Level < 0.05

H1: The Influence of Profitability On Financial Performance

Profitability for a company has a vital function, especially in increasing the financial performance of a company because if there is a profit that meets the target for the company, employee salaries, compensation, project financing, cash flow, and so on will be stable and even tend to increase. In line with this statement, the results of table 3 in this study show that the Profitability variable has a positive relationship and a significant influence on the Financial

Performance variable because the t-table value of 0.016 is below the significance level of 0.05. These results are in line with research (Lestari & Sapari, 2017); (Haryoko et al., 2020); (Arifin, 2019); (Anggara & Andhaniwati, 2023) & (Sundari, 2021). Thus, it can be concluded that the first hypothesis used in this research can be accepted.

H2: Good Corporate Governance Can Moderates Profitability On Financial Performance

Even though a company has good profits and financial performance, this should be accompanied by good corporate governance or commonly known as Good Corporate Governance. In line with the statement above, the results of table 3 Paath Coefficient show that the Good Corporate Governance variable can moderate the Profitability variable on Financial Performance because the t-table value of 0.000 is below the significance level of 0.05. In fact, interestingly, there is a quite significant shift in numbers from the direct test of the Profitability variable on Financial Performance from 0.016 to a more significant 0.000. Thus, the second hypothesis in this research can be **accepted**.

H3: Stock Price Can Moderates Profitability On Financial Performance

Apart from good corporate governance, researchers believe that share prices can also strengthen the influence of profitability on financial performance because share prices are stable and can compete with competitors to attract investors to pour funds into the company which will ultimately have a good impact on financial performance.. In line with the statement above, the results of table 3 Paath Coefficient show that the Stokck Price variable can moderate the Profitability variable on Financial Performance because the t-table value of 0.006 is below the significance level of 0.05. In fact, interestingly, there is a quite significant shift in numbers from the direct test of the Profitability variable on Financial Performance from 0.016 to a more significant 0.006. Thus, the third hypothesis in this research can be **accepted**.

4. CONCLUSION

Based on the explanation above, it can be concluded that the first hypothesis in this research can be accepted because the Profitability variable has a positive relationship and has a significant influence on the Financial Performance variable. Apart from that, each of the Good Corporate Governance and Stock Price variables can moderate the influence of the Profitability variable on Financial Performance. This means that all hypotheses in this research can be accepted.

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