



Internal Factors Affecting Firm Value (Case Study of Manufacturing Companies in Indonesia)

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ABSTRACT: Despite the pivotal role of the manufacturing sector in the Indonesian economy and its continuous growth, there exists a dearth of comprehensive research on the determinants of firm value within this sector. The lack of understanding regarding how financial factors such as leverage, liquidity, profitability, and firm size impact firm value among manufacturing companies listed on the IDX hinders effective decision-making for investors, creditors, stakeholders, and company management. This study aims to investigate the effects of firm size, profitability, liquidity, and leverage on firm value is the main purpose of this study, which focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX). The population comprises manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2022. Using purposive sampling technique and going through the sampling criteria, a final sample of 82 companies was used in this research. The data analysis method used in this study was a regression analysis using SPSS software. The study revealed that higher debt levels (Leverage) and excessive cash reserves (Liquidity) were linked to decreased firm value. Additionally, the finding also shows that as companies became more profitable, their overall value tended to decrease. On a positive note, larger firms (Firm Size) exhibited higher company value. The findings have implications for investors, creditors, and stakeholders navigating the Indonesian manufacturing sector, providing nuanced insights into financial determinants of firm value. These findings emphasize the importance of a balanced financial strategy for companies and highlight the advantages of size in the economic landscape.

KEYWORDS: Firm Size, Firm Value, Leverage, Liquidity, Profitability.

1. INTRODUCTION

The state of the economy and the advancement of business are becoming more and more competitive. The corporate world is being impacted by the global financial crisis. The main goal of the company's founding was to maximize its value. The share price of an organization will represent companies' value [1]. The value of the company increases with the stock price increase. For creditors, investors, and other stakeholders, firm value is a crucial idea when making decisions about investments to generate financial gains and manage potential risks. One element affecting the company's high-low value is its financial performance. The primary aspect influencing its value is its financial performance, which talks to the way it uses firm resources efficiently through financial management.

Despite the pivotal role of the manufacturing sector in the Indonesian economy and its continuous growth, there exists a dearth of comprehensive research on the determinants of firm value within this sector. The lack of understanding regarding how financial factors such as leverage, liquidity, profitability, and firm size impact firm value among manufacturing companies listed on the IDX hinders effective decision-making for investors, creditors, stakeholders, and company management. Therefore, there is an urgent need for a thorough investigation to fill this gap in the literature and provide valuable insights into the factors influencing firm value within the Indonesian manufacturing sector.

According to [2] firm value is a representation of a corporation's state, whether it is in excellent condition or not, as indicated by an increase or decrease in share price. Financial ratios in financial statements, such as leverage, liquidity, profitability, and operating performance, can be examined using fundamental analysis to determine the company's financial performance. This information can then be used to inform decisions made by creditors, investors, stakeholders, and company management. The higher the company's value, the better its performance has been determined by financial ratios. One problem associated with the company's declining of value is the fluctuating stock price issues. Financial ratios, which indicate how well the business has performed in securing funding and allocating it to be used effectively and efficiently, can be used as a predictor of corporate value. The company's present state and prospects for the future can be inferred from its financial performance.



In Indonesia, the manufacturing industry is growing quite rapidly, because the number of these industries has increased every year according to the data available Indonesia Stock Exchange (IDX). Manufacturing companies are those that turn raw resources into semi-finished or finished products [3]. Manufacturing firms are similar to factories that apply machinery, equipment, and labor (“sahamok.com”, 2018). Manufacturing industries are generally capable of producing on a large scale. Manufacturing firm has very little chance to be affected by economic crisis compared to other sectors because some of its products are used every day even though they are not basic needs, but every household has a supply of manufactured products according to their taste.

The factors that determine firm value have been the subject of numerous researches and have garnered significant attention in the literature. Numerous factors such as financial leverage, liquidity, profitability, and firm size, have been found in studies to affect firm value. A ratio termed leverage shows how a company's debt is distributed in relation to its capital and assets. Businesses typically obtain funding for their operations through loans from other individuals. For instance, financial leverage has a detrimental effect on firm value, according to research by [4].

The ability of a company to pay off its short-term debt is demonstrated by a financial statistic known as the current ratio. In this study, it acts as a stand-in for the company's ability to meet its immediate financial obligations. As a measure of liquidity, this ratio assesses a company's capacity to use its current assets to cover its current liabilities, or firm obligations that are due within a year. The current ratio of a business is calculated by dividing its total current assets by its entire current liabilities. Examining a company's current ratio allows analysts and investors to determine how well-positioned it is to manage its current debt and other payables. According to studies by [5], [6], [7], liquidity has a favorable impact on business value. This makes the case that a company with a higher liquidity ratio is seen as more dependable by the public since it can pay off its debts with its present assets. As a result, the public has more faith in the company, increasing its value.

On other hand, a company's profitability is measured by its capacity to generate a profit or by the value of all of its operations throughout a given time frame. Profitability, according to a study by Gitman and Zutter, is a ratio that shows how revenues and expenses relate to one another when current and fixed firm assets are used in productive operations [8]. High profitability indicates positive company prospects, which raises the firm's worth in the eyes of investors [9]. Similarly, studies by Agyei et al. and Muazu et al. found a positive relationship between profitability and firm value [10], [11].

Firm size refers to the scale or volume of operations of a single business unit. It can be measured in various ways, including the number of employees, revenue, assets, market share, and market capitalization. The size of a firm is an important factor to consider in analyzing its performance, as it can affect its efficiency, profitability, and overall value. Firm size can have a significant impact on a company's efficiency and profitability, which in turn affects its overall value. Several studies have explored this relationship, with some finding a positive correlation between firm size and firm value while others argue the opposite. For example, D'Amato & Falivena highlight the importance of studying the size of a business [12], while Sudiyatno et al. ,Wang and Lu found a positive effect of firm size on firm value [13], [14], and Hirdinis presented the opposite argument and shows that firm size has no effect on firm value [15].

On the other hand, minimal study has been done on how these factors affect companies' value in Indonesia's manufacturing industry. Understanding the elements that affect company value in the manufacturing sector is crucial, given the significance of this industry to the Indonesian economy. This study therefore aims to fill this gap in the literature by examining the factors that influence firm value in manufacturing companies that are listed on the IDX.

The focus of this study is address Four major questions about manufacturing firms listed on the Indonesia Stock Exchange (IDX). Determining the magnitude of the leverage effect on these companies' firm value is the main goal of the first inquiry. The impact of liquidity on firm value is examined in the second question, and the connection between profitability and company value is examined in the third. The fourth and last inquiry looks at the relationship between firm size and the firm value of manufacturing enterprises on IDX.

In light of above questions, the research objectives include investigating and analyzing these relationships to contribute to the field of financial management, particularly in the Indonesian context. The study aims to provide valuable insights that can be utilized by regulators to make informed decisions regarding policies that enhance the growth of the manufacturing sector in Indonesia. For companies, the findings are expected to support the achievement of financial objectives and long-term sustainable growth, allowing them to benchmark their performance against peers and identify areas for improvement. Additionally, investors can benefit from the research by making better-informed investment decisions, ultimately enhancing portfolio performance and confidence in the



Indonesian market. Overall, the research is anticipated to contribute to the development of knowledge and have practical implications for various stakeholders.

2. LITERATURE REVIEW

2.1. Agency theory

The study adopts agency theory as a framework for analyzing the determinants of firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX). This theoretical perspective, articulated by Jensen and Meckling, posits that conflicts of interest between managers (agents) and shareholders (principals) may arise due to differing objectives and incentives [16]. Information asymmetry and the separation of ownership and control contribute to these conflicts, where managers possess more operational insights than shareholders and greater control over resources and decisions. According to Eisenhardt Debt financing, or leverage, is identified as a strategy to align managerial and shareholder interests, imposing constraints and monitoring mechanisms that mitigate agency costs [17]. While according to Myers leverage signals commitment to meeting obligations and avoiding value-destroying activities [18], According to Mayer, excessive leverage can heighten financial distress risk and limit growth opportunities [19].

Additionally, according to Chen & Huang liquidity and profitability are recognized as influential factors shaping firm value. Liquidity, representing a firm's capacity to meet short-term obligations and invest in growth opportunities can signal financial stability or distress [20]. Likewise, based on the study of Mahakud & Chaudhuri profitability, reflecting a firm's ability to generate earnings and cash flows correlates with managerial efficiency and operational effectiveness [21]. Firm size, with its impact on economies of scale, bargaining power, and diversification benefits can influence unit costs, market power, profits, and overall market value [22]. Larger firms often enjoy diversified portfolios, better resource access, and reduced risk exposure, enhancing growth prospects.

In essence, agency theory provides a theoretical foundation for examining how leverage, liquidity, profitability, firm size, and operating performance interplay in determining firm value. By addressing the agency problem and aligning incentives, this framework contributes valuable insights into the intricate dynamics that influence the market value of manufacturing companies listed on the IDX.

2.2. Firm Value

The value of the firm is an overview of the condition of the company. The share price of the firm reflects the investor's assessment of the firm's success in resource management, which determines the company's value [23]. The worth of the company increases with the stock price. The worth of the business will be impacted by managerial choices. Recent literature on firm value definitions has highlighted the need for a more comprehensive and dynamic understanding of this concept. For example, Prabowo, argue that the COVID-19 pandemic has underscored the importance of broader stakeholder considerations in defining firm value [24]. Other scholars have emphasized the role of factors such as digital transformation [25], and sustainability and resilience in determining firm value [26]. Taken together, these studies suggest that firm value is a complex and multifaceted construct that requires careful consideration of a range of factors and perspectives.

2.3. Research Hypothesis

2.3.1 The Effect of Leverage on Firm Value

When evaluating how a firm finances its liabilities with its assets, leverage is an essential indicator of its capacity to fulfil short- and long-term debts. The solvability of a firm, defined by having total assets surpassing liabilities, is contingent on its leverage. The static tradeoff theory introduces a tradeoff between the costs and benefits of debt, suggesting that companies weigh tax deductions against increased agency costs when liabilities rise. The debt-to-equity ratio, a proxy for leverage, measures this tradeoff, with a higher ratio indicating lower financial risk but simultaneously higher investment risk. Notably, a larger debt ratio heightens the likelihood of a company being unable to meet its obligations, leading to decreased firm value in the eyes of investors.

The effect of leverage on business value has been the subject of several research. In China, Huang and Song found a negative correlation between business value and capital structure [27]. On the other hand, in Pakistan, Masood, Kouser, and Abdullah found a strong positive correlation between leverage and firm value [28]. In Pakistani enterprises, Sial and Noreen also found evidence of a positive correlation among leverage and firm value [29]. In their investigation of the factors influencing capital



structure, Titman and Wessels discovered that leverage had a major impact on business value. Taken as a whole, these studies indicate that the impact of leverage on firm value differs according on the nation and the ownership configuration of the company [30].

H1: There is a significant effect of the Leverage on firm value

2.3.2. The Effect of Liquidity on Firm Value

According to Mahmud, liquidity is a statistic that assesses a company's capacity to pay short-term creditors [31]. A company's liquidity serves as a measure for its capacity to use its existing assets to pay off short-term debt. Businesses that are sufficiently able to settle short-term debt are known as liquid businesses. The ability of a business to turn some of its current assets into cash and demonstrate the strength of its financial resources to support its many operating operations, such investing and meeting obligations, are also factors that contribute to liquidity. A good measure for liquidity is the current ratio. The ability of the corporation to pay short-term debts increases with a greater current ratio; conversely, a lower current ratio indicates a weaker ability to do so. Businesses with strong liquidity demonstrate their considerable capacity to fulfil their immediate financial obligations, demonstrating their sound financial standing. The company's value increases with increased liquidity.

Multiple empirical studies have shown that liquidity has a significant impact on firm value, indicating that higher levels of liquidity are generally associated with higher firm value. Research on this topic has been conducted in various countries, including Taiwan, China, and the US. For instance, Chang, Huang, and Yang conducted an empirical study on Taiwan, finding that liquidity has a positive effect on both firm value and profitability [32]. Similarly, Tsai and Huang studied the Taiwan Stock Exchange and found that higher liquidity levels led to higher firm value [33]. Other studies have produced similar results in different contexts, such as the US pharmaceutical [34] and China [35]. Overall, these findings suggest that maintaining sufficient levels of liquidity is important for firms looking to maximize their value.

H2: There is a significant effect of the liquidity on firm value.

2.3.3. The Effect of Profitability on Firm Value

The ratio "profitability" is used to evaluate a business's capacity to turn a profit. For loan debtors, profit serves as a means of paying principal and interest, and for equity investors, profit influences how much a security is worth at any one time. Businesses that are highly profitable can be used to predict future performance. The management of the organisation makes a variety of decisions and policies that ultimately lead to profitability (Brigham). The ability of the business to turn a net profit from operations throughout the accounting period is referred to as profitability. The return on equity ratio of common shares serves as a stand-in for profitability. The greater the ordinary shares' return on equity (return on equity). The performance of the company improves with a greater ROE number. This means that management is increasingly effective in utilizing company assets to generate profits [36] Another study by Soebiantoro, explain that high profitability indicates a goodwill of a company investors and thereby investors respond positively to the firm which causes the stock market price to increase [37].

The academic literature has extensively investigated the relationship among profitability and company value. Firm value is positively impacted by profitability, according to numerous researches. For instance, Chen and Chien discovered that the value of Taiwanese businesses is positively impacted by profitability. In their empirical investigation [38]., Kale and Reis also discovered a strong positive correlation between profitability and business value [39]. Similarly, Mohammadi and Ghasemi found that profitability has a significant and positive effect on company value in the context of Tehran Stock Exchange [40]. Ongore and Kusa conducted a panel study of Nairobi Securities Exchange and found that profitability is a significant determinant of company value [41]. Singla and Sharma also found a positive impact of profitability on company value in the case of Indian cement industry. Overall, the empirical evidence suggests that profitability has an impact on value of company [42].

H3: There is a significant effect of the Profitability on firm value.

2.3.4. The Effect of Size on Firm Value

The size of a firm is determined by the total assets owned by the company. Larger organizations have stronger total assets because their operations are more reliable and can produce profits more readily, which improves the company's chances for the future. Due to their easier access to the capital market, big companies are better able to secure funding because of their increased flexibility. Companies having substantial total assets show that they are more mature and have reliable sources of finance. A



company's size is its own thing. Big businesses have a lot of assets overall. Larger businesses can operate more sustainably and offer a better return on investment because of their increased ability to do so. The greater the company, the higher the company's valuation.

Researchers and practitioners alike have been interested in the impact of firm size on firm value. A number of study works have examined this relation., including the work of Demirgüç-Kunt, Maksimovic, and Velasco who examined the effect of liquidity constraints on firm value and found that larger firms tend to have higher valuations [43]. Asness, Frazzini, and Pedersen explored the implications of firm size on earnings-price ratios and discovered a positive relationship between the two [44]. Farag and Brown provided a review of the literature on the relationship between firm size and firm value, highlighting the empirical evidence and theoretical explanations for this relationship [45]. Additionally, Gaunt and Gray found evidence of a positive relationship between firm size and stock returns in the London Stock Exchange [46]. Finally, Wang, Cheng, and Zhang investigated the impact of firm size on stock returns and firm value in the Chinese stock market and found that larger firms tend to have higher valuations [47]. Overall, these studies suggest that firm size is an important determinant of firm value, and larger firms may enjoy higher valuations due to factors such as greater market power, economies of scale, and higher liquidity.

H4: There is a significant effect of the Size on firm value.

3. RESEARCH METHODOLOGY

3.1. Research Design

This study uses a quantitative methodology based on positivism as its foundation for research design. It looks into how Firm Value is affected by Leverage (X1), Liquidity (X2), Profitability (X3), and Firm Size (X4). For the years 2018–2022, information is gathered from all manufacturing companies that are listed on the Indonesia Stock Exchange (IDX). The manufacturing sector's significant economic contribution to Indonesia is demonstrated by consistent statistics from the Central Statistics Agency (BPS), which highlights the sector's critical role in economic growth. This justifies the focus on the manufacturing sector. Panel data collected from secondary data sources (financial statements downloaded from the IDX website) will comprise both time series and cross-sectional components.

3.2. Sampling

The population comprises manufacturing companies listed on the IDX for the specified period, and purposive sampling is the chosen technique. The criteria for selection include companies that remained listed from 2017-2019, have complete financial reports for 2018-2022 on the IDX website, and exhibit positive profitability. Focusing on companies with positive profitability ensures the examination of financially healthy and successful firms, avoiding potential distortions in results that might arise from including those with negative profitability, which could introduce unique challenges and characteristics. After going through the sampling criteria, a final sample of 82 companies was used in this research.

3.3. Data Analysis

Statistical analysis utilising SPSS software will be the data analysis method used during this study Lubis, Akhmad [48]. Both traditional assumption testing and hypothesis testing will be used in the data analysis process. The following is how the research model is expressed:

$$FV_{it} = \alpha + \beta_1 LEV_{it} + \beta_2 LIQ_{it} + \beta_3 ROA_{it} + \beta_5 SIZE_{it} + \epsilon_{it} \dots \dots \dots \text{eq1}$$

Table 1: Variable Operational Definition

Variable	Operational Definition	Measurement
Leverage (X1)	Leverage in this study is defined as the ability of the corporation to satisfy all of its obligations as determined by how well its own equity secures these liabilities. The debt-to-total-assets ratio serves as the leverage metric in this study. According to Vasansever and Hepsen this ratio is computed by dividing the total debt by the total assets of the business [49].	Debt to Asset



Liquidity (X2)	The capacity of a company to fulfil short-term obligations and the ability of its current assets to do so. Liquidity was represented by the current ratio (CR) in this study. The current ratio (CR), described by Thaib and Dewantoro is a measure used to evaluate a company's ability to pay off short-term debt using current assets [50].	$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{current liability}}$
Profitability (X3)	The capacity of a company to turn a profit and the capacity to do so by using its equity. ROA is used in this study as a stand-in for profitability. This metric has also been employed by numerous other researchers to determine profitability [51],[52].	$\text{ROA} = \frac{\text{EBT}}{\text{Total Asset}}$
Firm Size (X4)	The size of a company, whether large and tiny. While there are several alternatives for estimating business size, the natural logarithm of total assets is the one that most scholars use. According to Onyali and Okafor, Ogbeide and Obaretin, Vieira, and other scholars, the measurement is the most reliable on the subject [53], [54].	LN Total Asset
Firm Value (Y)	The market's assessment of a company's whole value, which includes both its debt and equity, is known as firm value. By comparing a company's stock price to its profits per share, valuation—more especially, the Price-profits Ratio, or P/E ratio—is a popular technique for determining the relative value of the company's assets [55].	$\text{Price Earnings Ratio}$

4. RESULT AND DISCUSSION

4.1. Findings from Descriptive Statistics

Table 2: Findings from Descriptive Statistics

Descriptive Statistics					
	N	Minimu m	Maximu m	Mean	Std. Deviation
LEV	412	.00	.96	.3723	.18735
LIQ	412	.61	486.72	7.2860	41.01797
ROA	412	.00	.60	.1068	.09563
SIZE	412	11.77	26.75	21.1020	2.84417
FV	412	.00	963.00	36.2592	95.06345
Valid (listwise)	N	412			

The descriptive statistics for five important financial variables are shown in Table 2 for a sample of 412 observations.

Leverage is represented by the variable "LEV," which has a range of values from 0.00 to 0.96, with a mean of 0.3723 and a standard deviation of 0.18735. This implies that the dataset has a considerable amount of leverage overall.

The range of the liquidity variable "LIQ" is greater; it starts at 0.61 and goes up to 486.72. Although the average liquidity is 7.2860, the observations' substantial variation in liquidity levels is indicated by the very high standard deviation of 41.01797.



The return on assets (ROA) variable has a mean value of 0.1068 and a standard deviation of 0.09563, with a range of 0.00 to 0.60. This suggests that the sampled entities' profitability varied.

The variable "SIZE," which represents the firms' sizes, ranges from a minimum of 11.77 to a maximum of 26.75, with a mean of 21.1020 and a standard deviation of 2.84417.

The financial variable "FV" exhibits a significant degree of dispersion in company financial values, with a mean of 36.2592 and a standard deviation of 95.06345. The variable ranges from 0.00 to 963.00.

The central tendency, variability, and distribution of the financial variables are briefly shown by these descriptive statistics, which lay the groundwork for additional study and interpretation within the framework of the dataset.

4.2. Result of Multiple Linear Regression

In this study, the purpose of the multiple linear regression approach is to evaluate the degree of correlation between the variables, with a focus on the influence of Firm Size, Profitability, Leverage, and Liquidity on Firm Value. The results of the multiple linear regression test, which was performed with the SPSS version 22 application, are shown in the following sections.

Table 3: Result of Multiple Linear Regression

Coefficients ^a		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
Model		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.930	.418		-2.224	.027		
	LEV	-.326	.136	-.224	-2.403	.017	.230	4.339
	LIQ	-.250	.117	-.200	-2.140	.033	.229	4.363
	ROA	-.457	.049	-.421	-9.226	.000	.960	1.042
	SIZE	1.185	.306	.179	3.872	.000	.932	1.073

a. Dependent Variable: FV

A substantial association between the dependent variable, Firm Value (FV), and the independent variables, Leverage, Liquidity, Profitability, and Firm Size, is indicated by the findings of the multiple linear regression analysis. The p-value (Sig.) given in Table 3 determines the significance threshold for every variable.

The unstandardized coefficient, which starts with LEVERAGE, is -0.326, indicating that there is a 0.326 unit drop in Firm Value for every unit rise in Leverage. The link is statistically significant, as indicated by the significance level (p = 0.017) at a 0.05 threshold and the standardized coefficient (Beta) of -0.224, which shows a moderately unfavorable influence.

Going on to LIQUIDITY, the unstandardized coefficient is -0.250, suggesting that there is a 0.250 unit drop in Firm Value for every unit increase in Liquidity. The result that liquidity has a statistically significant negative influence on firm value is supported by the standardized coefficient of -0.200 and the significance level (p = 0.033).

The unstandardized coefficient for PROFITABILITY (ROA) is -0.457, meaning that a unit rise in Profitability corresponds to a 0.457 unit drop in Firm Value. The statistical significance (p < 0.001) and robustness of the negative association between profitability and company value are confirmed by the standardized coefficient of -0.421.

Lastly, the unstandardized coefficient for FIRM SIZE is 1.185, indicating that a rise of one unit in Firm Size is correlated with an increase of 1.185 units in Firm Value. The size of the company has a statistically significant positive impact on Company Value, as supported by the standardized coefficient of 0.179 and the significance level of p < 0.001.

4.3. Result of F test (simultaneous test)

The simultaneous test, or F test, is used to determine if all of the independent variables in a regression model have a statistically significant impact on the dependent variable (Ghozali) [56]. The significance value and the 5% alpha (α) value are compared in the F test. The dependent variable is considerably impacted by all independent factors when its significant value is less than the alpha value (α). The results of the F test are shown in the following section.



Table 4: F test results

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.606	4	3.901	24.379	.000 ^b
	Residual	64.493	403	.160		
	Total	80.098	407			
a. Dependent Variable: FV						
b. Predictors: (Constant), SIZE, LEV, ROA, LIQ						

Table 4 demonstrates that the factors leverage, profitability, liquidity, firm size all have a concurrently significant impact on the firm value, with the significant value of 0.000 being less than the alpha (α) value of 0.05.

4.4. DISCUSSION

4.4.1 The Effect of Leverage on Firm Value

It is argued that a manufacturing company's overall market value is mostly determined by its financing structure, and this is supported by the adverse relationship found between leverage and firm value on the Indonesia Stock Exchange (IDX). According to the unstandardized coefficient of -0.326, there is a 0.326 unit drop in firm value for every unit rise in leverage. This is consistent with the idea of Agency Theory, which holds that greater leverage exposes the company to possible increases in agency costs as well as financial risk.

Increased leverage implies a greater reliance on debt for financing, which, while providing the company with immediate capital, can lead to higher interest payments and financial constraints. The finding supports the notion that investors may view firms with higher leverage as riskier investments due to the increased likelihood of financial distress. The negative impact on Firm Value could be attributed to concerns about the firm's ability to meet its debt obligations, especially during economic downturns or challenging market conditions.

Our result is in line with Sholichah & Andayani and Frederik & Nangoy, who show that the bigger the debt ratio, the more likely the company will be unable to pay off its obligations, which decreases the firm value in the eyes of investors demonstrate that leverage has a major impact on the firm value [57], [58].

4.4.2 The Effect of Liquidity on Firm Value

The negative unstandardized coefficient for Liquidity (-0.250) suggests that an increase in Liquidity is associated with a decrease in Firm Value. The observed negative relationship between liquidity and firm value in our study finds support in the work of Fajaria et al., [59]. Their findings, demonstrating a similar negative association, provide valuable corroboration to our results. The argument put forth by Fajaria and Isnalita further elucidates the rationale behind this negative correlation. According to their perspective, companies with high levels of liquid assets, such as cash, may encounter challenges related to idle funds. Idle funds, which are not actively deployed in profit-generating activities, can potentially lead to a reduction in corporate profits. As a consequence, the return received by investors in the form of cash dividends may also be diminished. This reduction in returns could, in turn, contribute to a decline in Firm Value.

In simpler terms, having too much easily accessible cash may not always benefit a company. If that cash isn't put to good use, like investments that generate profits, it can reduce overall corporate earnings and, in turn, lower the value of the company. This insight emphasizes the importance of companies finding a balance between having enough cash for flexibility and using it wisely to ensure healthy returns for investors. Exploring how these idle funds impact profits and firm value in manufacturing companies on the Indonesia Stock Exchange could be a fruitful area for future research.

4.4.3. The Effect of Profitability on Firm Value

Profitability's negative unstandardized coefficient (-0.457) suggests that a rise in profitability is correlated with a fall in firm value. The study's conclusions draw attention to an important discovery on the connection between profitability and firm value. The study aligns with prior research, particularly that conducted by Rika, which also found a negative and significant impact of profitability on company value [60]. In simpler terms, when a company becomes more profitable, its overall value tends to decrease.



Specifically, the research looked at how profitability affects company value using the Price Earnings Ratio (PER). The results showed that even if a company's profit per share goes up, it doesn't necessarily mean the share price will also go up. This mismatch can lead to a drop in the company's overall value. In simpler terms, making more profit is good, but it's crucial for the company's stock price to rise along with it to maintain or improve its overall value. This insight is valuable for investors and decision-makers

Additionally, when viewed through the lens of agency theory, this result could be interpreted as a manifestation of conflicts between managerial interests and shareholder value maximization. In traditional agency theory, managers act as agents for shareholders but may pursue their own objectives, leading to potential misalignments. One plausible explanation within the agency theory framework is that a focus on short-term profitability metrics may incentivize managers to engage in practices that boost immediate financial performance but compromise the long-term sustainability of the firm. Managers might be driven to prioritize earnings maximization to enhance their own compensation or meet short-term financial targets, neglecting investments in innovation or strategic initiatives that contribute to long-term firm value.

4.4.4. The effect of Firm Size on Firm Value

An increase in firm value is correlated with a rise in firm size, according to the positive unstandardized coefficient of 1.185 for firm size. This result fits in with the body of existing literature and the hypothesis.

Past studies, like Demirgüç-Kunt et al. and Wang et al. have suggested that larger firms tend to have higher valuations due to various factors [61],[62]. Demirgüç-Kunt et al. found that larger firms often enjoy higher valuations, possibly due to increased market power and liquidity [63]. Similarly, Wang et al. (2016) emphasized the positive impact of firm size on stock returns and firm value, attributing it to factors like economies of scale and enhanced access to resources [64]. In the context of manufacturing firms listed on the Indonesia Stock Exchange, our results support the notion that larger firms exhibit higher valuations, possibly benefiting from economies of scale, greater market power, and improved access to funding. These results add to the expanding body of literature, emphasizing the importance of firm size as a determinant of firm value and underscore its relevance in the specific context of manufacturing companies in Indonesia.

Viewing the result through the lens of agency theory, we can rationalize the positive effect of Firm Size on Firm Value. In line with Jensen and Meckling's agency theory, larger firms may inherently reduce agency problem among managers and shareholders [65]. One essential component of agency theory is the division of ownership and control, which is often more pronounced in smaller firms where managerial discretion can be higher. Larger firms, with their greater size and resources, may implement more effective monitoring mechanisms, reducing the agency costs associated with information asymmetry and managerial opportunism. Additionally, larger firms often exhibit more diversified business portfolios. This diversification, suggested by Adebayo and Oni can contribute to reduced risk exposure. From an agency theory perspective, this lower risk may translate into a higher valuation, as shareholders perceive the firm as better equipped to safeguard their interests [66].

CONCLUSION

In conclusion, this research delved into the relationships between leverage, liquidity, profitability, firm size, and firm value among manufacturing companies listed on the Indonesia Stock Exchange (IDX). Employing a quantitative methodology grounded in positivism, data spanning 2018-2022 was collected. The resulted negative effect of leverage on firm value aligns with Agency Theory, emphasizing the role of financing structure in market value determination. Conversely, the negative association between liquidity and firm value suggests that excess liquid assets may not always benefit companies, supporting findings from prior research. Unexpectedly, the negative impact of profitability on firm value challenges conventional wisdom, emphasizing the importance of not only increasing profits but ensuring that share prices rise in tandem to maintain or enhance overall company value. The positive effect among firm size on company value is consistent with earlier studies, rationalized through an Agency Theory perspective.

However, this study has limitations. It primarily focused on manufacturing companies listed on the IDX, limiting generalizability to other sectors. The relatively short 2018-2022 timeframe may not capture long-term trends, and the low Adjusted R-Square value indicates that unaccounted-for factors may influence firm value. Despite these limitations, the implications are significant for various stakeholders. Investors can make informed decisions considering nuanced financial metrics, managers can balance financial decision-making for sustainable growth, policymakers can tailor regulations for responsible financial practices, and future research can explore contextual factors influencing these relationships.



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