
Financial Performance as Determinants of Firm Value

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DOI - <http://doi.org/10.37502/IJSMR.2025.8511>

Abstract

This research aims to obtain empirical evidence regarding the influence of leverage, profitability, and dividend policy on firm value. The object of this research is all companies in the non-financial industry listed on the Indonesia Stock Exchange (IDX) for 3 years period, from 2021 to 2023. The sample selection was carried out using purposive sampling technique. Based on the set criteria, 80 companies with 240 data were obtained which will be further tested using the multiple regression method. The results of this research indicate that two of the independent variables tested, namely leverage and profitability, have a positive effect on firm value.

Keywords: Firm value, Financial Performance, Leverage, Profitability

Introduction

Reporting from the official information of the Indonesia Stock Exchange in 2023, there is an increase in the total number of stock investors by more than 800 thousand, so for this listed companies must continue to maintain and even improve their performance so that more people have the desire to continue investing in these companies.

The company's value is the main factor that is used as the main consideration and is a reflection or indicator that directly communicates the picture of a company's performance and business processes which of course becomes the main communication funnel in terms of the welfare of shareholders. It is important for interested parties to understand the picture and various factors that affect the value of a company.

The current research is a development of previous research that has been conducted by Jihadi et al. (2021) about the influence of liquidity, activities, leverage, and profitability to the company's value. This study uses all independent variables from the previous study.

The object of this study is all companies from non-financial industries with an observation period of 3 years (2021-2023), while the previous research focused on companies listed in the IDX LQ45 index with an observation period of 5 years (2011-2019)

Signal Theory

According to Godfrey et al. (2010, 375), signal theory is a tool used to communicate to investors about the current condition of the company through financial statements where the company can have the potential to develop better. This theory explains how from the executor or management side will provide signals in the form of information related to the company's

current financial condition to shareholders as a form of their responsibility to manage the company's business (Linawati and Amilin 2015).

The information provided is a performance report in financial form that is very significant and plays an important role in investor decision-making in the market. Investors dig into information to ascertain future potential (Triani dan Tarmidi 2019). If the information is well received by investors and the parties, the company's share price will continue to rise on the exchange. For this, information must be relevant and reliable for investors (Junitania and Prajitno 2019).

Firm Values

According to Ifada et al. (2019), often investors see whether or not the company is successful from a Firm Values. The low value of the company will be reflected from the company's share price and vice versa (Source) et al. 2016). A falling stock price causes investors to withdraw their shares from existing investments, then the increase in stock prices will affect the market because of the importance of trust in the performance of a business entity (Zuliyanti et al. 2019).

The value of the company is also seen as an important point in measuring whether the company is successful or not. If the company ensures that the manager works optimally, then the welfare of the shareholders will improve as well as the value of the company (Source) et al. 2016).

Leverage and Firm Value

The high value of the Ratio leverage will cause trust from the public to increase because this ratio is an illustration of how business entities are able to fulfill their obligations, especially financial. In the research conducted Bon and Hartoko (2022), Azzahra and Lekok (2023), leverage has a positive influence on the company's value. which states that the higher the leverage, the higher the company's value.

The results of the study are different from the research Yuwono and Aurelia (2021), Alfiah and Hermanto (2024), which indicates leverage negatively affect the company's value. High levels of debt actually increase the risk of inability to pay it as well so that investors become less interested in investing their capital.

In addition, other studies state that leverage has no effect on the value company This happens because corporate debt is a source of external capital that is not used much in operational and investment activities. Companies that have sufficient funds from their internal capital tend to reduce the proportion of debt. (Nafiah and Sopi 2020). The difference in the results of previous research makes the hypothesis as follows:

H1: Leverage affects the value of the company.

Profitability and Firm Value

Research conducted by Margono and Gantino (2021), stating that profitability has a positive effect on the company's value. Profitability provides an idea of how effectively and efficiently a company uses its assets to generate revenue in the present and future.

Contrary to research Putranto and Kurniawan (2018) which states that profitability has a negative influence on the value of the company. This strengthens pecking order theory where

companies prefer to fund their investments using retained earnings and and reduce long-term growth

In contrast to research Sondakh (2019), which states that profitability has no effect on the value of the company. These results are in line with research Lumentur and Mangantar (2019) which provides an explanation that the company's profits tend to fluctuate so that investors are not sure of the results that the company can achieve in the future. From the existing differences, the following hypotheses were developed

H2: Profitability affects the value of the company.

Research Model

Research on the influence of financial ratios, corporate governance and dividend policies on Firm Value can be described as follows:

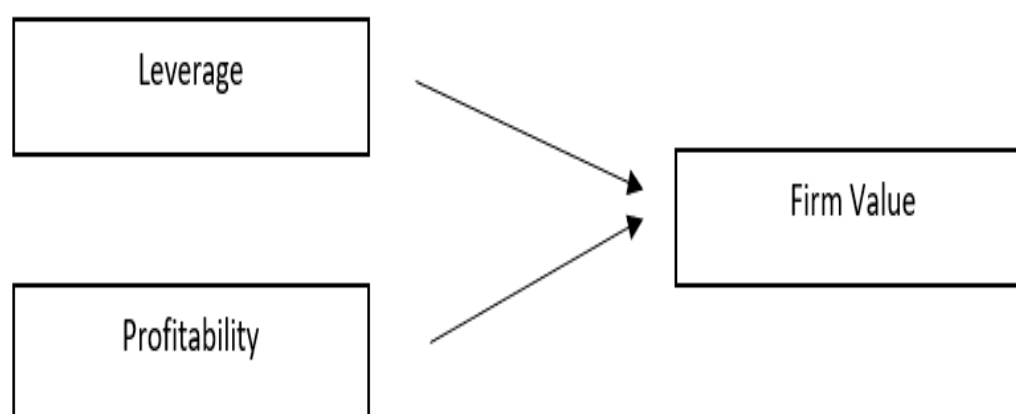


Figure 1. Research Model

Research Methods

The object of research in this study is a company in the non-financial industry listed on the Indonesia Stock Exchange (IDX) with a period of 3 years, hopefully starting from 2021 to 2023. To obtain more accurate data and information from the population, this study uses the purposive sampling technique because this technique has certain limitations and criteria (Sekaran and Bougie 2020, 233). Based on the determination of these criteria, 80 companies were obtained which were used as research samples with the number of research data analyzed as many as 126 data.

Table 1. Sample Selection Procedure

Sample Criteria	Number of Companies	Amount of Data
Non-financial companies that are consistently listed on the Indonesia Stock Exchange during 2020-2023	610	1830

Sample Criteria	Number of Companies	Amount of Data
Non-financial companies that do not consistently publish their financial statements on the Indonesia Stock Exchange during 2020-2023	(49)	(147)
Non-financial companies whose reporting period does not end on December 31 during 2020 – 2023	(3)	(9)
Non-financial companies that do not use Rupiah in their financial statements during 2020 – 2023	(84)	(252)
Non-financial companies that do not generate profits annually during 2020 – 2023	(275)	(825)
Number of research samples	42	126

Source: IDX Data Collection Results and Financial Statements.

Operational Definitions and Variable Measurements

Firm Value is a picture of top performance The performance of a company that is often associated with the stock price (Jihadi et al. 2021). Investors can analyze stock price movements or stock prices undervalued or overvalued with Price to Book Value. Values measured in research Jihadi et al. (2021) with the following proxies:

$$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

$$BV = \frac{\text{Total Equity}}{\text{Number of Shares Outstanding}}$$

Leverage is the number of special obligations owned by the company in order to finance its operational activities. According to Jihadi et al. (2021), one of the measurements used to measure leverage Was Debt to Equity Ratio (DER). The measurement is used in measuring leverage In this study with the following proxies:

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

Profitability is a ratio to assess a company's ability to generate profits that are often associated in profits in its business activities (Jihadi et al. 2021). The profitability measurement in this study uses return on asset as a measuring tool with the following proxy:

$$ROA = \frac{\text{Earning After Tax}}{\text{Total Asset}}$$

Research Results

The results of the descriptive statistical testing that has been carried out in this study are as follows:

Table 2. Descriptive Statistical Test Results

Variabel	N	Minimum	Maximum	Mean	Standard Deviation
FV	240	0,25958	44,85702	2,70684	4,68577
DER	240	0,04609	4,45752	0,82905	0,76854
ROA	240	0,00125	0,36362	0,09431	0,06871

Source: Data Processing Results.

Table 3. Test Results t

Variabel	B	Itself.	Conclusion
(Constant)	-3,402	0,509	-
DER	3,070	0,000	H1 accepted
ROA	35,822	0,000	H2 accepted

Source: Data Processing Results

Leverage (DER) as an independent variable has a value of sig. 0.000 which is less than 0.05 so that H1 is acceptable and it is concluded that leverage has an influence on the value of the company. A leverage coefficient value of 3.070 means that leverage has a positive effect on the value of the company. Its function as an indicator to assess the ability of an entity to fulfill its financial obligations make leverage affect the increase in the company's value. A high leverage ratio manages to be a positive signal for investors or shareholders because it shows the company's confidence in the prospects of future ventures to generate high profits. Thus, the value of the company will increase.

Profitability (ROA) as an independent variable has a value of sig. of 0.000 which is less than 0.05 so that H2 can be accepted and it is concluded that profitability has an influence on the value of the company. The constant value of the profitability variable of 35.822 indicates that profitability has a positive effect on the value of the company. Profitability is one of the factors that is quite significant for the growth of a company's value because it gives a better picture of the company's financial performance. This high profitability reflects that the existing management maximizes the use of all the company's assets to generate revenue in the present and future.

Conclusion

Based on the results of the research that has been conducted, this study still has several limitations that ultimately affect the results and need to be considered in future research. These limitations include a fairly limited research period (only 3 years), data quality test results that show that residual data is not normally distributed, and there is a heteroscedasticity problem in 2 independent variables, namely leverage and profitability.

Based on the limitations that have been explained above, there are several suggestions and recommendations that can be given to help the next researcher, namely increasing the research period with a longer period of time (for example, 5 years), transforming the model semi-log or double-log to address the issue of data not being distributed normally and perform variable transformations or adjust error standard to overcome the problem of heteroscedasticity.

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