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What Factors Influence a Firm Value? Optimistic Financial Performance

Harnovinsah[1]
Department of Management, University of Pancasila
harnovinsah@univpancasila.ac.id

Ana Sopanah[2]
Department of Accounting, University of Widya Gama
anasopanah@widyagama.ac.id

Yayan Hadijah[3]
Magister Management Program, University of Mercu Buana
Yayanhadijah@yahoo.com

Hanif Rani Iswari[4]
Department of Management, University of Widya Gama
rani@widyagama.ac.id

Iva Khoiril Mala[5]
Doctoral Program in Management Science, State University of Malang
iva.khoiril.2204319@students.um.ac.id

Lina Saptaria[6]
Department of Management, University of Islamic Kadiri
lina.saptaria.2104139@students.um.ac.id
linasaptaria@uniska-kediri.ac.id

Abstract

This study aims to investigate company value which is formed from various performance factors such as capital structure, profitability, company size and company growth. The company that is the object of research is a food and beverage consumer goods company listed on the Indonesia Stock Exchange in 2015-2019. This research is a quantitative research. The research sample was 13 subsectors of food and beverage consumption goods listed on the Indonesia Stock Exchange. Regent analysis is used in gathering panel data in this study. There are several diverse research results, namely partially capital structure (DER), profitability (ROA) has a positive significant effect on company value (PBV). While the company's size has a negative effect on the company value (PBV) and company growth has no effect on the company's value (PBV). The implications of this study provide contributing to further research and are able to provide knowledge to company decision making related to efforts to increase company value.
Keywords: firm size, price to book value, debt-equity ratio, return on assets, company growth,

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Email Co-Author	:	linasaptaria@uniska-kediri.ac.id

Introduction

The company's value is reflected in the stock market price (Hirdinis, 2019). The interest of potential purchasers of the company's stock on the capital market is also influenced by the business value. The high firm value will boost shareholder prosperity, encouraging investors to put money into the company (Ahmad & Muslim, 2022). The work that management conducts in a number of areas, such as growth, capital expenditures for the business, and net cash flow from investment decisions, results in firm value. Firm value is a crucial idea for investors to understand since it reflects how the market views the organization. Good corporate performance is a result of high firm value s. Creditors hold a dim view of a company's value. For the creditor, a company's worth depends on its liquidity, or whether it is deemed capable of repaying the debt it received from the creditor. Investors will regard a company as having a low value if the inferred value of the company is poor (Mangesti Rahayu & Saifi, 2020). There are a number of tools for determining company worth, but one of the most popular is a price to book value (PBV).

Using the price book value (PBV) indicator, a business can demonstrate how much value it can add to a company given the amount of capital spent. The more successful the company is at generating value for shareholders, the greater the ratio. Understanding the PBV ratio will enable the investor to identify shares that are fairly priced, those that are undervalued, and those that are overvalued. Most studies that use firm value as a study variable also use PBV as a firm value alternative (Rahman, 2014). The price-to-Book Value (PBV) comparison of trade, plantation, and consumer goods sectors listed on IDX is shown in the figure below.

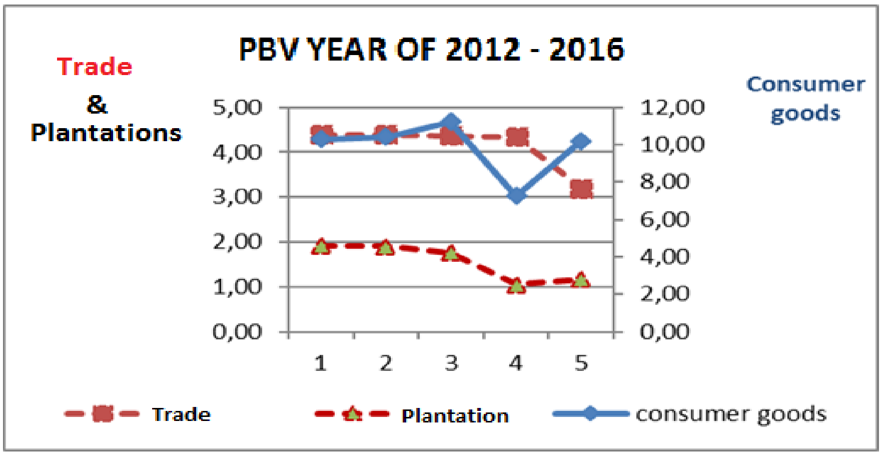

Figure 1. PBV Trade, Plantation, and Consumer goods Sectors
(*Source: Processed Data, 2018)*

Figure 1. Understanding the PBV ratio will enable the investor to identify shares that are fairly priced, those that are undervalued, and those that are overvalued. Most studies that use firm value as a study variable also use PBV as a firm value alternative. The food and beverage sub-sector of the consumer products sector in PBV 2012 stands at 10.29, while the trade and plantation sectors are much lower at 4.39 and 1.91 respectively. Consumer products firms' PBV metrics For instance, the food and beverage sub-sectors increased again the next year but dramatically decreased (35.35%) in 2014 from 11.23 to 7.26. In the same year, both the trade and plantation sectors saw declines. A number of factors have a role, including macroeconomic problems that restrict Indonesia's economic growth and the decline in people's purchasing power. The decline in the public's purchasing power due to the economic slowdown could influence the outlook and company ratings in the sector. One of the industrial industries with a significant presence on the Indonesian capital market is the consumer goods sector. The ability to create the highest profit is impacted by the consumer goods industry's propensity for stable demand. The ability to create the highest profit is impacted by the consumer goods industry's propensity for stable demand. The writer is interested in conducting further research because previous studies on related topics show varying results. On the other hand, the company's financial ratios that become the research object must have changed in each period and the price of its fluctuating movements. Research with different periods is expected to obtain reliable information for accurate assessments.

As the stock price grows, the company's worth also rises. In order to persuade potential investors, it is essential to describe the company's success. Many factors can affect the value of a company based on some research that has been done before. The first factor is capital structure. Haryono et al., (2017) found that capital structure has a positive (significant) impact on firm value. The capital structure, which is shown in the company's financial accounts at the end of the year, is the ratio of the debt value to the capital value. The Debt to Equity Ratio is used to assess capital structure (DER). Study by Wirajaya & Dewi (2013); Pertiwi & Sukoco (2022); (Firdaus, 2020; Pertiwi & Sukoco, 2022) demonstrates how Capital Structure (DER) affects firm value (PBV). Growth of the business has an impact on firm value as well. Information about the company's expansion was well received by investors, which raised the stock price. Growth is how far a business positions itself within the larger economic system in the same sector. Fast-growing businesses typically experience excellent outcomes in maintaining their positions in the competitive environment, benefiting from significantly higher sales and market share. The results of research by Wirajaya & Dewi (2013); (Putri & Rahyuda, 2020; Suzulia & Saluy, 2020) demonstrate how the company's growth affects firm value (PBV).

It is believed that a company's size has the potential to affect its worth. The easier it is for a company to find finance sources, both internal and external, the bigger it is or more expansive it is. A huge company's size indicates that it is expanding, which will entice investors and raise the company's worth. With its total assets and sales, the corporation grows in size. A corporation's growth or scope will increase in proportion to how simple it is for it to secure money, both internally and outside. Large corporations are thought to be more sensitive and transfer a lot more money than tiny ones. The size of the company is a reflection of the size or amount of assets owned by the company and impacts the value of the company. The faster money comes into the company along with increasing sales (Putri & Rahyuda, 2020). It is assumed that larger organizations are more sensitive to and efficient at transferring wealth than smaller ones. direct transfer of wealth using a tax and political payment mechanism. Many research have been carried out to better understand the connection between business size, profitability, and firm value. Suffah & Riduwan (2016); offer proof that firm size has no bearing on firm value. Manoppo & Arie (2016); (Hirdinis, 2019) demonstrate, however, that company size positively affects firm value.

The scale of the profitability generated by a company can affect firm value by using profitability as a metric and corporate performance as demonstrated by the profits generated by the company. In addition to company size and capital structure, profitability can also have an impact on firm value. If a company can record a rise in profits, which can be determined by looking at the earnings it generates, it is performing well, which encourages investors to respond favorably and raises the stock price of the company. A good company's prospect exhibits strong profitability in order to elicit positive feedback from investors and raise the company's value. (Jihadi et al., 2021) profitability has a substantial impact on business value. Similarly, Hermuningsih (2016) research found that profitability significantly influences firm value. According to Almashhadani & Almashhadani (2022), profitability has a big impact on a company's value. Chang et al. (2019) study, which found that profitability significantly affects business value, came to the same conclusion. Based on the background information provided above, the goal of this study is to determine how factors such as capital structure, profitability, growth, and company size affect the value of companies in the Food and Beverage Consumer Goods Subsector listed on the Indonesia Stock Exchange between 2015 until 2019.

A lot of previous studies that obtained different results became a gap for researchers to investigate more deeply about the formation of firm value, especially from the factors of capital structure, profit-making ability, company growth, company size.

Theoretical Review

Capital Structure

Capital structure is the method a business chooses to finance its assets. Debt and equity make up the main component of the capital structure, and the amount of loan financing is determined by gearing or leverage. The capital structure of the company is influenced by a number of factors, so choosing the optimal financing is crucial (Saleem et al., 2013); (Al-Slehat et al., 2020). Saputri & Margaretha (2014); Pertiwi & Sukoco (2022) argue that capital structure is very important that investors and financial managers must consider. It is due to the limited resources that can be allocated by a company to run its production activities, thus affecting the company's welfare itself. Mistakes in making decisions will lead to financial distress, or even bankruptcy can occur for the company. According to the alternative capital structure theory, the company must find a rate of return that will be obtained as compensation for investors and owners for the risk. Therefore, the risk of each structure must be related to the desired rate of return (Saputri & Margaretha, 2014). For assessing the fulfillment of corporate expenditures, capital structure (DER) is the ratio in which funds are produced through a combination or mix of sources derived from long-term funds comprising of two main sources that originate from both inside and outside the company (Saputri & Margaretha, 2014); Pertiwi & Sukoco (2022); (Firdaus, 2020; Pertiwi & Sukoco, 2022):

The formula of DER :
DER = (Total Debt) / (Total Asset)

Profitability

A company's capacity to turn a profit and gauge its operational effectiveness and asset utilization efficiency is known as profitability (Mangesti Rahayu & Saifi, 2020). The ability to make profits is a key determinant of a company's financial performance. The profitability ratio, which gauges a company's capacity to make a profit on the sum of its sales of assets and equity, is a financial ratio that describes profitability (Yogisworo et al., 2018). Profitability of a company, which is influenced by sales, total assets, and equity. According to financial companies, profitability is the end result of their policies and decisions (Markonah et al., 2020). The profitability ratio is typically used to gauge a company's success and serves as a gauge of manager effectiveness, claims Zuhro (2019). The profitability of a company may be evaluated using the following financial metrics: gross profit margin (GPM), net profit margin (NPM), return on assets (ROA), and return on equity (ROE) (ROE). ROA is used in this study as a stand-in for profitability (Return on Assets). Profitability is assessed in this study utilizing the ratio of Return on Assets (ROA). One of the profitability indices that can gauge a company's capacity to produce profits from its used assets is return on assets (ROA). A company's historical capacity to produce profits can be estimated for the future using ROA (Markonah et al., 2020).

The formula of ROA:
ROA = (Profit after tax) / (Total Assets)

Company Growth

An indication of a firm's development or growth over a specific time period is its company growth (Handoko, 2017). Total asset growth can be used to gauge a company's success, with prior asset growth serving as a predictor of future success and growth. In this study, growth is simulated by the growth of the assets. Asset growth is determined by comparing the difference between the total assets in the current period and the prior period to the total assets in the past period. Corporate growth is defined as total asset growth, where historical asset growth will indicate future profitability and incoming growth, according to Ben-Caleb et al., (2013); (Putri & Rahyuda, 2020; Suzulia & Saluy, 2020). Growth is a shift (increase or reduction) in the company's total asset base. A percentage change in assets at a particular point in the preceding year is used to determine asset growth. Growth is the change in total assets that a company experiences over a certain period, whether it be a gain or a loss (one year). Growth, according to Saputri & Margaretha (2014);

(Chabachib et al., 2020), can be characterized as an expansion of the business. A larger likelihood of firm expansion also translates into a bigger requirement for the appropriate funding. A corporation with a high rate of growth is more likely to use debt than equity as a source of funding.

The ratio of sales growth is the ratio that measures the company's sales growth by measuring the difference in sales value over a period. Mathematically, the company can formulate sales growth as follows (Chabachib et al., 2020) :

$$Sales\ Growth = \frac{Net\ Saled(t) - Net\ sales\ (t-1)}{Net\ Sales\ (t-1)}$$

Company Size

The amount of profit a company generates can also have an impact on the value of its company. In order for the stock price to increase and affect the company's value for investors, the company's management must know the profitability and capital structure as well as the size of the company. The return on equity (ROE) ratio of a corporation reveals its capacity to generate net income for shareholder equity returns. As ROE results rise, the company's performance also rises. Because ROE growth suggests that the company's profitability may expand in the future, it suggests the possibility of a better company. A metric used to determine a firm's size is called company size. Total assets, sales, and equity can be used to calculate a company's size. Overall debt and company size have a positive, substantial correlation (Dang et al., 2019). Several methods can be used to gauge a company's size. The size of the business may depend on factors such as sales, market capitalization, the number of employees, and so forth. A corporation will invest more money the more valuable its asset is. The more a company's overall sales, money flow, and market capitalization increase, the more well-known it becomes in the community.

This is seen by investors as a sign from the company that will increase investor trust and make it simpler for the management of the company to attract capital in the form of shares. If there is more demand for a company's stock, the price of its shares on the capital market will rise. The findings of studies by Suffah & Riduwan (2016b); Hamidah & Umdiana (2017); (Putri & Rahyuda, 2020); (Hirdinis, 2019) show that profitability and firm value are related. However, (Manoppo & Arie, 2016) demonstrates that ROE-based profitability has no bearing on a company's value. In this study, the logarithm of total assets is used as a proxy for firm size. Calculating a company's size:

$$Size = \ Total\ Asset$$

The Firm value

The company's performance and accomplishments in serving the community or stakeholders are publicly recognized by this value. Since it reflects the company's ability to improve the welfare of the owners, the value of the company's owners and potential owners is highly respected. Both the market value of the company's debt and equity function as measures of the value of the company. More investment opportunities will raise the enterprise's worth. The decision of the company to obtain money by issuing new shares or loans will improve its worth because investing opportunities require more resources.

There are numerous techniques for evaluating value of the firm, including Price to Book Value (PBV), Market to Book Value (MBV), Price Earning Ratio (PER), Price Cash Flow Ratio (PCF), Tobin's Q, and Free Cash Flow (FCF). In this study, PBV is employed to determine company value (Price to Book Value). One of the metrics that can be used to determine a company's value is price to book value (PBV). This strategy can be used by investors to determine the value of equities on the market (Husna & Satria, 2019; Zuhro, 2019). Based on their investigation, Suwardika and Mustanda (2017) established the Price to Book Value (PBV) method used in this study. Formulation of PBV:

$$PBV = \frac{\text{Market price per share}}{\text{Book value per share}}$$

Methodology

Quantitative research approaches are used in this field. This investigation followed a causal research methodology. Causal analysis aims to comprehend relationships between two or more things (Cooper et al., 2003). Assessing the earlier-built premise that there are four competing hypotheses based on firms in the consumer products sector that, up until 2016, had food and drink listings on the Indonesia Stock Exchange. Thirteen businesses make up the sample size. Part of the non-probability sampling approach, which is carried out via purposive sampling, is employed in the sampling process. Based on the specified criteria, the number of samples used were 13 companies in the Food and Beverage Consumer Goods Subsector listed on the Indonesia Stock Exchange for the 2015-2019 period.

Data collection techniques in this study were conducted in several ways as follows:

1. Documentation is data collection available on the research object, in this case in the form of financial statement document of consumer goods company subsectors of food and beverage in Indonesia from 2015-2019.
2. Literature study, the literature related to writing problems in this research by collecting data related to the discussion object, which can be obtained through books, journals, and various sites of each sample company associated with this research.

The data obtained from the results of the next study were analyzed using regression analysis with panel data models. Then the data is processed using the software program Eviews Version 9. Regression analysis of panel data aims to analyze the effect of capital structure, growth, profitability, and firm size on firm value.

Result and Discussion

Table 1. The Result of Partial Test Output (t) in Fixed Effect Model

Remark	Coefficient	t-statistics	Probability
C	20.86439	0,5640	0,5754
DER	7.547986	6,9602	0,0000
ROA	27.17254	3,6518	0,0006
Growth	0.350530	0,3644	0,7171
Size	-2.107985	-0,7041	0,4848

Source: Data Processed - EViews 9.0

Effect of Capital Structure (DER) on Firm Value (PBV)

The capital structure, which is depicted on the corporate balance sheet, is assessed using a ratio of debt and equity values. Debt to Equity Ratio, or total debt divided by total equity, can be used as a proxy for capital structure. The worth of the firm will rise if the DER's value rises, according to (Hirdinis, 2019), as long as the DER has not yet hit the trade-off theory's optimum point. The capital structure of a particular company is influenced by a variety of specific circumstances. Tax, Sales stability, operating average, asset structure, growth, controlling, management attitude, profitability, financial flexibility, and business size are factoring that (Saleem et al., 2013); (Al-Slehat et al., 2020). Saputri & Margaretha (2014); Pertiwi & Sukoco (2022) identified as determining capital structure. The results of testing the DER variable on PBV show a t-statistic value of 6.9602. This value is greater than 0.5 so it can be concluded that capital structure has a significant effect on firm value. These results indicate that optimal capital structure management can increase firm value.

This study uses the capital structure of food and beverage consumer goods sub-sector companies listed on the Indonesia Stock Exchange during the observation period using the debt to equity ratio. The results of the calculation of the ratio indicate that during the observation period, companies in the consumer goods, food and beverage sub-sector in Indonesia were in good condition in terms of their capital structure so that they attracted the attention of investors and had an impact on increasing company value. Therefore, investors are tricked into investing in companies that cause share prices to rise, followed by an increase in company value and the impact on shareholder wealth. What happens to the company value of the consumer goods, food and beverage sub-sector in Indonesia follows the pecking order theory which states that a company will conduct internal financing through funding from operating results and retained earnings. If the corporation needs to raise money from outside sources, it will first issue the safest instruments, starting with issued bonds, then marked options, and if those are inadequate, fresh shares. Because internal funding relieves businesses of the need for external loans, it is preferred to external finance. Large debt holders will burden the company in question, which is a corporation with a poor capital structure. According to the tradeoff hypothesis, utilizing debt will boost company value just so far. The use of debt will then lower the company's worth because the gain in earnings from using debt is not equal to the rise in the costs of having money problems and working with the wrong people. Due to the usage of debt by businesses and the interaction between shareholders and creditors, agencies incur costs that might lead to conflicts.

The results of this study obtained the same findings as the research by Wirajaya & Dewi (2013); (Saleem et al., 2013); (Al-Slehat et al., 2020), Saputri & Margaretha (2014); Pertiwi & Sukoco (2022) which relates to capital structure having a positive impact on firm value. This shows that if a company uses more shares as a source of funding than a lot of debt, the value of the company will increase. Hirdinis (2019) research has demonstrated that the capital structure has a favorable and considerable impact on firm value. The study supports previous studies by Anisyah & Purwohandoko, (2017; Handoko, (2017; Hermuningsih, (2016); Priya et al., (2015) ; (Al-Slehat et al., 2020) that found a strong positive impact of capital structure on business value. Based on these results, the t-statistics value of 6.9602 > 0.5, it is concluded that the capital structure (DER) has a significant positive effect on the firm value (PBV) of Consumer Goods Subsectors of Food and Beverage listed in the Indonesia Stock Exchange period of 2015-2019.

The Effect of Company Size on Firm Value (PBV)

The test results show a t-statistic value of -0.7041, a value less than 0.5 indicating that company size in this study is not able to positively influence firm value (PBV). The size of the company reveals its overall assets. The greater the assets that can be used as collateral for the company to obtain debt, which is usually offset by the size of the company, the higher the value of the company. This indicates that there is a company capital to boost the company's performance and profits which automatically increases the value of the company. Rather not paying dividends, which could reduce the company's and its stock's value, the organization is more lucrative. According to these studies, companies with considerable assets may not necessarily attract investors with the idea that they would be managed to increase company value.

However, according to the findings of the study, there is no substantial relationship between firm size and firm value. This is because investors buy shares of a company based on its financial statements, reputation and dividend policy in addition to the size of the company's assets. Large organizations tend to be in the public eye, therefore managers will try their best to manage the company and increase its value. However, even if the investment is not significant in small businesses, it can still provide the best results. Total assets reveal the size of the business. Businesses that have significant accounts receivable and inventory components in their assets may not be able to distribute dividends (retained earnings) due to the accumulation of assets in these two categories. This finding confirms the study by Wirajaya & Dewi (2013), Pertiwi & Sukoco (2022); (Firdaus, 2020; Pertiwi & Sukoco, 2022) which found no relationship between firm size and firm value. which states that company size does not affect the firm value.

The Effect of Company Growth on Firm Value (PBV)

The growth of a company is seen how far the company places investors in the economic system or the overall economic system of the same industry. Any party, whether internal or external, expects the company to have positive growth because it can provide aspects of prosperity for them. Therefore, the company's growth is a measure of the company's success, and this success is also a benchmark for investment for future growth. Companies with fast growth must be able to manage and control operations with an emphasis on cost control (efficiency).

Test the company's growth variable on firm value (showing a t-statistic value of 0.3644 <0.5). These results indicate that the company's growth has no significant effect on firm value because its value is less than 0.5. This finding means that the growth of food and drink company's listings on the Indonesia Stock Exchange does not affect the ups and downs of company value.

The next analysis is the cause of the company's growth not having an effect on the company's value on the food and drink listings on the Indonesia Stock Exchange. In our discussion and analysis, this is due more to the company's inability to manage assets. Reckless asset management causes assets that should be used for company operations not to be utilized properly so that the resulting operational results are not optimal. The next impact due to this bad management resulted in a decrease in the number of sales. Whereas in order for the company's growth to run well, the company must be able to manage the company's growth and must have good performance and control the company's operations with an emphasis on cost control. The same research, Slamet, (2016); (Ayuba et al., 2019) found that company growth has no significant effect on firm value.

The Effect of Profitability (ROA) on Firm Value (PBV)

The capacity of a business to produce net income from operations throughout an accounting period is known as profitability. A picture that depicts how well a company benefits from operational procedures that have been put in place to secure the company's survival in the future is the company's core profitability. The extent to which a company is managed effectively and its capacity to create revenue are both supported by profitability analysis. In this study, profitability is assessed using ROA. Company profitability under study has a t-statistic value of 3.6518 > 0.5. It implies that the company has a high level of profitability and the ability to generate profits during the observation period. The consumer goods sub-sector of companies' food and beverages performs well, as evidenced by companies that successfully manage the company's assets effectively and efficiently so that the company can record an increase in profit each period. These results support research by (Wirajaya & Dewi, 2013), which states that profitability has a positive and significant effect on firm value.

In several cases, companies have a profitability scale below 1 which indicates that a small number of consumer goods companies do not mean they are not profitable but still have to improve their good performance to compete with similar companies. When faced with this situation a manager is required to optimize all resources. Managers are considered incapable of carrying out their duties so that it has an impact on stock prices. On the investor side, this information is less desirable because it will affect the number of dividends received. Based on these results, the t-statistics value of 3,6518 > 0,5 can be concluded Profitability (ROA) has a significant positive effect on the value of the Company (PBV) in Consumer Goods Subsectors of Food and Beverage that listed in the Indonesia Stock Exchange period of 2015-2019.

Through management with the Eviews 9.0 tool, data testing is based on the FEM (Fixed Effect Model) model. The independent variables together have a significant effect on the dependent variable through the F test that is carried out. By limiting the R-square value (R2) 96% of the PBV variable can be explained by changes in the DER, ROA, Growth, and company size variables. While the rest is explained by other factors outside the model.

Conclusion

Based on the research objectives regarding what factors affect the value of the company in improving optimistic financial performance, it can be concluded that the Capital Structure (DER) is able to increase the Company Value (PBV), so that better and optimal capital structure management will increase the value of companies in the consumer goods sector of the food and beverage sub-sector listed on the Indonesia Stock Exchange. The ability of companies in the consumer goods sector, the food and beverage sub-sector, which are listed on the Indonesia Stock Exchange, to generate profits as measured by ROA can increase company value (PBV). The company value (PBV) of the consumer goods sector, the food and beverage sub-sector, which is listed on the Indonesia Stock Exchange, has also increased due to company growth. The company's growth as calculated by changes and increases in assets shows optimal management. The larger the size of the company in the consumer goods sector, the food and beverage sub-sector, which is listed on the Indonesia Stock Exchange, does not increase the company's value (PBV). The finding of the effect of firm size is negative on the Firm Value (PBV) of the food and beverage consumer goods sub-sector which is listed on the Indonesia Stock Exchange.

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