

THE EFFECT OF FINANCIAL RATIOS ON INCREASING FIRM VALUE

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ABSTRACT

The purpose of this study is to determine whether profitability, leverage, and liquidity influence firm value. The research population consists of 239 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2018–2022. The sample was selected using a purposive sampling technique, resulting in 66 companies that met the established criteria. The data used were secondary data, namely the companies' annual financial reports published on the official website of the Indonesia Stock Exchange (www.idx.co.id). The data analysis method used multiple linear regression analysis with panel data processed using E-Views software version 12. The results showed that profitability, proxied by Return on Assets (ROA), leverage, proxied by Debt to Equity Ratio (DER), and liquidity, proxied by Current Ratio (CR), had a positive and significant effect on firm value, proxied by Price to Book Value (PBV). The conclusion of this study is that the variables ROA, DER, and CR have a positive and significant effect on firm value. It is recommended that future researchers conducting research on firm value include additional activity ratios. Activity ratio analysis can provide information about the company's effectiveness in using its activities.

Key words: firm value; profitability; *leverage*; liquidity.

INTRODUCTION

Financial ratio analysis assesses a firm's fundamental condition by examining the relationships among components of financial statements, typically reflected in profitability, leverage, liquidity, and firm value ratios (Kurniasari and Wahyuati, 2017). These ratios function as signals that inform investors about operational performance and financial stability. High firm value indicates strong corporate performance and conveys a favorable signal to the market (Priyatama and Pratini, 2021). Likewise, high profitability reflects a firm's capacity to generate earnings and enhance shareholder welfare (Purwanti, 2020). Leverage also contains informational value. Firms with relatively high debt levels may signal confidence in future growth, as management demonstrates a willingness to use external financing to expand operations (Nopianti et al., 2023). Strong liquidity positions further indicate the firm's ability to meet short term obligations, which investors often interpret positively, leading to higher firm value (Dewi et al., 2021).

Empirical findings, however, remain inconsistent. Iman et al. (2021) report that profitability positively affects firm value, whereas Saputri and Giovanni (2021) find a negative relationship. Pradanimas and Sucipto (2022) show that leverage positively influences firm value, yet Wijaya et al. (2021) document a negative effect. Similarly, Iman et al. (2021) find that liquidity positively affects firm value, while Simangunsong and Solikhin (2022) and Rodrigo Borges and Wulandari (2023) report negative effects. In light of these inconsistencies, this study seeks to empirically examine the positive influence of profitability, leverage, and liquidity ratios on the firm value of manufacturing companies listed on the Indonesia Stock Exchange.

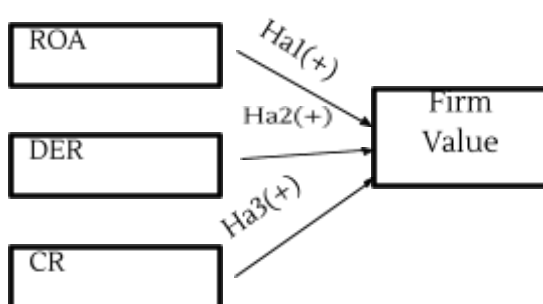


Figure 1. Thinking Framework

METHOD

This study adopts a quantitative research design. The population comprises 239 manufacturing companies listed on the Indonesia Stock Exchange during the 2018 to 2022 period. The study applies a purposive sampling technique to select firms that meet specific criteria. The inclusion criteria consist of companies that remained consistently listed on the IDX from 2018 to 2022, published complete financial statements for the five year period, presented financial reports in Indonesian Rupiah, and did not report losses during the observation period.

After applying these criteria, the study selected 66 companies as the final sample. The researchers collected data through a documentation method by examining annual financial reports of the selected manufacturing firms for the 2018 to 2022 period. The study obtained all financial data from the official IDX website at www.idx.co.id.

RESULTS AND DISCUSSION

Classical Assumption Test

Normality Test

The normality test yielded a JB value of 3.96 and a p value of 0.137. We compared the JB value with the Chi-square 2 df test at the 5% significance level, which showed that the JB value was less than the significance level. Similarly, the p value of 1.37 was greater than the alpha value of 0.05. This indicates that the assumption of normally distributed residuals is met.

Heteroscedasticity Test

The results of the Glejser test indicate that all independent variables Return on Assets (ROA), Debt to Equity Ratio (DER), and Current Ratio (CR)—have significance (probability) values greater than 0.05. Therefore, the null hypothesis is accepted, implying that the regression model is free from heteroscedasticity problems.

Multicollinearity Test

The multicollinearity test shows that there is no strong correlation between the independent variables ROA, DER, and CR, as their values are all less than or equal to 0.90. Therefore, the null hypothesis is accepted. This means the regression model has no multicollinearity, as the independent variables are not correlated with each other.

Autocorrelation Test

In this study, the value was 1.69 and the 4-DU value was 2.30. Since 1.69 is less than 2.01 and 2.01 is less than 2.30, it shows that there is no autocorrelation in the data.

Goodness of Fit Test

Simultaneous F-test

The F-test result showed a significance value of 0.002, which is less than 0.05. This means all the independent variables (ROA, DER, and CR) together have a significant effect on the dependent variable (PBV).

Coefficient of Determination

The adjusted R² value of 0.723 implies that 72.3% of the changes in firm value (PBV) are explained by the explanatory variables ROA, DER, and CR, while the remaining 27.7% is influenced by other determinants not captured within the regression model.

Hypothesis Testing (t-Statistic Test).

Table 1. Results of the t-statistic test

<i>Variable</i>	<i>Coefficient</i>	<i>Std.Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
C	0.34	0.13	2.63	0.0096
ROA	0.50	0.17	2.85	0.0051
DER	3.84	0.98	3.92	0.0002
CR	0.92	0.34	2.75	0.0067

(Source: *Output E-Views, 2025*)

The first hypothesis proposes that profitability positively and significantly influences firm value. The regression results show that Return on Assets has a coefficient of 0.50 with a significance level of 0.0051, which is below 0.05. This finding confirms a positive and statistically significant relationship between profitability and firm value, leading to the acceptance of Ha1. These results align with Prasetyaningsih and Astuti (2022), Iman et al. (2021), and Priharto et al. (2023), who also document a positive effect of Return on Assets on Price to Book Value.

The second hypothesis states that leverage positively and significantly affects firm value. The Debt to Equity Ratio produces a coefficient of 3.84 with a significance level of 0.0002, which is well below 0.05. This result indicates a strong positive and significant effect, supporting the acceptance of Ha2. The finding is consistent with Pradanimas and Sucipto (2022), Rodrigo Borges and Wulandari (2023), and Timotius and Setyawan (2023), who report that leverage positively influences firm value.

The third hypothesis posits that liquidity positively and significantly affects firm value. The Current Ratio shows a coefficient of 0.92 with a significance level of 0.0067, which is below 0.05. This result confirms a positive and significant relationship between liquidity and firm value, leading to the acceptance of Ha3. The findings are

supported by Iman et al. (2021), Bitu et al. (2021), and Alifian and Susilo (2024), who conclude that the Current Ratio positively affects Price to Book Value.

CONCLUSION

Based on the research and discussions about how profitability, leverage, and liquidity affect firm value in manufacturing companies listed on the IDX from 2018 to 2022, the following conclusions were made: Profitability as measured by Return on Assets, leverage as measured by Debt to Equity Ratio, and liquidity as measured by Current Ratio each exert a positive and significant effect on firm value as proxied by Price to Book Value. These findings indicate that improvements in profitability, capital structure management, and short term financial strength contribute to higher market valuation among manufacturing firms. The results provide practical implications for managers seeking to enhance firm value. Managers should strengthen operational efficiency to increase profitability, optimize debt utilization to support growth, and maintain adequate liquidity to ensure financial stability. This study has limitations. It does not incorporate activity ratios, which may also influence firm value by reflecting how efficiently firms utilize their assets. Future research should include activity ratios to provide a more comprehensive assessment of the determinants of firm value.

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