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4 Years of IDX80 Firm Value on the Indonesian Stock Exchange: The Role of Financial Performance

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ABSTRACT

Our research aims to test and analyze firm value by involving variables of liquidity, activity, leverage, profitability, firm size. Our research uses regression analysis to determine and analyze the influence of independent variables on dependent variables. The objects in this study are companies incorporated in IDX80 for the period 2019 - 2022. The results found that liquidity (current ratio), activity (total assets turnover), profitability (return on equity) have a positive and significant effect on firm value (price to book value). The leverage variable (debt to equity ratio) in our study has a positive but insignificant effect on firm value (price to book value), while firm size has no effect on firm value (price to book value).

INTRODUCTION

Firm value is one of the important concepts considered by investors in assessing their investment. Firm value is an indicator of how the market comprehensively assesses the firm. The firm's value is reflected in the firm's stock market price. The higher the firm's stock market value indicates a high interest for investors to invest in the firm. The higher the firm value, the higher the welfare enjoyed by investors. The manager's job as an agent of the firm owner is to improve the welfare of shareholders, and this can be realized if the firm value increases. Manager policy determines the increase in firm value, so that decision making must be carried out effectively to get optimal results. Optimization of firm value can be achieved through the implementation of financial management functions, where one financial decision taken will affect other financial decisions and have an impact on firm value (Fama & French, 1998). Financial management involves the completion of important decisions taken by the firm, including funding decisions, investment decisions, and dividend policies. If management's goal is to maximize firm value, the firm must choose a debt-to-equity ratio that produces maximum firm value. The max-

imum firm value must also provide large profits for shareholders.

In line with this, financial decisions such as funding policies reflected in the ratio of financial leverage or capital structure, investment decisions reflected in liquidity and activity ratios, and dividend policies reflected in the firm's ability to generate profits (profitability), are variables that we strongly suspect to be the cause of the rise and fall of firm value. Empirical results provide evidence of a real positive or negative effect of liquidity on firm value (Cheung et al., 2015; Du et al., 2016; Fajaria, 2018; Sondakh, 2019; Reschiwati et al., 2020; Jihadi et al., 2021; Rudini et al., 2021; Putri & Wiksuana, 2021), activity to firm value (Jihadi et al., 2021; Sholikha & Rahmiyati, 2022; Astuti et al., 2022; Listyawati & Wicaksana, 2023; Astawinetu et al., 2023), financial leverage/capital structure on firm value (Berger & Bonaccorsi, 2006; Nieh et al., 2008; Mahirun & Kushermanto, 2018; Astawinetu et al., 2023), and profitability on firm value (Fajaria & Isnalita, 2018; Pioh et al., 2018; Putranto & Kurniawan, 2018; Sari, 2020; Sugosha & Artini, 2020; Jihadi et al., 2021; Putri & Wiksuana, 2021; Astawinetu et al., 2023).

Firm size is an indicator of the size and size of the firm which can be seen from its production capacity and asset size. A firm with a large size has the opportunity to obtain higher capital than a small firm size. Thus, the size of the firm also has a share in determining the value of the firm. Firm size is an indicator of the financial strength of a firm, empirical evidence states that firm size has a positive role in increasing firm value (Mahirun & Kushermanto, 2018; Hung et al., 2018).

Our research focuses on the firm's financial performance that allegedly affects the overall firm value by involving firm size as a control variable. Financial ratios including liquidity, activity, financial leverage or capital structure and profitability are our main focus in explaining the variables that are strongly suspected to affect firm value. While the research object chosen is IDX80 with the argument that IDX80 is an index that measures the price performance of 80 stocks that have high liquidity and large market capitalization, and are supported by good firm fundamentals. The IDX80 stock index was launched by the IDX on February 1, 2019, and has benefits and objectives as an alternative reference for investors and investment managers in making investments. Liquid stocks should be the target stocks for investment, because they are easy to buy and sell which are actively traded, characterized by always having a queue of orders at the bid price and offer price. The frequency and volume of trading is large.

1. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1.1 Literature Review

1.1.1 Signalling Theory

The concept of *signalling* for the first time in the context of product and labor markets (Akerlof, 1970). Further developments were made by M. Spence (1973) in *signal equilibrium theory*, by suggesting that good companies can differentiate themselves from bad companies by sending credible *signals* about their quality to the capital market. The same signal for a good firm cannot be imitated by a bad firm, such a signal is said to be a credible signal. The *cost of signal* for a bad firm can be higher than for a good firm, so the bad firm cannot afford to imitate and give a credible signal. This *signaling* principle suggests that every action contains information. S. Ross (1977) states that firm executives who have better information about their firm will be encouraged to convey this information to potential investors so that the firm's stock price increases.

1.1.2 Trade-off Theory

Trade-off theory expressed by S. Myers (2001) explains that companies will go into debt up to a certain level of debt, where the tax shields from additional debt are equal to the cost of financial distress. The cost of financial distress is the cost of bankruptcy costs or reorganization, and agency costs will increase due to the decline in the credibility of a firm. Trade-off theory in determining the optimal capital structure includes several factors including taxes, agency costs and financial distress but still maintains the assumptions of market efficiency and symmetric information as the balance and benefits of using

debt. The optimal interest rate is reached when the tax shield reaches the maximum amount against the costs of financial distress.

1.1.3 Firm Value

Normatively, the goal of corporate financial management is to increase the value of the firm, which is reflected in the market price of its shares (Wright & Ferris, 1997, and Qureshi, 2007). Increasing the value of the firm means maximizing the wealth or welfare of shareholders. The firm's objectives can be achieved through the implementation of financial management functions carefully and appropriately, considering that every financial decision taken will affect other financial decisions that have an impact on the value of the firm (Fama & French, 1998). The financial management of the firm involves the completion of important decisions taken by the firm and an optimal combination of funding decisions, investment decisions, and dividend policy will maximize the value of the firm (Mougoue & Mukherjee, 1994; Qureshi, 2007). The basic objective of a firm is to maximize its value (Michalski, 2008). Therefore, management in its operating cycle should contribute to the realization of this fundamental goal. The firm's value creation strategy is focused on risk and uncertainty. Firm value is an illustration of the public's trust in the firm after a period of operation. The public's appreciation of the firm's value is represented in its willingness to buy the firm's shares.

1.1.4 Liquidity

Liquidity means the firm's ability to pay short-term liabilities in a timely manner using its current assets (Brigham & Houtson, 2019). Liquidity also shows the firm's working capital ownership to carry out its operational activities, because the current assets owned by the firm reflect the ownership of working capital for operational activities. A firm that is able to fulfill its financial obligations in a timely manner means that the firm is in a liquid state and indicates that the firm's opportunity to grow tends to be high. A good level of liquidity can increase the value of the firm (Sondakh, 2019). This can be understood because companies that have a good level of liquidity will easily obtain additional capital and can maintain the desired capital structure of the firm.

1.1.5 Activities

Activity Ratio is a ratio to assess the firm's ability to carry out daily activities or the firm's ability to make sales, collect receivables and utilize its assets. Total Asset Turn Over (TATO) shows the firm's ability to manage all assets or investments to generate sales. Total Asset Turn Over (TATO) shows the efficiency of the firm using all of its assets to generate sales (Nurlaela et al., 2019). The higher the Total Asset Turn Over (TATO), the more efficient the use of all assets in generating sales. Total Asset Turn Over (TATO) which is used to measure how efficiently all of the firm's assets are used to support sales activities (Rajagukguk & Siagian, 2021).

1.1.6 Leverage

Trade-off theory (Myers, 1984), pecking order theory and agency cost theory (Jensen & Meckling, 1976) said that in a perfect capital market, funding decisions or capital structure are irrelevant, this is because it involves bankruptcy costs (Kim, 1978), agency costs (Jensen & Meckling, 1976), the benefits of tax protection that result from leverage (DeAngelo & Masulis, 1980) and information asymmetry (Myers, 1984). The firm must be able to maximize its value if it decides to fulfill funding with debt. because capital structure decisions will affect shareholder returns and risks, so that the stock market value can be affected as a result of these funding decisions. Therefore DeAngelo & Masulis (1980) explained that in the static trade off theory, the optimal capital structure occurs because of the trade-off process between the tax shield from the leverage cost of financial distress and the agency cost of leverage.

1.1.7 Profitability

The firm's ability to generate profits has been proven to be able to increase the firm's stock return (Mahirun, 2023). This can increase the value of the firm. Profitability is the firm's ability to use capital to

generate profits, so that the firm has no difficulty in returning its debts, both short-term debt and long-term debt, as well as paying dividends to investors who invest in the firm. The higher the profit earned by the firm, the greater the level of dividend payments distributed to shareholders. Profitability ratios can be used as a tool to measure the effectiveness of management performance in generating maximum profits for the firm.

1.1.8 Firm Size

Firm size is a measure, scale or variable that describes the size of the firm based on several provisions, such as total assets, log size, stock market value, total sales, total income, total capital and others. Grouping companies on the basis of operating scale is generally divided into three categories, namely large firms, medium size and small firms. Firm size can be used to represent the financial characteristics of the firm. Large companies that are well established will find it easier to obtain capital in the capital market compared to small companies. Because the ease of access means that large companies have greater flexibility. Firm size is one of the determinants of firm profits. Companies with large assets will use the available resources as much as possible to generate maximum business profits and companies with small assets will also generate profits according to their resources. Firm size can also increase the firm's investment opportunities (Mahirun, 2019).

1.2 Hypothesis Development

1.2.1 Hypotheses for liquidity and firm value

Likuiditas is a measure of the firm's ability to pay obligations that must be paid immediately. A high level of liquidity indicates that the firm has sufficient working capital for the firm's operational activities, and thus the potential to earn profits from sales increases. This can be a signal to investors or prospective investors that the firm has good prospects and can increase the value of the firm. Liquidity is a liquid asset that can be quickly converted or liquidated into cash at the current market price (Brigham & Houtson, 2019). The relationship between liquidity has been proven by many studies with the findings that liquidity has a significant positive effect on firm value (Cheung et al., 2015; Du et al., 2016; Sondakh, 2019; Reschiwati et al., 2020; Jihadi et al., 2021) while other researchers found that liquidity has a negative and significant effect on firm value (Fajaria & Isnalita, 2018; Rudini et al., 2021; Putri & Wiksuana, 2021).

H1: current ratio has a significant positive effect on price to book value

1.2.2 Hypotheses for activity and firm value

Activity or also called the activity ratio is used to measure the level of efficiency and effectiveness of the firm's operational activities to create sales. One ratio that is often used is total assets turnover, which is the firm's performance in managing total assets to generate sales or revenue. This ratio can also describe the capacity of a firm's assets to generate total net sales (Widodo, 2018). A firm can be said to be efficient in using its assets if the TATO value increases. The higher the TATO value, the better the reaction the firm will get from investors, of course resulting in an increase in the value of the firm's shares. The results of the study found that the activity ratio has a significant positive effect on firm value (Jihadi et al., 2021; Sholikha & Rahmiyati, 2022; Astuti et al., 2022). However, research conducted by Listyawati & Wicaksana (2023) found that the activity ratio has a significant negative effect on firm value and the activity ratio has a significant negative effect on firm value. E. Astawinetu et al. (2023) in their study found a negative effect of activity on firm value even though it was not significant.

H2: total assets turnover has a significant positive effect on price to book value.

1.2.3 Hypotheses for leverage and firm value

M. Jensen & W. Meckling (1976) explains that the manager's decision in determining the capital structure is to maintain the balance of liabilities with own capital owned, and minimize the return of funds provided to external parties. Funding decisions taken by the firm have a positive effect on firm performance (Claude, 2016). This research with the same results emphasizes that the maximum level of capital structure can increase the value of the firm (Nieh et al., 2008). A. Berger & E. Bonaccorsi (2006) proved that high firm leverage and low level of equity are significant to improve firm performance economically and statistically. Astawinetu et al. (2023) stated that leverage has a positive effect on firm value even though it is not significant. While M. Mahirun & A. Kushermanto (2018) stated that leverage has a significant negative effect on firm value.

H3: Debt to equity ratio has a significant positive effect on price to book value

1.2.4 Hypotheses for profitability and firm value

The firm's ability to generate high profitability reflects high profits as well. A firm that has a high level of profitability can also mean that the firm has a high level of sales or income. This indicates that the firm is able to pay dividends and ultimately can increase the value of the firm. A high profitability ratio owned by a firm will attract investors to invest in the firm. Research found that profitability has a positive and significant effect on firm value (Fajaria & Isnalita, 2018; Pioh et al., 2018; Sari, 2020; Sugosha & Artini, 2020; Jihadi et al., 2021; Putri & Wiksuana, 2021; Pangestuti et al., 2022; Astawinetu et al., 2023). Meanwhile, other studies prove that profitability has a significant negative effect on firm value (Putranto & Kurniawan, 2018).

H4: return on equity has a significant positive effect on price to book value

1.2.5 Hypotheses for firm size and firm value

Putu et al. (2014) found that firm size has a positive and significant effect on firm value in the manufacturing sector in Indonesia. Moeljadi (2014) stated that a large firm can increase the value of manufacturing companies, therefore generally manufacturing companies are large companies. Gedajlovic & Shapiro (1998) stated that the relationship between firm size and profitability is positive. Khodamipour et al. (2013)) in their research found that there is no significant relationship between stock risk and firm size with stock returns and between firm size and firm value. The results showed that there is a significant and unidirectional relationship between market value and liquidity volume and there is a positive and significant relationship between liquidity volume and stock returns. This is also supported by Mule et al. (2015) which shows that firm size does not have a statistically significant effect on the firm's market value. Their research shows that firm size has no effect on performance. Nguyen et al. (2015) explained that in Australia, firm size has no significant effect on firm value. However, other studies have found that firm size has a significant positive effect on firm value (Mahirun & Kushermanto, 2018; Hung et al., 2018).

H5: firm size has a significant positive effect on price to book value

2. RESEARCH METHODOLOGY

2.1 Data Collection and Sources

The population used in this study are companies included in IDX80 on the Indonesia Stock Exchange in 2019 - 2022. The sampling method uses purposive sampling with the criteria that companies listed on the IDX80 Indonesia Stock Exchange and have the data needed in research variables such as *current ratio, total assets turnover, debt to equity ratio, return on equity, firm size, and price to book value*.

2.2 Empirical Model

The focus of the study is on empirical testing of variable integration related to the price to book

value involving current ratio, total assets turnover, debt to equity ratio, return on equity, and firm size. The model of the empirical study is presented in figure 1.

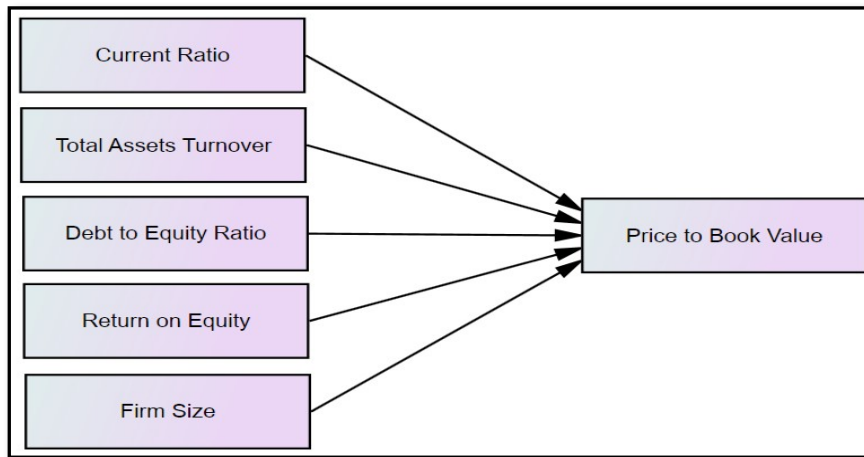


Figure 1. Empirical Model Research

Regression analysis is basically the study of the dependence of the dependent variable (dependent) with one or more independent variables (explanatory / independent variables), with the aim of estimating and or predicting the population average or average value of the dependent variable based on the known values of the independent variables. In regression analysis, in addition to measuring the strength of the relationship between two or more variables, it also shows the direction of the relationship between the dependent variable and the independent variable (Ghozali, 2013). To test the effect of *current ratio* (CR), *total assets turnover* (TATO), *debt to equity ratio* (DER), *return on equity* (ROE), *firm size* (FS) on *price to book value* (PBV), the regression equation used is:

$$PBV = a + b_1(CR) + b_2(TATO) + b_3(DER) + b_4(ROE) + b_5(FS) + e$$

Firm value using price to book value indicator (Sondakh, 2019; Reschiwati et al., 2020; Jihadi et al., 2021; Rudini et al., 2021; Mahirun, 2023). Liquidity using the current ratio indicator (Fajaria & Isna-lita, 2018; Sondakh, 2019; Reschiwati et al., 2020; Jihadi et al., 2021; Rudini et al., 2021; Putri & Wiksuana, 2021). Activity using the total assets turnover indicator (Jihadi et al., 2021; Sholikha & Rahmiyati, 2022; Astuti et al., 2022; Listyawati & Wicaksana, 2023; Astawinetu et al., 2023). Leverage uses the debt to equity ratio indicator (Berger & Bonaccorsi, 2006; Nieh et al., 2008; Fajaria & Isnalita, 2018; Mahirun & Kushermanto, 2018; Jihadi et al., 2021; Mahirun, 2023; Astawinetu et al., 2023), Profi-tability using the return on equity indicator (Fajaria & Isnalita, 2018; Mudzakar et al., 2021) , Firm size uses the natural logarithm of total assets as an indicator (Mule et al., 2015; Nguyen et al., 2015; Mahirun & Kushermanto, 2018; Fajaria & Isnalita, 2018; Hung et al., 2018; Jihadi et al., 2021; Ulum et al., 2022)

Based on the population and sampling criteria, the number of companies sampled in this study amounted to 244 companies, and is presented in table 1.

Table 1. Population and sample

No	Description	Year				Quantity
		2019	2020	2021	2022	
1	IDX80 Firm	80	80	80	80	320
2	Have the data needed in the research variables	80	80	80	80	320
3	Firm that do not meet the classic	14	22	15	25	76

assumption test requirements						
4	Number of research samples	66	58	65	55	244

Source: secondary data processed

2.3 Description of Research Variables

On average, the firm value using the PBV measure reaches 1.60x with the lowest PBV obtained by the firm PT Global Mediacom Tbk (BMTR) in 2021, which amounted to 0.18x, this indicates that the investment made by investors in stocks is not attractive. Meanwhile, the largest PBV ratio was obtained by PT Sumber Alfaria Trijaya Tbk (AMRT) which reached 6.81x in 2021. This indicates that investment in shares provides a higher value than investment expenditures, this will stimulate new investment (table 2).

Table 2. Descriptive Statistical Test Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Current Ratio	244	0.20	8.10	2.1611	1.40746
Total Assets Turnover	244	0.00	3.09	0.5522	0.46767
Debt to Equity Ratio	244	0.07	12.08	1.7986	2.16608
Return on Equity	244	-32.24	78.26	9.7999	10.68157
Firm Size	244	27.47	35.23	31.3464	1.40105
Price to Book Value	244	0.18	6.81	1.6038	1.11109

Source: SPSS data processing result

Table 3. Pearson correlation matrix

Variable	Current Ratio	Total Assets Turnover	Debt to Equity Ratio	Return on Equity	Firm Size	Price to Book Value
Current Ratio	1					
Total Assets Turnover	0.090	1				
Debt to Equity Ratio	-0.305**	-0.386**	1			
Return on Equity	0.034	0.375**	-0.073	1		
Firm Size	-0.259**	-0.371**	0.557**	0.015	1	
Price to Book Value	0.176**	0.595**	-0.110	0.462**	-0.175**	1

**. Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS data processing results

Table 3 shows the Pearson correlation matrix among the variables, obtain the results of all variables are not correlated. The highest correlation coefficient is 59.50% between price to book value and total assets turnover and shows a positive correlation. while the lowest correlation is minus 38.60% between debt-to-equity ratio and total assets turnover which indicates a negative correlation.

3. EMPIRICAL FINDING

3.1 Classical Assumption Test Results

The results of the classical assumption test (table 4) show that the data are normally distributed, there is no autocorrelation, there are no symptoms of multicollinearity from all variables, and all variables are not disturbed by heteroscedasticity.

Table 4. Classical Assumption Test Results

Classical Assumption	Result	Conclusion
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Test				
Normality Test	Kolmogorov-Smirnov Z	0.933	0,349 > 0,05 (Data is normally distributed)	
	Asymp. Sig. (2-tailed)	0.349		
Autocorrelation test	Run Test (Durbin-Watson)	2.042	dl = 1.76033, du = 1.82531 dw = 2.042 1.82531 < 2.042 < 2.17469 (no correlation either positive or negative)	
Multicollinearity Test		Tolerance	VIF	VIF value < 10 and Tolerance value > 0,01 (there is no multicollinearity problem)
	Current Ratio	0.891	1.123	
	Total Assets Turnover	0.682	1.466	
	Debt to Equity Ratio	0.624	1.602	
	Return on Equity	0.830	1.205	
	Firm Size	0.634	1.577	
Heteroscedasticity Test		t	Sig.	Sig > 0,05 (all variables do not experience heteroscedasticity disorder)
	Current Ratio	-0.395	0.693	
	Total Assets Turnover	-1.804	0.073	
	Debt to Equity Ratio	-0.774	0.440	
	Return on Equity	-0.359	0.720	
	Firm Size	-1.056	0.292	

Source: SPSS data processing results

3.2 Regression Analysis Test Result

A Testing the feasibility of empirical research models

According to I. Ghazali (2013), the goodness of fit test (model fit test) is carried out to measure the accuracy of the sample regression function in statistically estimating the actual value. The goodness of fit model can be measured from the F statistical value which shows whether all the independent variables included in the model have a joint influence on the dependent variable. The F test for model fit is carried out using the ANOVA test or F-test. The test results show that the significance value is 0.000 and smaller than 0.05, so it can be concluded that all independent variables in this study can be used to measure or estimate the actual value statistically on the dependent variable (Table 5).

Table 5. Model Fit Test Results

	<i>Model</i>	<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1	Regression	37.834	5	7.567	22.807	0.000 ^b
	Residual	78.962	238	0.332		
	Total	116.797	243			

Source: SPSS data processing results

B. Hypothesis testing of empirical research models

After the data has passed the classical assumption test, multiple linear regression tests are carried out to empirically test the variables that are thought to affect firm value. The results of the multiple linear regression test can be seen in table 5.

Table 6. Hypothesis Test Results

	<i>Model</i>	<i>Unstandardized Coefficients</i>	<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig.</i>
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		<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
1	(Constant)	-0.732	1.042		-0.703	0.483
	Current Ratio	0.068	0.028	0.138	2.438	0.015
	Total Assets Turnover	0.648	0.096	0.437	6.769	0.000
	Debt to Equity Ratio	0.039	0.022	0.120	1.786	0.075
	Return on Equity	0.016	0.004	0.251	4.296	0.000
	Firm Size	0.008	0.033	0.016	0.239	0.811

Source: SPSS data processing results

Based on table 8, a structural equation can be made that explains the causal relationship between the price book value (PBV) variable and the current ratio (CR), total assets turnover (TATO), debt to equity ratio (DER), return on equity (ROE), and firm size (FS) variables as follows:

$$PBV = 0.138 (CR) + 0.437 (TATO) + 0.120 (DER) + 0.251 (ROE) + 0.016 (FS)$$

4. RESULT

4.1 The effect of liquidity on firm value

Based on the test results, the direction of the influence of the cr variable on the PBV variable is positive at 0.138 with a significance level of 0.015. Because the significance value of 0.015 is smaller than 0.05, the hypothesis that the current ratio has a positive and significant effect on price to book value can be accepted. This can be explained using signal theory that, companies with the ability to pay good short-term debt provide information to investors that the firm's condition is very liquid, thus increasing investor confidence to invest in the firm. The high CR also explains that the firm's working capital needs are fulfilled (Net Working Capital), because the excess of current assets over current debt is in a positive position. With the fulfillment of working capital needs, the firm's operational activities are guaranteed, so that the hope of making a profit becomes even greater. The results of our study support research that states liquidity has a significant positive effect on firm value (Cheung et al., 2015; Du et al., 2016; Sondakh, 2019; Reschiwati et al., 2020; Jihadi et al., 2021), does not support the findings that liquidity has a negative and significant effect on firm value (Fajaria & Isnalita, 2018; Rudini et al., 2021; Putri & Wiksuana, 2021),

4.2 The effect of activity on firm value

The test results found that the activity variable proxied using total assets turnover has a positive influence direction of 0.437 on the firm value variable proxied by price to book value. With a significance level of 0.000 which is smaller than 0.05, the hypothesis stating that total assets turnover has a positive and significant effect on price to book value can be accepted. TATO is a ratio that explains how effectively and efficiently the firm operates using its assets to create sales. The better and higher this ratio, it can increase sales and generate profits. This is what is captured by investors as a favorable signal, so that high TATO can actually increase PBV. The results of the study support research conducted by I. Sholikha & N. Rahmiyati (2022), M. Jihadi et al. (2021), and T. Astuti et al. (2022) who found that activity has a significant positive effect on firm value, but research conducted by R. Listyawati & F. Wicaksana (2023) which found that the activity ratio has a significant negative effect on firm value and the value of the firm Astawinetu et al. (2023) in their study found a negative effect of activity on firm value even though it was not significant.

4.2.1 The effect of leverage on firm value

The test results found that the leverage variable proxied using the debt to equity ratio has a positive influence direction of 0.120 on the firm value variable proxied by price to book value. With a significance level of 0.075 which is greater than 0.05, the hypothesis stating that the debt to equity ratio has a positive and significant effect on price to book value can be rejected. However, what is interesting is the sig-

nificance of 0.075, which means that if the confidence level is lowered to 90%, then the effect of DER on PBV becomes significant, in social research, the 90% confidence level is still acceptable

Funding decisions in this case are leverage or financial leverage and are also called capital structure, are closely related to the level of risk that arises and the benefits that can be obtained. So referring to the trade off theory, it can be said that the firm's funding policy can be tolerated and can even be recommended if the tax savings arising from being in debt exceed the cost of financial difficulties (cost of capital), then taking debt can increase the value of the firm (MM, 1963). The research results support Astawinetu et al. (2023) who found that leverage has a positive effect on firm value even though it is not significant, but it is not in accordance with the research M. Mahirun & A. Kushermanto (2018) who found that leverage has a significant negative effect on firm value.

4.2.2 The effect of profitability on firm value

The test results found that the profitability variable proxied using return on equity has a positive influence direction of 0.251 on the firm value variable proxied by price to book value. With a significance level of 0.000 which is smaller than 0.05, the hypothesis stating that return on equity has a positive and significant effect on price to book value can be accepted. ROE illustrates the firm's ability to generate profits from its own capital used. The higher the ROE, it indicates that the firm can be trusted to use its financial resources to generate profits.

A high level of profitability also reflects expectations for shareholders and bondholders that the firm is able to pay dividends and coupons. The high ROE reflects that the share of profit per share will also be high, so the possibility of the firm to distribute cash dividends also increases, and this is a signal for investors that investment in the firm is profitable. Our results support the findings of research stating that profitability has a positive and significant effect on firm value (Fajaria & Isnalita, 2018; Pioh et al., 2018; Sari, 2020; Sugosha & Artini, 2020; Jihadi et al., 2021; Putri & Wiksuana, 2021; Pangestuti et al., 2022; Astawinetu et al., 2023). While our results are not in accordance with research with the results of profitability having a significant negative effect on firm value (Putranto & Kurniawan, 2018).

4.2.3 The effect of firm size on firm value

The test results found that firm size has a positive direction of influence of 0.016 on price to book value. With a significance level of 0.811 which is greater than 0.05, the hypothesis stating that firm size has a positive and significant effect on price to book value is rejected. The size of the companies sampled in the study proved convincingly unable to increase firm value. The beta value of 0.016 itself illustrates that the firm size variable is the smallest independent variable when examined from the amount of influence of each variable. This further emphasizes that large-scale companies are not always seen as profitable for investors to invest in, or in other words, investors' decisions to invest in companies do not solely consider firm size.

The positive effect of the firm size variable, and although not positive, is still an interesting note. So even though, this variable is not the main consideration, it still has an impact on the increase in firm value. Companies still need to consider increasing the scale of the business, especially to increase investor confidence so that they can easily raise capital. Our research results support the studies conducted by Mule et al. (2015) which found that firm size does not have a statistically significant effect on the firm's market value, but does not support research that finds firm size has a significant positive effect on firm value (Putu et al., 2014; Mahirun & Kushermanto, 2018; Hung et al., 2018).

CONCLUSION AND IMPLICATIONS

The level of effectiveness of the firm's operations to create sales is the main key to increasing the value of the firm. Our findings prove this, indicated by the significant positive effect of TATO on PBV, and further strengthened by the influence of the variable which is the largest (0.648) compared to other variables. In addition, the firm must also have the ability to pay its short-term obligations, and be able to generate profits so that it can be a positive signal for investors that can increase the firm's value. Companies with high liquidity and profitability are convincingly proven to increase firm value. On the other hand,

funding policy/capital structure by taking into account the benefits and costs that may arise (trade off theory), is proven to have a positive effect on firm value even though it is not significant. Finally, our study found that firm size has no real influence on increasing firm value.

Our research provides concrete evidence, for 4 years the value of companies in Indonesia is significantly influenced by the firm's ability to carry out its effective operational activities to obtain revenue, the firm's ability to pay its current debt, and the firm's ability to generate profits. Based on this, firm policy can prioritize increasing production capacity and expanding market share because this is the main consideration for investors in conducting valuations. The argument from this is that the three ratios that have a significant positive effect on firm value have the same elements, namely the current ratio has a cash element which is part of the sales proceeds, total assets turnover has a sales element in its measurement, return on equity has a net profit after tax element which is the final value of sales / income after deducting costs.

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