

Original Article

The Influence of Financial Performance on Company Value

Amanda Febriana^{1✉}, Ashari Sofyaun², Matyani³

^{1,2,3}Universitas Balikpapan.

Correspondence Author: amandafeb348@gmail.com✉

Abstract:

This study aims to determine the Influence of Financial Performance with the proxy *Current Ratio*, *Debt to Equity Ratio*, *Return on Assets* on Company Value with the proxy Price to Book Value as the objective of the study. The study was conducted on food and beverage sub-sector companies listed on the Indonesia Stock Exchange for the period 2020-2023. The sample selection was carried out using the *purposive sampling technique* and obtained 32 companies, with a total observation data of 128. The findings of the study showed that liquidity had no effect, while leverage and profitability partially succeeded in positively influencing company value.

Keywords: Liquidity, Leverage, Profitability, Company value

Introduction

Company value is an important part for companies to survive in the business world. Companies that cannot survive will be left behind by their competitors so that the potential for profit is also getting smaller and can even go bankrupt. Company value is the public's perception of a company's success. Company value is associated with stock prices, the higher the stock price, the higher the company's value, which reflects the owner's prosperity, and vice versa if the stock price falls, the company's value will decrease (Firdayanti & Utiyati, 2021).

One of the factors that can affect company value is financial performance. The effect of *Current Ratio* (CR) on company value with positive results (Setyowati & Rahmawati, 2023). *Current Ratio* (CR) has a negative effect on company value (Pratama & Widyawanti, 2023). The next ratio that is a factor that affects company value is the *leverage ratio*. *leverage* with the proxy *Debt to Equity Ratio* (DER) having a positive effect on company value (Nurmansyah & Triyonowati, 2024), while *Debt to Equity Ratio* (DER) has a negative effect on company value, which is a finding (Silkfan & Maharani, 2022).

Profitability ratio is a ratio to assess a company's ability to seek profit. This ratio also provides a measure of the level of effectiveness of a company's management. This is indicated by the profit generated from sales and investment income. Given the importance of profitability for a company, it is important for management to evaluate the company's performance and plan for the future. Companies consider a higher profitability ratio to be a sign of the company's success in maintaining the sustainability of its business (Yulianto



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[& Widyawati, 2023](#) . Profitability with *Return on Assets (ROA)* has a positive effect on company value ([Ni Wayan Henny Sukraeni, Ni Nyoman Suryani, 2021](#)) . However, the results of this study are inversely proportional to ([Imnana et al., 2023](#)) which says that *Return on Assets (ROA)* has a negative effect on company value.

Methods

This type of research uses associative research using quantitative data. Associative research is research that is used by looking for relationships between variables. In this study, the type of data used is secondary data. To find out the relationship between two or more dependent variables (X) and independent variables (Y), multiple linear analysis is used which is presented in the form of a regression equation. There are several classical assumption tests used as prerequisites that must be met in hypothesis testing with SPSS, including;

Multicollinearity Test

Multicollinearity test is used to test whether the regression model has a correlation between independent variables. A good regression model should not have a correlation between independent variables. If the independent variables are correlated with each other, then these variables are not orthogonal. Multicollinearity can be observed with VIF, if the VIF value ≥ 10 and the correlation value ≤ 0.10 then there is a multicollinearity phenomenon and vice versa ([Ghozali, 2018, p. 107](#)) .

Autocorrelation Test

Autocorrelation Test is a linear regression model that has a correlation between the disturbance error in period t and period t-1 (previous). If there is a correlation, there will be an autocorrelation problem. Autocorrelation occurs because consecutive observations over time are related to each other. ([Ghozali, 2018, p. 112](#)) .

Heteroscedasticity Test

Glesjer test suggests to regress the absolute value of the residual against the independent variable. A good regression model is homoscedasticity or no heteroscedasticity. If the independent variable is statistically significant then it affects the dependent variable. The basis for drawing conclusions in this study is if the significance is > 0.05 then it can be concluded that there is no heteroscedasticity problem .

After the classical assumption test is fulfilled, further research testing is carried out with several types, including:

Multiple Linear Regression Analysis

Multiple regression analysis is an analysis used to test the relationship between a dependent and independent variable.

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Simultaneous Correlation Test (R)

The multiple correlation coefficient is a number that shows the direction and strength of the relationship between two or more independent variables together and the dependent variable. The R value ranges from 0 to 1, if the value is getting closer to 0 then it indicates a weak relationship.

Coefficient of Determination (R²)

A small (R²) value means that the ability of independent variables to explain the variation of dependent variables is very limited. The higher the R² value (approaching 1) reflects how strong it is in explaining changes in the dependent variable and the

closer it is to 0, the weaker the influence of the variable on the independent variable on the dependent variable (Ghozali, 2018, p. 97) .

Hypothesis Test (t-Test)

The t-test shows how far the influence of one independent variable on the dependent variable on the independent variable, then by assuming the other independent variables are constant (Ghozali, 2018, p. 98) . The t-test is used to determine whether the hypothesis to be submitted is rejected or accepted. The level of significance used is 95% (=0.05) which is the level of significance often used in research.

Results

Multicollinearity Test

The results of the multicollinearity test can be seen as follows:

Table 1
Multicollinearity Test Results

Variables	Tolerance	VIF	Information
Liquidity	0.824	1,213	There is no multicollinearity
Leverage	0.824	1,214	There is no multicollinearity
Profitability	0.991	1,009	There is no multicollinearity

Source: SPSS Output

Based on table 4.6 above, the results of the multicollinearity test, liquidity has a *tolerance value* of 0.824 with a *Variance Inflation Factor* (VIF) value of 1.213, *leverage* has a *tolerance value* of 0.824 with a *variance inflation factor* (VIF) value of 1.214, *profitability* has a *tolerance value* of 0.991 with a *Variance Inflation Factor* (VIF) value of 1.009, so it can be concluded that this research model does not have multicollinearity between independent (free) variables.

Autocorrelation Test

The results of the autocorrelation test using the Durbin-Watson numbers will be seen in the following table:

Table 2
Autocorrelation Test Results

N	Durbin-Watson	dL	dU	4-dL	4-dU
128	2,173	1.6638	17,596	2,3362	2,2404

Source: SPSS Output

The results of the Durbin-Watson value test above are 2.173, this value will be compared with the table value using a significance value of 5 percent or (0.05), with a sample size (n) of 128 and a number of independent variables of 3 (k = 3). Based on the null hypothesis in decision making that meets the requirements is $dU < d < 4 - dU$ or $1.7596 < 2.173 < 2.2404$ which means there is no positive and negative autocorrelation.

Heteroscedasticity Test

The results of the heteroscedasticity test can be seen in the following table:

Table 3

Heteroscedasticity Test Results

Variables	Sig	Information
Liquidity	0.292	There is no heteroscedasticity
Leverage	0.159	There is no heteroscedasticity
Profitability	0.922	There is no heteroscedasticity

Source: SPSS output

Based on the table above, the variable data has been transformed into natural logarithm (LN) and Glejser test, so that the liquidity variable has a significant value of $0.292 < 0.05$, which means that this regression model has heteroscedasticity, *leverage* has a significant value of $0.159 > 0.05$, which means that this regression model does not have heteroscedasticity, and profitability has a significant value of $0.922 > 0.05$, this regression does not have heteroscedasticity.

Multiple Linear Regression Analysis

Table 4
Multiple Linear Regression Analysis Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.521	.523		.996	.321
	Liquidity	-.165	.112	-.118	-1.477	.142
	Leverage	.467	.223	.167	2.088	.039
	Profitability	.235	.031	.559	7.657	.000

a. Dependent Variable: Company Value

$$\text{Firm Value (Y)} = 0.521 + -0.165 X_1 + 0.467 X_2 + 0.235 X_3 + e$$

The nature of the relationship between the independent variable (Company Value) with the dependent variables of liquidity, *leverage* and profitability can be seen from its coefficient. If it is positive (+) then the change in the independent variable is in the same direction as the dependent variable and if it is negative (-) then the independent variable and the dependent variable change in the opposite direction.

Simultaneous Correlation Test (R)

Table 5
Simultaneous Correlation Results (R)

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.587 ^a	.345	.329	2.23710	2.173
a. Predictors: (Constant), Profitability, Liquidity, Leverage					
b. Dependent Variable: Company Value					

Source: SPSS version 25 output

From the results of the analysis in the table above, it can be concluded that the results of the simultaneous correlation R is 0.587 or 58.7%, then it shows that there is a moderate positive relationship between the dependent variables. *R square* can be found at 0.345, meaning that 34.5% of the Company's Value can be explained by the variables of liquidity, *leverage* and profitability.

Hypothesis Test (t-Test)

Statistical test t to determine the effect of independent variables partially on dependent variables. The results of the t test can be seen in the following table:

Table 6
Hypothesis Test Results (T-Test)

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.521	.523		.996	.321
	Liquidity	-.165	.112	-.118	-1.477	.142
	Leverage	.467	.223	.167	2.088	.039
	Profitability	.235	.031	.559	7.657	.000
a. Dependent Variable: Company Value						

Source: SPSS output

The Influence of *Liquidity* on Company Value

A company that has high liquidity indicates that the company has the ability to pay its current debts on time with its current assets without disrupting the operational activities of the company. This is one of the applications of signaling theory where the company gives a positive signal to investors, so that investors are interested in investing their capital in the company. The results of this study indicate that liquidity does not have a significant effect on company value in the food and beverage sub-sector listed on the Indonesia Stock Exchange, meaning that liquidity itself does not have a strong impact on assessing company value. The results of this study are in line with [\(Illiyanti & Malik, 2024\)](#) who stated that liquidity has no effect on company value.

The Effect of *Leverage* on Company Value

Leverage is one of the external mechanisms, which is believed to reduce agency costs. Lenders such as financial institutions and banks will monitor managers optimizing the value of the company. This monitoring allows debt holders to evaluate the company's eligibility to receive loans and comply with debt covenants.

The results of the t-test in this study show that *leverage* has a positive effect on company value, which means it supports the findings. [\(Illiyanti & Malik, 2024\)](#); [\(Dharmaputra et al., 2022\)](#). The results of this study indicate that the Leverage owned by the company is an important consideration taken by investors in investing. This is because the increase in Leverage in the company is considered a positive signal for the company in making future corporate investments, with the hope that the company's income will increase. Thus, investors are interested in investing in the company.

Company value is in accordance with the description in theories such as agency theory, capital structure theory, trade off theory, and signaling theory. Agency Theory explains that the capital structure (equity and liability) is formed to reduce the occurrence of conflicts between interest groups, such as shareholders and managers. Debt policy is considered capable of reducing agency conflicts. In this case, debt policy is considered capable of increasing company value, so that it can reduce agency conflicts that occur between managers and company owners.

Profitability Impact towards Company Value

Profitability is the ability of a company to make a profit. A company that has a high level of profitability can also be interpreted as having a high level of sales or income. The greater the profitability of the company, the more investors will be interested in investing in the company, with the hope that investors will make a profit, the value of the company will be greater.

The results of the t-test in this study indicate that profitability has a positive and significant effect on company value. The results of this study are in line with signal theory, companies that have profit growth illustrate good performance achievements and prospects in the future. This will certainly be an attraction for investors to own shares in food and beverage companies. Investors will look for companies that have a high level of profitability because for investors, companies that have high profits are considered capable of providing high returns. The results of this study also support the findings [\(Silkfan & Maharani, 2022\)](#).

Conclusion

Based on the analysis and discussion that has been presented previously, it can be emphasized that *liquidity* does not affect the company's value. Partially, leverage and profitability have a positive effect on the company's value.

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