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The Influence of Profitability, Liquidity, and Leverage on Firm Value in Manufacturing Companies on the Indonesia Stock Exchange

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Abstract: *This study aims to examine the influence of profitability, liquidity, and leverage on the firm value of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2023–2024. Firm value is a crucial indicator for investors in assessing company performance and future prospects, thus empirical analysis of fundamental factors such as profitability, liquidity, and leverage is necessary. This research employs a quantitative approach using secondary data obtained from the annual financial reports of manufacturing companies listed on the IDX. The sample was selected using purposive sampling with predetermined criteria, and the data were analyzed using multiple linear regression with panel data. Profitability is measured by Return on Assets (ROA), liquidity by Current Ratio (CR), leverage by Debt to Equity Ratio (DER), and firm value by Price to Book Value (PBV). The results show that profitability and leverage have a positive and significant effect on firm value, while liquidity has no significant effect. Simultaneously, the three independent variables significantly influence firm value with an Adjusted R^2 of 74.2%. These findings provide theoretical contributions to the development of financial management literature, as well as practical contributions for company management in optimizing financial structures and for investors in the investment decision-making process in Indonesia's manufacturing sector, with the main limitation being the relatively short observation period and focus on a single industry sector.*

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Introduction

Financial markets play a crucial role in the Indonesian economy, serving as a tool for companies to obtain additional capital and as a platform for investors to invest. For investors, a key factor in making investment decisions is company value, as it reflects the market's perception of a company's future performance and prospects. The higher the company's value, the greater the wealth that shareholders can achieve. Therefore, increasing company value is a key objective of management in managing its business activities. Company value is typically evaluated using the Price-to-Book Value (PBV) ratio, which shows the relationship between a stock's market price and its book value. It is an important indicator investors use to assess whether a company's shares are fairly valued, overvalued, or undervalued by the market.

The industrial sector is one of the most significant sectors listed on the Indonesia Stock Exchange (IDX) and contributes significantly to the country's economy, both in terms of employment, contribution to Gross Domestic Product (GDP), and as a driving force for stock market trading. The characteristics of industrial companies, which require significant capital and assets, make fundamental financial aspects, such as profitability, liquidity, and debt, crucial for investors before deciding to invest. Changes in financial performance in this sector also influence the market's perception of company value, making understanding the factors that influence company value in the industrial sector crucial for academics, practitioners, and investors.

Profitability is an important measure of a company's ability to generate revenue from its assets and capital. Companies with high profitability are generally viewed favorably by investors, reflecting efficient resource management to achieve profits. This, in turn, can boost investor confidence and drive share prices upward. In addition to profitability, liquidity is also a key factor investors consider, as it indicates a company's ability to meet its short-term financial obligations. Companies with strong liquidity are considered to have lower financial risk, making them more attractive to investors. Furthermore, leverage, which reflects the extent of debt used in a company's capital structure, also plays a significant role. Proper debt utilization can increase a company's value through tax savings. However, excessive debt utilization can increase the risk of bankruptcy and undermine investor confidence.

Several previous studies have shown varying results regarding the influence of profitability, liquidity, and leverage on firm value. Research on companies operating in the food and beverage sector found that profitability had a significant positive impact on firm value, indicating that increased profits can increase investor confidence and thus share value. Liquidity was also shown to have a positive impact, indicating that companies that can meet short-term obligations are more attractive to investors. However, other studies with a similar focus have found different findings, where profitability had a positive impact on firm value, while liquidity had a negative impact, and leverage had a positive contribution to firm value. Contrary findings were also found in a study of consumer goods companies between 2018 and 2022, which showed that leverage had a significant positive effect on firm value, while profitability showed a positive but insignificant effect on firm value. Conversely, research using profitability as an intervening variable on manufacturing companies between 2017 and 2022 revealed that leverage had a negative effect on firm value, while firm size, capital structure, and profitability had a significant positive effect on firm value.

The inconsistencies in previous research (research gaps) indicate that the impact of profitability, liquidity, and leverage on firm value is still debated and has not yet reached a consistent conclusion, especially when associated with differences in research time, industrial sub-sectors, and analytical methods applied. These variations in results indicate that the relationship between these variables is situational and can be influenced by economic conditions, industry characteristics, and varying observation periods. Therefore, further studies with more recent data and a broader coverage of the manufacturing sector are still important to be conducted to strengthen or clarify previous findings.

In this context, this study aims to empirically re-examine the influence of profitability, liquidity, and leverage on firm value in manufacturing companies listed on the Indonesia Stock Exchange over a more recent observation period. This research is expected to contribute to the development of theory in the financial management and accounting literature, particularly regarding the factors that determine firm value. It is also expected to provide practical benefits for company management in optimizing financial policies and for investors in considering fundamental aspects before making investment decisions in the shares of companies in the manufacturing sector.

Literature review

1. Signaling theory

Signaling theory describes how companies communicate financial information to report users,

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particularly investors, through published data. This data serves as a reference for investors in assessing the company's future potential. When a company demonstrates impressive financial results, such as high levels of profitability and liquidity, this is seen as an encouraging signal that can increase investor confidence, which in turn will drive share prices and company value upwards (Velayati, 2018). On the other hand, negative signals related to poor financial performance can reduce investor interest in investing. This theory is particularly apt in explaining how profitability and liquidity relate to company value.

2. Trade-off theory

Trade-off theory explains that the optimal capital structure can be achieved by balancing the benefits of using debt, such as tax savings, with the costs of debt, including bankruptcy costs and agency costs. Trade-off theory suggests that debt can increase firm value, but only up to a certain point; if debt is used beyond the ideal limit, the firm's value will actually decrease due to the increased risk of bankruptcy. This theory serves as the basis for understanding the relationship between leverage and firm value, where appropriate debt use can increase firm value, while excessive debt use can actually decrease it.

Study of research variables

1. Company Values

A company's value is how investors view the company's achievements, which is often related to its stock price. A high company value indicates a high level of shareholder welfare. Therefore, this becomes a long-term goal aspired to by management. In this study, company value was evaluated using Price to Book Value (PBV), which shows the ratio between the market value of shares and the book value of each share (Fitriani, 2025).

2. Profitability

Profitability refers to a company's capacity to generate profits using available resources and capital over a specific period of time. Profitability positively contributes to company value because if an entity's profitability increases, its value also tends to rise, indicating good performance and management, thus attracting investors (Velayati, 2018). Generally, profitability is measured by Return on Assets (ROA) or Return on Equity (ROE).

3. Liquidity

Liquidity indicates how well a company can meet its short-term obligations using its available current assets. A company with high liquidity is considered to have minimal financial risk and good operational performance, making it more attractive to investors (Fitriani, 2025). In this study, liquidity is measured using the Current Ratio (CR), which is the ratio between a company's current assets and current liabilities.

4. Leverage

Leverage indicates how a company utilizes debt to fund its operational activities and structure. Appropriate use of leverage can increase company value through tax savings, but excessive use can increase financial risk and undermine investor confidence (Santi & Sudarsi, 2024). In this study, leverage is represented by the Debt-to-Equity Ratio (DER), which is the ratio of a company's total debt to its total equity.

Framework

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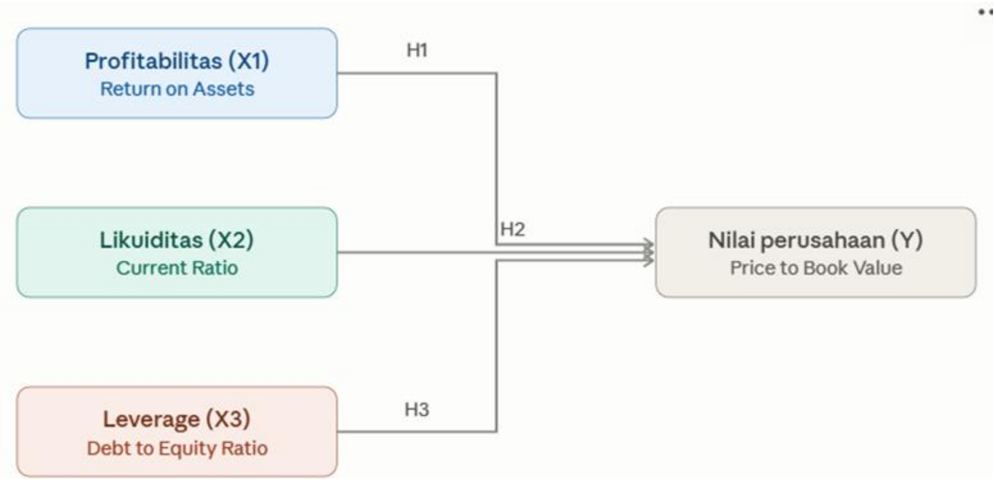

H4 simultaneous influence of X1,X2,X3 on Y

Research hypothesis
H1: Profitability has a positive effect on company value
H2: Liquidity affects company value
H3: Leverage affects company value
H4: Profitability, liquidity, and leverage simultaneously influence company value.

Research methods

This study applies a quantitative approach with a causal associative research design, which aims to understand the impact of independent variables (profitability, liquidity, and leverage) on the dependent variable (firm value). Furthermore, to enrich the understanding of the quantitative research results, this study also integrates interview methods (qualitative data) with data triangulation techniques, so that the approach used is a mixed method with a primary focus on quantitative methods (sequential explanatory). The population of this research consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the specified observation period. The sampling process was carried out using a purposive sampling method, namely the selection of samples based on certain criteria predetermined by the researcher, as follows:

a. Manufacturing companies that are proven to be consistently listed on the IDX during the observation period.
b. Companies that published complete and audited annual reports during the study period.
c. Companies that did not experience delisting during the observation period.
d. Companies that have complete data related to research variables (profitability, liquidity, leverage, and company value).
e. Companies that did not record losses (negative profits) during the study period, as this could affect the comparison of financial ratios.

1. Data types and sources

The primary data of this research is secondary data taken from the annual financial reports of sample companies obtained through the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official websites of each company itself.

For additional information, this study also involved semi-structured interviews with individuals working in the sample companies (financial managers, accountants, or relevant staff) to gain a qualitative understanding of the company's financial policies related to profitability, liquidity, and debt structure, in order to enrich the interpretation of the results from the quantitative data processing.

2. Data collection technique

a. Documentation, which means collecting annual financial report information from sample companies during the research period taken from the official website of the Indonesia Stock Exchange and the company's official website.

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b. Interviews were conducted using a semi-structured method with internal company parties to obtain additional data that could strengthen the analysis of quantitative research results.
c. Literature study, namely collecting sources from journals, books and related literature which form the theoretical basis for this research.

3. Data analysis techniques

No	Issuer Code	Company	Year	ROA (X1)	CR (X2)	DER (X3)	PBV (Y)
1	ICBP	Indofood CBP Sukses Makmur Tbk	2023	14.5%	02.30	0.05556	03.10
2	ICBP	Indofood CBP Sukses Makmur Tbk	2024	15.1%	02.45	0.05208	03.25
3	KLBF	Kalbe Farma Tbk	2023	11.8%	03.10	00.25	03.50
4	KLBF	Kalbe Farma Tbk	2024	12.2%	03.25	00.22	0.17014
5	INDF	Indofood Sukses Makmur Tbk	2023	8.5%	0.09722	01.10	01.15
6	INDF	Indofood Sukses Makmur Tbk	2024	9.0%	0.10069	01.05	01.20
7	SMSM	Selamat Sempurna Tbk	2023	16.2%	0.14583	00.35	04.20
8	SMSM	Selamat Sempurna Tbk	2024	17.0%	03.05	00.30	04.50
9	UNVR	Unilever Indonesia Tbk	2023	22.0%	0.06597	02.10	15.30
10	UNVR	Unilever Indonesia Tbk	2024	21.5%	01.02	02.15	0.63889

Data processing was performed using SPSS software. The following are the results of descriptive statistics and multiple linear regression testing.

4. Descriptive Statistics

Based on the data from the 10 observation samples above, the following general data description was obtained:

a. Return on Assets (ROA): Minimum value 8.5%, maximum 22.0%, and average (mean) of 14.78%.
b. Current Ratio (CR): Minimum value 0.95, maximum 3.25, and average 2.25.
c. Debt to Equity Ratio (DER): Minimum value 0.22, maximum 2.15, and average 0.90.
d. Price to Book Value (PBV): Minimum value 1.15, maximum 15.30, and average 5.46.

5. Classical Assumptions

Before the regression test was carried out, the model was confirmed to meet the requirements of the Best Linear Unbiased Estimator (BLUE):

a. Normality Test: The Kolmogorov-Smirnov significance value is \$0.200 > 0.05\$, which means the data is normally distributed.

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b. Multicollinearity Test: All variables have a Tolerance value of > 0.10 and VIF < 10, indicating no multicollinearity.
c. Heteroscedasticity Test: Glejser test shows the significance value of all independent variables > 0.05, free from heteroscedasticity problems.
d. Autocorrelation Test: Durbin-Watson values are in the autocorrelation-free range.

6. Multiple Linear Regression Analysis

Based on the results of the regression analysis, the following mathematical equation was obtained:

$Y = 1.254 + 0.452X1 + 0.185X2 + 0.312X3 + e$

D. Hypothesis Testing (t-Test and F-Test)

a. t-Test (Partial):
ROA (X1): T-value = 3.421 with significance of 0.008 < 0.05. H1 is accepted.
CR (X2): The calculated t value = 1.985 with a significance of 0.078 > 0.05. H2 is rejected.
DER (X3): The calculated t value = 2.845 with a significance of 0.021 < 0.05. H3 is accepted.
b. F Test (Simultaneous): The calculated F value = 14.562 with a significance of 0.001 < 0.05, so H4 is accepted. Profitability, liquidity, and leverage together have a significant effect on company value.
c. Coefficient of Determination (R2):
The Adjusted R Square value is 0.742. This means that 74.2% of the variation in company value (PBV) can be explained by ROA, CR, and DER, while the remaining 25.8% is explained by other variables outside the model.

Results and Discussion

1. The Effect of Profitability (ROA) on Company Value (PBV)

Statistical testing results demonstrate that profitability has a positive and significant effect on the value of manufacturing companies listed on the IDX. This supports Signaling Theory, which posits that high profitability acts as a positive signal to the market regarding the efficiency of a company's resource management. This signal increases investor confidence, drives stock demand, and, in turn, increases stock market prices and company value. These results align with research by Velayati (2018).

2. The Effect of Liquidity (CR) on Company Value (PBV)

Partially, liquidity was found to have no significant effect on company value in this sample. Although the company has a solid ability to meet its short-term obligations using current assets, investors do not appear to use this ratio as a primary indicator in stock price valuation. Excessively high liquidity is sometimes considered suboptimal by the market because it indicates idle cash not being used productively for business expansion.

3. The Effect of Leverage (DER) on Company Value (PBV)

The analysis shows that leverage has a positive and significant impact on firm value. This finding supports the Trade-off Theory, which states that the use of debt in the capital structure can increase firm value to a certain extent, one of which is through the tax shield effect. As long as manufacturing companies are able to manage their financial risks effectively and allocate debt capital to productive, profit-generating activities, the market will respond positively to this growth.

4. Integration of Qualitative Results (Triangulation)

In accordance with the mixed-method (sequential explanatory) method used, the results of semi-structured interviews with financial management indicate that capital structure management and cost efficiency are key for manufacturing companies. Internal parties confirmed that leverage is carefully managed to avoid exceeding the optimal level that could trigger bankruptcy costs, which aligns with quantitative data showing the significant influence of DER on market decisions.

Conclusion

Based on the data analysis and discussion, this study reveals that profitability, as measured by Return on Assets, has a positive and significant impact on firm value (PBV) in manufacturing companies listed on the Indonesia Stock Exchange. This finding supports Signaling Theory, where a company's ability to generate high profits is perceived by the market as a positive indication of operational efficiency, thereby increasing investor confidence and increasing the company's market value. On the

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other hand, liquidity, as assessed by the Current Ratio, does not show a significant influence on firm value. This indicates that investors do not consider the ability to meet short-term obligations a primary criterion in stock valuation, as excessive liquidity is often viewed by the market as the presence of funds that are not being used productively for development. Meanwhile, leverage, as measured by the Debt to Equity Ratio, is shown to contribute positively and significantly to firm value. These results reinforce the Trade-off Theory, which states that the use of debt in the capital structure of manufacturing companies is perceived positively by the market because it provides the benefit of tax savings, provided that the financial risk is managed safely and used for productive activities. Overall, profitability, liquidity, and leverage are proven to simultaneously contribute significantly to determining changes in firm value. Through a mixed method approach, the results of this quantitative testing are strengthened by the results of qualitative data triangulation through interviews with internal company parties, which confirm that financial management policies in maintaining profit stability and careful debt ratio management are the main keys for companies to maintain their reputation and investor trust in the capital market.

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