
Is Firm Value Affected by Financial Ratios in Manufacture Companies?

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Received: August, 2024; Accepted: August, 2024; Published: November, 2024
Permalink/DOI:

Abstract

This research aims to examine the influence of profitability, leverage, company size, and dividend policy on the value of the manufacturing companies studied in various industries. This research employs a quantitative approach. The sampling technique used is purposive sampling. Thus, 45 samples were taken from manufacturing companies in various industrial sectors listed on the IDX for the 2021–2023 period. The data analysis program using SmartPLS. The results of this research show that liquidity has a positive and negligible effect on company value, leverage has a positive and significant effect on company value, and company size has a negative and insignificant effect on company value. Profitability has a positive and partially significant effect on company value, and dividend policy has a positive and partially significant effect on company value.

Keywords: *Company value, liquidity, company size, profitability, dividend policy*

INTRODUCTION

Technological developments are aiding in the rapid development of business today. The impact of this situation on the Indonesian economy is evident in its accelerating annual economic growth. The company is profit-oriented. This way, the business can continue to grow and generate income, which benefits the owner in terms of business success. Investors use the PER ratio, based on the company's net profitability (PER), to evaluate share prices, as it represents the ratio between the market price of shares and profits per share (earnings per share). In the current era of globalization, companies face many problems, especially with increasingly fierce competition. When making decisions, companies must keep improving their performance and think more conservatively, strategically, and analytically (Martonius et al., 2020). In the developing country of Indonesia, all businesses must be competitive to survive. Companies that have successfully competed to maximize or increase shareholder value make it attractive for investors to invest in the company. A fixed value is defined as an investor's assessment of a company's level of success after observing the company's share price level (Regia, et al. 2020).

The share of industry in gross domestic product (GDP) was 19.87 percent in 2020 and 19.25 percent in 2021, indicating that industry is the leading economy in terms of share of gross domestic product (GDP) compared to other companies. Statistics Finland conducts monthly surveys of large and medium-sized industries. The goal of this survey is to create a monthly production index for medium and large industries, serving as a foundation for estimating production growth rates and subsequently determining the gross domestic product, particularly in the industrial sector. A presents previous monthly survey data for large and medium industries once every three months.

The economic recovery will continue until the end of 2021. Economic growth has increased by 5.02 percent and 1.06 percent, respectively, proving this. Compared to the previous year, economic development in 2020 decreased by 2.19 percent and 0.42 percent, respectively, due to the COVID-19 pandemic. Indonesia's trade balance in 2021 is in surplus. Indonesia's exports grew positively by 24.04 percent. Rising commodity prices and global demand drove the growth in exports. Likewise, with the increase in imports from Indonesia, Indonesian imports increased by 23.31 percent (Statistics Finland, 2021).

Even though the development of the COVID-19 pandemic is uneven throughout the world, COVID-19 cases are actually decreasing in Indonesia. Successfully handling the pandemic, involving the entire environment to maintain healthy lifestyles, and expanding vaccinations can be a solution to Indonesia's economic recovery. Another equally important factor is the government's effective recovery policy. <https://www.bps.go.id>. Another indicator of accelerated economic recovery is industrial growth of 4.92 percent in 2021. The global economic recovery has resulted in increased foreign demand for the Indonesian industrial sector, contributing to this achievement. Strengthening industrial growth is in line with the Purchasing Managers' Index (PMI), which was at 53.5 in December 2021. Since industry drives almost one-fifth of economic growth, we expect the basis for economic growth to strengthen. This can also create wider and better job opportunities. Stimulating the manufacturing industry requires special and targeted government action, especially during the COVID-19 pandemic. Industry's share of gross domestic product (GDP) was 19.87 percent in 2020 and 19.25 percent in 2021, indicating that industry is the most important economic sector with a share of gross domestic product (GDP) compared to other companies. Statistics Finland organizes monthly surveys among large and medium-sized industries. This survey aims to establish a monthly production index for medium and large industries, utilizing calculations of industrial growth rates. This index will subsequently serve as a foundation for determining the gross domestic product, particularly in the industrial sector. The Official Statistical Review (BRS) previously presented quarterly data from monthly surveys of large and medium industries (Statistics Finland, 2021).

The industrial sector is moving again in response to the COVID-19 pandemic. Indonesia's Manufacturing Purchasing Managers' Index (PMI) rose again in May 2021 to 55.3. The increase means an increase for 7 consecutive months. This beats the previous record of 54.6 set in April 2021 and is the highest sentiment record in three consecutive months. "The pace of expansion reflects

increased production, new orders and purchases, and renewed employment growth after 14 months of contraction," said Febrio Kacaribu, head of the Treasury Department's fiscal policy office, in a statement on Wednesday (Sutanto et al., 2019). Typically, the goal of starting a business is to increase profits and business value. A fixed value is important because it can show a company's financial performance, which makes investors want to invest in it (Sutanto et al., 2019). Numerous factors influence a company's value, much like its profitability:

The higher the company's profitability, the more likely it is to pay dividends. This can certainly attract investors to invest their capital in the company so that its value can increase (Wijaya et al., 2021). Apart from profitability, there is liquidity, which affects company value. According to Elisa (2021), liquidity is the ability of a company to fulfill its short-term obligations with the short-term assets owned by the company, thereby increasing investor confidence in the company or the company's ability to pay dividends. Leverage is another factor that influences company value. According to Wibowo (2021), increasing debt can boost company value because debt interest can lower taxes.

The next factor is company size. The total amount on the company's balance sheet determines the size of the company. The higher the company's wealth, the more flexible management is in managing and using company assets to increase the value of the company it manages (Riesmiyantiningtias & Siagian, 2020). Dividend policy can also affect company value. People recognize an increase in dividend payments as a positive indicator of the business's future development, which also signifies an increase in shareholder wealth. The higher the dividend paid, the higher the company's value, which increases demand for shares, increases share prices, and reduces the company's efficiency in evaluating good corporate governance (Dewi and Suryono). 2019). Several studies have looked for factors that influence company value, such as profitability, liquidity, debt, company size, and dividend policy. However, in this study, we limited ourselves to several research factors that are believed to influence firm value, including profitability, liquidity, leverage, firm size, and dividend policy, to examine their influence on firm value. These factors are used in this research because there are differences between researchers and other parties (research gaps). The aim of this research is to study various manufacturing industry companies on the Indonesia Stock Exchange for the 2021–2023 period.

Previous research shows that there is a research gap in several variables that can influence business value, such as: According to Dewi and Suryono (2019), dividend policy variables do not have a significant effect on company value. However, Wibowo (2021) claims that there is a positive association and a significant effect. The direction of this phenomenon's increase and decrease in research materials is inconsistent. Further research is necessary due to the presence of contradictions in the research results, known as research gaps. The paradox is that dividend policy has a negative impact on company value, whereas some researchers state the opposite.

Behind the problems described above, it is interesting for researchers to take a closer look at manufacturing companies listed on the Indonesia Stock Exchange (BEI) from various industries using the latest data. This research

considers both the studied variables, the company's development, and the year of research. As a result, the problem in this study is: How do profitability, liquidity, debt, company size, and dividend policy affect company value? The aim of this research is to examine the influence of profitability, liquidity, debt, company size, and dividend policy on company value.

This research focuses on the use of agency theory because there are differences between agents that do not match customer expectations. Agent conflicts arise because when a conflict occurs, operational costs increase. Agency fees are costs incurred by the client to manage the office. Paying dividends to shareholders can reduce costs. Paying dividends should be a condition for brokers to finance new investments that attract new investors to the company, as long as the broker can demonstrate that the capital paid will benefit shareholders. So, dividends can affect company value. Based on the background presented, the hypothesis formulated is as follows:

H1: Liquidity has a positive effect on company value.

H2: Leverage has a positive effect on company value.

H3: The size of a company has a positive impact on its value.

H4: Profits have a positive effect on firm value.

H5: Dividend policy has a positive effect on company value.

METHOD

The study focused on descriptive quantitative analysis and hypothesis testing. This research demonstrates the numerical expression of the influence or relationship between variables by describing or illustrating the data collected for analysis using SmartPLS, which corresponds to the variables used in the study. This research focuses on industrial companies listed on the Indonesia Stock Exchange across various industries in the years 2021-2023. We determined the research sample using the purposive sampling method, which involves sampling based on specific parameters at the researcher's discretion. The sampling criteria for this research are manufacturing companies listed on the Indonesian Stock Exchange in various industries in 2021–2023, and the company has the necessary research data. Documentary data and secondary data were used in this research. This information is in the form of financial reports for 2021–2023 and annual reports of manufacturing companies from various industries. The data source does not come from the main source (company), but from the intermediary website of the Indonesia Stock Exchange (BEI), namely www.idx.co.id.

RESULTS AND DISCUSSION

Results

Table 1. Descriptive Statistics Test

Variable	Min	Max	Mean	SD
Liquidity	0,320	1,140	0,818	0,285
Leverage	0,000	3,580	1,990	0,988
Company Size	0,550	0,630	0,560	0,026

Profitability	0,550	0,950	0,792	0,097
Dividend Policy	0,000	5,770	2,000	0.443
Company Value	0,323	2,348	1,116	0.124

Source: SmartPLS Output, Process in 2024

Table 1 reveals that the liquidity results using the CR proxy yield a mean of 0.818, indicating the company's ability to meet its obligations on time at 81.8%. Leverage with the DER proxy produces a mean of 1.990, which means the company's obligations when paying off short-term and long-term debt are the lowest at 1.99 times. The mean for company size (size) is 0.560, indicating that the total assets of a company or organization, which combines and organizes various resources, represent 56% of the size scale. Profitability using the ROA proxy produces a mean of 1.990, which means the average value of the company getting net profit through all resources or the average number of assets acquired is 199%. The dividend policy with the DPR proxy produces a mean of 2,000, which means the portion of net profit after tax paid as dividends to shareholders is 200%. The company value with the PER proxy a mean of 1,116, which means the price per share is 1116.

Table 2. Descriptive Statistics Test

Variable	R-Square
Company Value	0,320

Source: SmartPLS Output, Process in 2024

From Table 2, we can see that the R-Square value is 0.320, which means that liquidity, leverage, company size, profitability, and dividend policy can explain 32% of the endogenous variable (company value), while other variables can explain the remaining 68%. This research does not include any influences that are not present.

Table 3. Hypotesis Test

Variabel	Sampel Asli	T-Statistik	P-Value	Hasil
Liquidity -> Company Value	0.400	1,340	0.188	Rejected
Leverage -> Company Value	0.344	2,620	0.012	Accepted
Company Size -> Company Value	-0.198	-0.093	0.926	Rejected

Profitability -> Company Value	0.203	3,664	0.001	Accepted
Dividend Policy -> Company Value	0.566	3,806	0,000	Accepted

Source: SmartPLS Output, Process in 2024

Based on table 3, there is a rejection of the hypothesis results, but there are also hypotheses that are accepted. These results will be discussed in the discussion sub-chapter.

Discussion

The Effect Of Liquidity Ratios On Company Value

The test's conclusion shows that the variable (X1) current ratio has a positive and insignificant effect on company value in various manufacturing industries for the 2021–2023 period. This research is consistent with Simungkalit and Silalah (2018), who found that the current ratio has a positive effect but does not have a significant effect on company value. The current high value of assets shows that the company has liquid funds that can be used at any time without problems, especially to pay debts. (Simanungkalit and Silalahi, 2018)

The Effect Of Leverage On Company Value

The test results show that the variable (X2) (leverage ratio) has a partially positive and significant effect on company value in different industries for the 2021–2023 period. The results of this research support previous research by Wibowo (2021) which shows that leverage has a positive and significant effect on company value. Corporate debt can boost a company's value due to its ability to reduce tax payments through interest, and its frequent use for financing business activities also contributes to this increase (Wibowo, 2020).

The Effect Of Company's Size On Company Value.

The test results show that the variable (X3) company size has a negative and insignificant effect on company value in various manufacturing industries during the 2021–2023 period. The results of this study contradict research by Agustin (2021), Wibowo (2021), Simangkalit, and Silalah (2018), which confirms that company size has a positive effect on company value.

The Effect Of Profitability On Company Value

The test conclusion states that the variable (X4) profit has a positive and locally significant effect on company value in various manufacturing industries during the 2021–2023 period. Several previous studies by Wibowo (2021) and Anggita (2022) support this finding, demonstrating a positive impact of profitability on company value. ROI has a positive effect on company value because a company with a high ROA has good company results and confidence in the company's future prospects. Investors consider yield or return, which is the return on invested capital. Angita 2022)

The Effect Dividend Policy On Company Value.

At the end of the test, it is known that the variable (X5) dividend policy has a partially positive and significant effect on company value in various manufacturing industries for the 2021–2023 period. Previous research by Wibowo (2021) supports the results of this study, demonstrating a positive and significant impact of dividend policy on company value. With dividends, investors consider the company's situation to be good. Positive signals from dividend payments have an impact on increasing share prices and company value (Wibowo 2021).

CONCLUSION

The tests allow decisions based on the following assumptions: (1) The liquidity variable (CR) is positive but does not have a significant impact on firm value. Large-company liquidity can have a positive impact on increasing company value. Large business liquidity demonstrates the business's ability to meet short-term obligations with current assets and utilise these assets to generate greater profits, thereby contributing to the company's growth. The leverage variable (DER) positively influences company value. Largely leveraged businesses will have an incentive to make a profit. Increased debt can boost profits per share as the business must pay off interest, thereby increasing the company's value; (3) changes in company size have a negligible negative impact on business value. Investors may assume that a large total asset base will result in higher retained profits than the dividends paid to shareholders or investors, thereby impacting the company's value; additionally, the profitability variable (ROA) positively influences the company's worth. The company's profitability increases; that is, when the company uses resources economically and efficiently, the business will get increased profits, which has an impact on increasing the value of the company. (5) The dividend policy variable (DPR) has a positive impact on company value. Investors tend to favour businesses that distribute dividends, as they perceive them as reliable and capable of recouping their investment in the share price, thereby increasing the company's value. The conclusions above are The reviewer can make recommendations based on the research results. The next reviewer should be able to use the test. Employing diverse samples and variables, along with extended years, enables the generation of the highest Companies aim to maintain and enhance their business performance while also scrutinising the precision of financial record preparation to facilitate reviewers' understanding of the business's state.

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