

# The determinants factors of firm value

*Jouzar Farouq Ishak*<sup>1\*</sup>, *Sudradjat*<sup>1</sup>, *Arie Apriadi Nugraha*<sup>1</sup>, *Eliza Noviriani*<sup>2</sup>, *Endang Sri Apriani*<sup>3</sup>, and *Asy Syiffa Dewi Saraswati*<sup>1</sup>

<sup>1</sup>Accounting Department, Politeknik Negeri Bandung, Jalan Gegerkalong Hilir, Bandung 40559, Indonesia

<sup>2</sup>Accounting Department, Politeknik Negeri Sambas, Jalan Sejangkung Desa, Sambas 79463, Indonesia

<sup>3</sup>Accounting Department, Politeknik Negeri Balikpapan, Jalan Soekarno Hatta, Balikpapan 76129, Indonesia

**Abstract.** This study aims to analyse the determinants factors of firm value. company performance is important to the company's operational performance which is reflected in firm value. The data were collected from 41 manufacturing sector companies in Indonesia. The manufacturing sector has diverse sectors, a very broad scope, and a larger industrial scale The structural equation model-partial least square (SEM-PLS) analysis was conducted to analyse the relationship between variables and test a series of hypotheses. This study reveals the significant impact solvability and profitability have on asset turnover toward the firm value. This study proves that every stakeholder must maintain its existence by maximizing asset turnover to firm value. Conceptually, this study offers asset turnover as a mediating variable of firm value.

## 1 Introduction

The company's financial performance is an important parameter for determining the company's position. One of the most important parts of determining an enterprise through fundamental analysis is the firm value because the prosperity of shareholders is reflected in the firm value [1]. In its development, companies strive to maintain their business existence and increase firm value with business goals that will influence decisions so that they have an impact on firm value [2].

Previous study examines the factors that influence firm value related to several variables: profitability, leverage, dividend policy, and asset turnover. This study is motivated by a research gap in several previous studies. Castellaneta et al., Cordazzo and Rossi, Putra and Widati, and Rutin et al., confirmed that profitability affects firm value [3–6]. Yet, on the contrary, Chandra et al., Rahayu and Subagyo, Rinaldi and Oktavianti found no impact on the connection between profitability and firm value [7–9]. Rutin et al., Rahayu and Subagyo examined the effect of leverage on firm value [6,8]. Meanwhile, Putra and Widati, Chandra et al., indicate that leverage has no effect on firm value [5,7].

---

\* Corresponding author: [jouzar.farouq@polban.ac.id](mailto:jouzar.farouq@polban.ac.id)

Chandra et al., analyse dividend policy and firm value in a basic material index on the Indonesia Stock Exchange [7]. This study represents evidence that there is a positive relationship between dividend policy and firm value. Vice versa, a study conducted by Putra and Widati [5] found that there was no influence of dividend policy on firm value. Several studies such as those conducted by Chandra et al., Rahayu and Subagyo, Rinaldi and Oktavianti [7–9] found asset turnover impact to firm value. Conversely, Rutin et al., [6] found that asset turnover has no effect on firm value.

This study attempts to review the influence of profitability, leverage, and dividend policy on firm value with the asset turnover variable as a mediating variable. There are not many studies that refer to the asset turnover variable as a mediating variable on the influence of financial performance on firm value. Chandra et al., [7] tested asset turnover as a mediating variable on the influence of financial performance on firm value. The large number of previous research that represent the results of different influences between financial performance and firm value makes it interesting to carry out the study again by presenting asset turnover as a mediating variable.

Based on the description above, the objectives of this study are the first to analyse the influence of profitability, leverage, and dividend policy on asset turnover, second to analyse the influence of financial performance and asset turnover on firm value, and third to analyse the mediating role of asset turnover on the influence of financial performance on firm value. Asset turnover as a mediating variable is something new in the study of the relationship between financial performance and firm value. It is hoped that this study can provide input in disclosing accounting policies, especially in the aspects of disclosing financial performance, asset turnover, and firm value in financial reports.

## 2 Research method

The population of this research is manufacturing companies listed on the Indonesia Stock Exchange during 2018 - 2022, totalling 289 companies. The research sample was determined by using purposive sampling with the criteria of companies in the manufacturing sector for 5 years, companies presenting financial reports, and using the Indonesian Rupiah as the reporting currency so that there were 41 companies that met the criteria. The type of data used is quantitative data sourced from the company's financial reports which are used as research objects.

The analysis method chosen is PLS-based SEM. Ali et al., define SEM as a multivariate analysis in the social field whose variables include unobserved variables and observed variables [10]. The reason to use SEM-PLS is because the variables used consist of unobserved variables and observed variables and the sample size is relatively small. Hair et al., and Romo et al., also stated that SEM-PLS can be used for much smaller sample sizes [11,12].

The variable used in this study is profitability. Profitability measurement uses Return on Assets (ROA). ROA is a ratio that assesses an enterprise's ability to earn profits and can support the company's effectiveness in organizing its resources [6,9]. The greater the profit of a business, the more valuable the business [7]. Apart from that, in recent years, the Debt-to-Equity Ratio (DER) has become a trending topic in the study. DER is used as an illustration of a company's ability to pay debts and the company can pay its debts using capital [1]. Trade-off theory shows that increasing the DER value can increase profitability, if debt is used correctly [5].

Several previous studies applied the Dividend Payout Ratio (DPR) as a dividend policy. The dividend policy calculates how much after-tax earnings are allocated to shareholders as a dividend [5,7]. DPR, which represents dividends to be given to shareholders for after-tax earnings owned by the enterprise, is the proxy used to measure it [13]. Next is the Total Asset

Turnover (TATO) variable. TATO is used to measure management performance in running a company to generate revenue and increase profitability [6]. Sinaga stated that the better the company's performance, the greater the desire of investors to own shares in that company so that it has a positive influence on share prices in the market and this means it will increase firm value [14].

The firm value variable is the company's reputation for external parties as reflected by the share price. Several previous studies applied a calculation of firm value [1,7,15]. In this analysis, the author uses Price to Book Value (PBV) which is a comparison of the price of a share with its book value [5,6]. Hermawan and Maf'ulah state that firm value can provide maximum shareholder prosperity if the share price increases [2].

### 3 Results and discussion

Table 1 represents the results of the path coefficient analysis. Firstly, based on Table 1, leverage influences firm value because the large use of debt has an influence on firm value which is in line with a study by Rutin et al., and Rahayu and Subagyo [6,8]. High leverage will provide an indication of good business prospects so that investors will increase demand for shares which will cause firm value to increase. This result is in contrast with previous studies which show leverage has no influence on firm value [5,7].

Second, Leverage has significance on asset turnover. The use of debt in company activities will have an impact on asset turnover in the company. Chandra et al., stated that the use of large debt will be a good signal to shareholders because it shows the maximum use of assets thereby increasing the company's asset turnover [7]. This study tends to support the work of [7,16].

Thirdly, the dividend policy has no effect on firm value. The dividend policy action carried out by the business by distributing dividends means that the shares of companies registered in the manufacturing sector are not becoming more liquid, so it is not a positive signal from the corporation. This finding is consistent with past studies [5,7]. However, these results are not supported by previous research [6,8].

Fourthly, the dividend policy has significance on asset turnover. This result is consistent with [7,16]. The business-business can streamline the funds obtained from shareholders to produce assets so that the corporation has considered the existence of good opportunities through maximum asset turnover. Chandra et al., stated that dividend policy is a positive signal because the company is using available funds for asset turnover so that it will produce maximum returns [7].

**Table 1.** Structural estimates.

	<b>T Statistics</b>	<b>P Values</b>
Leverage – Firm Value	3.220	0.001
Leverage – Asset Turnover	5.297	0.000
Dividend Policy – Firm Value	0.177	0.860
Dividend Policy – Asset Turnover	2.674	0.008
Profitability – Firm Value	2.473	0.014
Profitability – Asset Turnover	2.132	0.034
Asset Turnover – Firm Value	0.840	0.401

Fifthly, profitability affects firm value because increasing profitability guarantees that the share price will increase so that if earnings per share increase it causes firm value to increase; thus, this result is consistent with [3–6]. Profitability greatly influences investors in making decisions to invest their funds because investors are more interested in companies that have a high level of profitability. This result is inconsistent with previous research [7–9]. The profitability obtained by a company will influence the number of dividends that will

be paid to shareholders. If the company earns large profits, its ability to pay dividends becomes greater. Thus, the size of the dividend can affect firm value.

Next, profitability affects asset turnover. Increasing profitability is good news for business shareholders because if profitability is high, it will affect asset turnover, which proves that the company is very good. This finding is in line with several existing empirical research by Chandra et al., Atanda and Osemene, Bridge and Dodge, and Le Thi Kim et al., [7,17–19]. The higher the profitability of an enterprise, the higher the entity level in terms of asset usage [20]. Profitability is an important component in increasing asset turnover. This indicates that in manufacturing sector companies the level of asset turnover management owned by the company is working effectively and efficiently.

Lastly, asset turnover has no effect on firm value. The results of this research are different from signalling theory where information regarding asset turnover will respond to investors that the more effective and efficient an industry will increase firm value. This finding corroborates with a study from Rutin et al., [6]. However, this result is in contrast with previous studies which show asset turnover influences firm value [7–9]. A large total asset turnover in realizing sales does not guarantee an increase in company profits because some of the sales proceeds will be used to pay debts and expenses during operations.

## 4 Conclusion

This study assesses the link between financial performance, asset turnover, and firm value. This study concludes that leverage and profitability influence firm value. Likewise, the effect on asset turnover by leverage, dividend policy, and profitability. However, the dividend policy and asset turnover are not able to influence the firm value in the manufacturing sector in 2018-2022. Asset turnover cannot mediate profitability, leverage, and dividend policy on firm value. Thus, organizations are advised to maximize revenue that is proportional to the assets owned and are real in contributing to enterprise profits to make investors interested in business shares which ultimately increases firm value.

This study has several limitations. First, this study focuses on the manufacturing sector in the Indonesia Stock Exchange. Thus, the sample of this study is not a fully typical issuer of the sector in the Indonesia Stock Exchange. To obtain a better study, future studies could test the relationship between the variables in another sector such as basic material, energy, and financials. Second, the period of the study is only five years so further research is expected to be able to review financial performance and asset turnover by adding a longer research period. This is considering that dividend policy and firm value activities are closely related to a longer period. Third, in addition to the firm value determinants used in this study, identifying other elements of firm value formation is also critically needed. To develop a robust model, a future study could incorporate other constructs such as capital structure, company size, liquidity, and intellectual capital.

### Acknowledgement

This research funded by the Politeknik Negeri Bandung PNBPN 2023.

## References

1. N. Mubyarto and Khairiyani, J. Akunt. *Multiparadigma* **10**, 328 (2019)
2. S. Hermawan and A. N. Maf'ulah, J. Din. Akunt. **6**, 103 (2014)
3. F. Castellaneta, R. Conti, and A. Kacperczyk, *Strateg. Manag. J.* **38**, 287 (2016)
4. M. Cordazzo and P. Rossi, *J. Appl. Account. Res.* **21**, 415 (2020)
5. Y. A. Putra and L. W. Widati, *J. Ilm. Komputerisasi Akunt.* **15**, 110 (2022)

6. Rutin, Triyonowati, and Djawoto, J. Ris. Akunt. Dan Perpajak. **6**, 126 (2019)
7. C. Chandra, Y. R. Edward, W. R. B. Sitepu, and E. N. Simorangkir, J. Akunt. Multiparadigma **13**, 367 (2022)
8. M. Rahayu and H. Subagyo, J. Ilm. Komputerisasi Akunt. **13**, 159 (2020)
9. Rinaldi and N. Oktavianti, Ikraith-Ekonomika **6**, 209 (2023)
10. F. Ali, W. G. Kim, J. (Justin) Li, and C. Cobanoglu, Int. J. Contemp. Hosp. Manag. **30**, 416 (2018)
11. J. F. Hair Jr, M. Sarstedt, L. Hopkins, and V. G. Kuppelwieser, Eur. Bus. Rev. (2014)
12. J. R. Romo-González, J. Tarango, and J. D. Machin-Mastromatteo, Inf. Dev. **34**, 526 (2018)
13. L. Caprio, A. Del Giudice, and A. Signori, Eur. Financ. Manag. **26**, 386 (2020)
14. M. H. Sinaga, Sultanist J. Manaj. Dan Keuang. **1**, (2013)
15. Khairiyani, J. Akunt. Multiparadigma **9**, 365 (2018)
16. D. Liu, Z. Li, H. He, and W. Hou, Int. Rev. Econ. Financ. **75**, 76 (2021)
17. F. A. Atanda and F. O. Osemene, Econ. Horizons **22**, 99 (2020)
18. G. Bridge and A. Dodge, Cambridge J. Reg. Econ. Soc. **15**, 367 (2022)
19. N. Le Thi Kim, D. Duvernay, and H. Le Thanh, J. Econ. Dev. **23**, 267 (2021)
20. R. Zaman, N. Atawnah, M. Nadeem, S. Bahadar, and I. H. Shakri, J. Bus. Financ. Account. **49**, 1425 (2022)