



# Factors Affecting The Value Of Companies (Empirical Study of Various Industrial Sector Companies on The Indonesian Stock Exchange in 2021)

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## ABSTRACT

The purpose of this study is to determine how the firm's 2021 valuation may be affected by the debt to equity ratio (DER), return on assets (ROA), and return on equity (ROE). Purposive sampling was used to choose 39 manufacturing enterprises from the various industries sector in 2021 to serve as the study's sample. The financial information, financial reports, and ratios available on the [www.idx.co.id](http://www.idx.co.id) website for the example firms were all utilized. Multiple regression analysis was employed as the analytical method in this work. Variables are simultaneously and partially assessed at a significance threshold of 5% on stock returns using F test statistics and t statistics in hypothesis testing. In hypothesis testing, variables are partially tested using t statistics and simultaneously tested using F test statistics at a significance level of 5% on stock returns. The findings of this study indicate that a company's value is significantly influenced by its Debt to Equity Ratio (DER). In contrast, Return On Equity (ROE) and Return On Assets (ROA) have very little effect on the company's worth.

**Keywords:** *Return On Asset (ROA), Return On Equity (ROE), and Debt to Equity Ratio (DER), value of the firm*

## 1. INTRODUCTION

Manufacturing businesses use both human labor and machinery to transform raw materials or spare parts into semi-finished or finished things on a large scale.. The advantages of manufacturing companies give Indonesia an excellent opportunity to increase competitiveness in the global industrial sector. Such as increasing investment and manufacturing productivity can increase the added value of domestic raw materials and boost exports. This manufacturing industry successfully contributed the greatest contribution to Indonesia's economic development, which increased to 7.07% in the country's second quarter of 2021. Consequently, this industry accounted for the most growth, growing by around 1.35%. The industrial sector grew by up to 6.91% even though the epidemic was exerting strain at this time (Ministry of Industry of the Republic of Indonesia, 2021).

The wealth of the company's owners will be reflected in its value, which is determined by a strong return on investment to shareholders. This is demonstrated by the market value of the company's stock on the stock exchange. It is critical to understand the importance of manufacturing firms to the Indonesian economy. One way to improve the Indonesian economy is by investing. This method is also the government's effort to increase Indonesia's economic growth. The company's primary goal is to support increased economic growth indirectly. A company's worth increases with its profits, which also encourage investors to make investments..[1]. A company's worth will entice investors to put money into it. However, the company's value shows creditors that it can afford to pay its debts, which gives them confidence to lend money to the company.[2]. The factors determining manufacturing companies' value need to be explored or researched further. Company value can be measured in various ways; one of the measuring tools that can be used in calculating the price to book a deal. Several factors, including profitability and leverage, influence company value. The profitability ratio is a metric that expresses how profitable a business may be given all of its current assets and capabilities, including cash, capital, sales activity, personnel, branches, and so forth.. Investors prefer companies with high profitability because investors assume that with increased profitability, companies can provide high returns

on investment [3].. Profitable companies draw investors who are willing to pay more for their shares, increasing the value of the business. Many profitability ratios are commonly used as measuring tools, including Return On Equity (ROE) and Return On Assets (ROA)..

The ratio known as leverage indicates the percentage of an organization's assets that are financed by debt. If the leverage ratio is high, the quantity of debt in relation to the company's assets is more noticeable. The company's debt-financed assets must be used as efficiently as possible to raise the company's worth and, conversely, to raise the share price. In this study, the debt ratio is replaced by the Debt to Equity Ratio (DER), which compares the amount of long-term debts the company has with its capital. A useful tool for analyzing how capital structure funding is distributed in a company is the loan to equity ratio (DER). which is sourced from both equity and long-term loan sources.[4].

Several groups of companies, manufacturing companies, are the sectors most often used as research objects. Manufacturing organizations are more prone to engage in earnings management due to the high level of business risk associated with their operations. A common occurrence in certain consumer goods manufacturing companies listed on the Indonesia Stock Exchange is a decline in share price that occurs either in tandem with an increase in net profit or in opposition to it..

Several studies related to factors that influence company value show different results. The value to shareholders increases with a company's valuation.[5]. Increasing company value provides an increase in Shareholder success. Any company that has gone public seeks to attract investors and persuade them to invest in the company by offering to sell its shares at a premium. [6]. After reviewing the background information provided above, the author is curious to know more about "Factors that Influence the Value of Manufacturing Companies in the Various Industrial Sectors on the Indonesian Stock Exchange."

## **2. LITERATURE REVIEW**

The way a business signals to investors through its financial reporting is known as "signal theory." [6]. This signal theory also reduces information asymmetry so shareholders understand the company's condition[7]. This signal can be of concern to investors and potential investors who want to determine the company's condition while it is operating to make the right investment decision. Good company quality will provide an excellent signal to investors[6]. In summary, signal theory can assist in providing investors and management with identical knowledge regarding the company's prospects and get symmetrical details, reducing the information gap between management and investors. Company value can increase if a company can reduce information asymmetry [8]

### ***2.1 The value of the company***

[9]Investors view a firm's ability to compete with other companies based in part on its company value. Investors will see a good signal in the company's worth if it more fully represents the quality of its relevance.. A higher level of equity will indicate that investor confidence in the company is also high, while high debt will suggest that the company's debt management could be more optimal. High debt will cause companies to experience financial difficulties and can even lead to bankruptcy [10]).

### ***2.2 Price To Book Ratio (PBV)***

Price to Book Ratio (PBV): This ratio compares the market price per share to the book value per share in order to evaluate a company [11]. PBV can also display the amount that the market values the book value of a company's shares. When PBV is high, the market has high trust in the company's prospects..

### ***2.3 Return On Assets (ROA)***

Return on Assets measures how profitable a business can make use of all of its assets after taxes..[12]. The administration of all firm assets is crucial for businesses or management. The ratio known as return on assets, or ROA, gauges how much a company will return on all of its current investments. [13]. This ratio illustrates how effectively the corporation uses its finances.

## **2.4 Return on Equity (ROE)**

Return on equity, or ROE, is a metric used to assess whether a company is successfully recovering all of its present capital or just a portion of it.. [13]. Return on equity, or ROE, is one measure that shareholders use to evaluate how well the firm they manage is performing. This ratio is influenced by the corporation's debt load; a higher percentage of debt implies a larger ratio.

## **2.5 Debt to Equity (DER)**

The Debt to Equity Ratio (DER) is used to compare debt to equity. A corporation will have a low rate of return if it has more outstanding debt than capital since it will become more difficult for the company to pay down its debt as it grows. Conversely, if the corporation's equity or capital exceeds its total debt, it will yield a high rate of return. A greater equity ratio means that more loan capital is needed to invest in assets in order to increase earnings for the business. [14]. This may also have an impact on the number of investors that the business attracts..

## **2.6 Return on Assets (ROA) and its Impact on Company Value**

A business can make money if its return on assets is high, giving investors greater confidence that their investment will be lucrative.. ROA impacts company value because it increases share prices in the capital market. Return On Assets (ROA) positively and significantly affects company value[15]. This is not the same as what Sihotang and Hutabarat's study found. [16] It asserts that a company's value is negatively impacted by return on assets.

H1 = ROA has a positive effect on company value (PBV)

## **2.7 Return on Equity (ROE) and its Impact on Value**

Investors will put more money into the company in question if its ROE is higher. This is because it shows that the business is performing well, which will lead to a high share price and an increase in the company's worth.[17]. This is proven by research by Karundeng et al. (2017), Hariyanto and Lestari (2016), and Fauziah and Sudiyatno (2020), This demonstrates how ROE and firm valuation are positively correlated. The study conducted by Wimelda and Siregar differs from this one. asserts that a company's return on equity reduces its worth.

H2 = ROE increases the PBV (business value)

## **2.8 Debt to Equity Ratio's (DER) Impact on Business Value**

All debt, including current debt, is compared to all equity to get the debt to equity ratio, or DER.. A business can optimize its worth if it can manage its debt and equity. Both debt and equity include risks that can lower a company's value because they can be used to fund operations. The claim is supported by Deni and Yoga's [18] Studies show that DER significantly affects a company's value. This contradicts the findings of the study conducted by Sukmawardini and Ardiansari. [19] It asserts that the debt policy has a detrimental effect on the company's value..

H3 = DER increases the worth of the company (PBV).

# **3. RESEARCH METHODS**

## **3.1 Sample and Population**

This study makes use of secondary data from the Indonesian Stock Exchange (BEI). The information is contained in the yearly reports of manufacturing businesses. The population of the study consists of manufacturing companies in the diverse industrial sector that are listed on the Indonesia Stock Exchange (BEI) in 2021. The sampling process employs purposeful sampling. Who is included in the sample is determined by the following criteria: enterprises in the industry that disclose their financial situation in 2021 are examples of miscellaneous industry category enterprises that are listed on the Indonesia Stock Exchange (BEI).; and companies in the industry that make money that year.

### 3.2 *Dependent Variable*

Company Value/PBV (Y)

Price Book uses a formula to compute corporate value to value (PBV), which is measured.:

$$\text{Price Book to Value: } \frac{\text{Price}}{\text{Book Value of Share}}$$

### 3.3 *Independent Variable*

#### 3.3.1 *ROA (X\_1)*

From the viewpoint of an investor, ROA is a ratio. You can use the following formula to compute ROA.:

$$\text{ROE : } \frac{\text{Profit after tax}}{\text{Total Asset}}$$

#### 3.3.2 *ROE (X\_2)*

Before making an investment, investors consider ROE. You can use the following formula to compute ROE.:

$$\text{ROE : } \frac{\text{Net profit}}{\text{Equity}}$$

#### 3.3.3 *DER (X\_3)*

A financial ratio called DER can be used to ascertain how much debt and equity a company has. You can use the following formula to calculate DER:

$$\text{DER : } \frac{\text{Total debt}}{\text{Equity}}$$

### 3.4 *Analysis Techniques*

Multiple linear analytic approaches are employed in hypothesis testing, along with classical assumption testing with the help of the Software Package for Social Science (SPSS) for Windows. Since the multiple linear regression When the model is used to assess the relationship between each independent variable and the dependent variable, the regression coefficient's significant value is what is observed. The regression coefficient's significant value is less than the significance level ( $\alpha$ ) = 5%...

## 4. RESEARCH RESULTS AND DISCUSSION

### 4.1 *Analysis of Descriptive Statistics*

To find the lowest, maximum, average, and standard deviation, utilize the SPSS software. values that are reported in descriptive statistics. The table below shows the outcomes of various computations..

**Table 1** Descriptive Statistics

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
PBV	39	-5,01	15,96	2,0289	4,06159
ROA	39	-87,61	32	1,869	16,45187
ROE	39	-271,68	2374	57,0767	385,43216
DER	39	3015,34	2232,1	13,0218	616,92197
Valid N (listwise)	39				

The table above presents statistics from the research sample, stating the values of the minimum, maximum, average, and standard deviation for each variable. . The N value shows the amount of data used in this research.

## 4.2 Classic Assumption Test

### 4.2.1 Test of Normalcy

**Table 2** Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		28
Normal Parameters <sup>a,b</sup>	Mean	0
	Std. Deviation	1,2873688
Most Extreme Differences	Absolute	0,141
	Positive	0,141
	Negative	-0,127
Test Statistic		0,141
Asymp. Sig. (2-tailed)		,160 <sup>c</sup>

The value is more than 0.05 with an asymptotic significance level of 0.160 (2-tailed), according to the table data above. Thus, it may be said that the distribution of this research is normal..

#### 4.2.2 Multicollinearity Test

**Table 3** Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ROA	0,942	1,062
	ROE	0,942	1,061
	DER	0,983	1,017

It is evident from the above table that the tolerance thresholds for the variables ROA, ROE, and DER are all larger than 0.01, and that the VIF is less than 10.0. Consequently, it may be claimed that this regression model's independent variables either have limits on multicollinearity or are reliable and objective.

#### 4.2.3. Heteroscedasticity Test

**Table 4** Heteroscedasticity Test Result

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
		1	(Constant)	2,232	0,416	
	ROA	0,01	0,026	0,068	0,393	0,697
	ROE	-0,001	0,001	-0,137	-0,794	0,433
	DER	0	0,001	0,046	0,27	0,788

a. Dependent Variable:  
Abs\_Res

The above table makes it clear that the sig value of the ROA variable is 0.697.. The ROE variable's sig value is 0.433. The DER variable's sig value is 0.788. Given that every variable has a sig value greater than 5%, it may be assumed that heteroscedasticity is absent from the model.

#### 4.2.4 Test of Autocorrelation

**Table 5** Test of Autocorrelation Result

Runs Test	
	Unstandardized Residual
Test Value	-1,35101
Cases < Test Value	19
Cases >= Test Value	20
Total Cases	39
Number of Runs	18
Z	-0,645
Asymp. Sig. (2-tailed)	0,519
a. Median	
Regression Analysis	

The data above shows that there is no correlation between the residuals, proving that the residuals are random and that the regression model does not contain autocorrelation. Asymptotic Sig (2-tailed) is  $0.519 > 0.05$ .

#### 4.2.5 Analysis of Multiple Regression

**Table 6** Regression Equation Results

Model		Koefisien Regresi
1	(Constant)	1,905
	ROA	0,026
	ROE	0,000
	DER	0,004

It is evident from the above table that the many linear equations are created in the following manner.:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3$$

$$PBV = 1.905 + 0.026ROA + 0.000ROE + 0.004DER$$

#### 4.3 Testing of hypotheses

##### 4.3.1 T Test

**Table 7** T Test Results (Partial Test)

Model		T	Sig.
1	(Constant)	3,371	0,002
	ROA	0,727	0,472
	ROE	0,327	0,746
	DER	3,936	0,000

It can be inferred from the above table that:

1. The value of the symbol. It may determine that ROA has no appreciable impact on the business's worth because its  $0.472 > 0.05$  ratio..

2. Significance. Given that ROE is  $0.746 > 0.05$ , Therefore, it may be said that ROE has no appreciable impact on the value of the company.
3. The value of the symbol. Given that DER is  $0.000 < 0.05$ , Therefore, it can be said that DER significantly affects the company's worth..

#### 4.3.2 F Test

**Table 8** F Test Results (Simultaneous Test)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	203,504	3	67,835	5,608	0
	Residual	423,362	35	12,096		
	Total	626,867	38			

a. Dependent Variable: PBV

b. Predictors: (Constant), DER, ROE, ROA

F<sub>count</sub>, at a significance level of 0.003, is 5.608, according to the previous table. Because the significance value is smaller than 0.05, it is possible to conclude that ROA, ROE, and DER all have a significant simultaneous impact on firm value.

#### 4.3.3 Coefficient of Determination Test

**Table 9** Coefficient of Determination Results

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,57	0,325	0,267	3,47794

a. Predictors: (Constant), DER, ROE, ROA

The corrected R-square value is 0.267, according to the coefficient determination, as the table below illustrates. This demonstrates that the ROA, ROE, and DER factors can account for 26.7% of PBV, while variables not included in the study can explain 73.3% of PBV. Furthermore, the PBV variable is 57%, indicating that the R's value of 0.570 shows that there is a suitable position for the relationship between the independent and dependent variables.

## 5. CONCLUSION

The purpose of this study is to identify the variables affecting manufacturing businesses' market values on the Indonesian Stock Exchange across a range of industrial sectors. The variables that were employed in this study include PBV, DER, ROA, and ROE. The following are the findings of an investigation carried out on 39 data sets in 2021 that were registered on the IDX:

1. Research indicates that in 2021, the firm value of manufacturing companies listed on the Indonesian Securities Exchange would be positively and marginally impacted by the ROA variable. This suggests that the business must turn a profit, which undermines investor trust. Future viability of the company is harmed by this. Research findings are corroborated by Chaidir (2015), who claimed that ROA had no appreciable impact on PBV. Because political security conditions at the moment are given greater weight than investment security, a high return on assets (ROA) does not ensure that investors would recognize the value of the company.

2. There is evidence to suggest that the manufacturing firms listed on the Indonesian Stock Exchange in 2021 will have a favorable and moderately impacted by the ROE variable. This means that the company needs better capabilities in terms of company performance, reducing investor confidence and share sales, which will be low. The business value



suffers as a result. This study's findings defy accepted wisdom because it does not offer empirical support for the hypothesis that rising profitability will lead to rising firm value. The results of this study are consistent with the research conducted by Ain and Setijaningsih (2012), which asserted that return on equity (ROE) had little bearing on a company's value.

3. Research indicates that in 2021, the manufacturing companies listed on the Indonesian Stock Exchange will see a notable and positive increase in their firm value due to the DER variable. This is so that the business may optimize its worth by managing its debt and equity. Both debt and equity include risks that can lower a company's value because they can be used to fund operations. Additional debt will increase the company's value. Because the rise in capital returns from the investment will outweigh the interest payments generated as a fixed expense from the use of debt, the company's policy of using debt as a source of investment financing is therefore very appropriate and will boost the company's value. The investigation's conclusions corroborate those of Deni and Yoga's (2018) study, which discovered that DER significantly affects enterprise value..

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