

The Market Evaluation Dynamics of Non-Bank Companies' Financial Performance in the LQ45 Index on the Indonesia Stock Exchange: A Ten-Year Perspective of Companies with Corporate Social Responsibility

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Abstract— This study aims to analyze the financial performance of non-bank companies listed in the LQ45 index on the Indonesia Stock Exchange from 2013 to 2022. Debt management will be measured using debt to equity ratio (DER) and debt to assets ratio (DAR). Asset management will be assessed through current ratio (CR), working capital turnover (WCT), and total assets turnover (TAT). Profitability indicators will include net profit margin (NPM), return on equity (ROE), and return on assets (ROA). Dividend policy will be evaluated using dividend payout ratio (DPR). The market assessment will be conducted based on the price-earnings ratio (PER). research findings indicate that DER, CR, NPM, ROE, and DPR significantly able to explain market assessment (PER), while DAR, WCT, TAT, and ROA are not significantly able to explain market assessment of non-bank companies in the LQ45 index on the Indonesia Stock Exchange for the period 2013-2022.

Index Terms— Financial performance, Market assessment, IDX LQ45 Index.

I. INTRODUCTION

Corporate financial management aims to enhance the value of the company. In striving for this objective, managers are tasked with upholding ethical standards and following guidelines such as refraining from environmental pollution, unfair labor practices, and antimonopoly violations (Brigham & Houston, 2019). This research centers on non-bank firms listed in the LQ45 index from 2013 to 2022. These companies have adopted social responsibility initiatives and been recognized with awards for their corporate social responsibility (CSR) efforts. The central focus of this research is to examine how market evaluations reflect investor perceptions of the financial performance of these companies.

The capital market serves a significant role in a country's economy by fulfilling both economic and financial functions. Economically, the capital market acts as a mediator between entities in need of funds (companies, government entities) and individuals, households, or organizations with excess funds for investment in financial assets. Financially, the capital market provides opportunities for investors to earn returns on invested funds according to the characteristics of selected securities (Tirta Segara (Anggota Dewan Komisiner Bidang Edukasi

dan Perlindungan Konsumen, 2019). The fluctuations in the capital market are mirrored in the changes of traded stock prices, which can be observed through stock price indices. One of these crucial indicators in Indonesia is the LQ45 index on the Indonesia Stock Exchange. It consists of 45 top-performing companies from diverse sectors, serving as a significant gauge of the country's capital market performance. The stocks listed in the LQ45 index are characterized by their high liquidity, substantial market capitalization, and solid fundamental conditions of the companies they represent (<https://www.idx.co.id/id/produk/indeks>) accessed on 03/12/2024 at 23:57. Market evaluation of these companies not only reflects investor perceptions of the future of the issuing companies but also influences capital flows and overall market confidence.

The selection of a ten-year observation period on non-bank companies remaining in the LQ45 index aims to ensure sustainability in market evaluations of fundamental company conditions. This is crucial because consistent market evaluations of fundamental company conditions provide a more accurate representation. Strong fundamental conditions reflect the success of financial decisions in investment, financing, asset management, and dividend policies to maximize firm value (Brigham & Houston, 2019; Gitman & Zutter, 2017). This is reflected in the financial performance of the company, including asset management, debt management, profitability, and dividend policies (Kumar and Lata, 2022). Recognizing that fundamental differences in operations and performance measurement techniques between bank and non-bank companies may lead to bias in research results, only non-bank companies are selected as research subjects to minimize such bias.

In assessing the financial performance of non-bank companies, this study utilizes the Price Earnings Ratio (PER) as a key metric. PER is selected because it reflects the amount investors are willing to pay for each unit of the company's earnings (Zutter & Smart, 2022). Additionally, the Price Earnings Ratio (PER) not only indicates the appreciation of the company's net income but also its growth and risk. Companies with strong growth prospects and low risk will have a relatively high PER, while those with slow growth and higher risk will have a lower PER (Brigham & Houston, 2019). Thus, PER is an important indicator for investors in measuring investment potential.

This research will examine the company's performance from various angles, including Debt management, which encompasses the debt to equity ratio (DER) and debt to assets ratio (DAR); Asset management, which involves the current ratio (CR), working capital turnover (WCT), and total assets turnover (TAT); Profitability, which comprises the net profit margin (NPM), return on equity (ROE), and return on assets (ROA); Dividend policy will be indicated by the dividend payout ratio (DPR). Therefore, factors significantly impacting market evaluations of non-bank companies' financial performance in the LQ45 on the Indonesia Stock Exchange are expected to be identified in this research.

The aim of this research is to investigate how the financial performance of non-bank companies listed in the LQ45 on the Indonesia Stock Exchange between 2013 and 2022 impacts market assessments through the utilization of the Price Earnings Ratio (PER). The specific inquiries include:

- How does the debt management performance, indicated by debt to equity ratio (DER) and debt to assets ratio (DAR), of non-bank companies in the LQ45 from 2013 to 2022 affect their market assessments using the Price Earnings Ratio (PER)?
- How does the asset management performance, gauged by the current ratio (CR), working capital turnover (WCT), and total assets turnover (TAT), of non-bank companies in the LQ45 from 2013 to 2022 influence their market assessments using Price Earnings Ratio (PER)?
- What is the impact of the profitability, measured by net profit margin (NPM), return on equity (ROE), and return on assets (ROA), of non-bank companies in the LQ45 from 2013 to 2022 on their market assessments using Price Earnings Ratio (PER)?
- How does the performance of dividend policy, as indicated by the dividend payout ratio (DPR), of non-bank companies in the LQ45 from 2013 to 2022 influence their market assessments using the Price-Earnings Ratio (PER)?

The results of this research are expected to not only contribute to academic literature but also provide valuable knowledge for investors, company management, and regulatory authorities. For Investors (potential investors), the information generated from this research is expected to serve as a basis for intelligent investment decision-making. For Management, the results of this research can lead to the development of better-informed business strategies, and for the Government, the results of this research can be used to design regulatory policies that are responsive to the ever-changing dynamics of the capital market.

II. LITERATURE REVIEW

Based on the definition of corporate finance provided by financial experts, which is summarized from the managerial dimension of finance, it is understood that corporate management executes four primary decision functions: investment decisions, financing decisions, asset management, and dividend policy (Brigham & Houston, 2019; Gitman & Zutter, 2017; Horne & John M. Wachowicz, 2009). The implementation of these decisions will be reflected in the company's financial statements, which are included in its annual report. A company's primary financial statements include the balance sheet, income statement, cash flow statement, and statement of changes in equity (Brigham & Houston, 2019; Gitman & Zutter, 2017).

Assessment of how well management achieves company objectives is commonly performed by investors and analysts through the analysis of company financial statements. One frequently used analytical method is the utilization of financial ratios (Easton et al., 2021). According to Brigham & Houston (2019), these ratios can be categorized into five main groups: (1) Liquidity ratios, which shed light on the company's capability to meet short-term debt obligations within a year. (2) Asset management ratios, which provide insights into how effectively the company utilizes its assets. (3) Debt management ratios, which offer insights into how the company has financed its assets and its ability to repay long-term debts. (4) Profitability ratios, which indicate how profitably the company operates and utilizes its assets. (5) Market value ratios, which reveal investors' perceptions about the company and its future prospects. The Indonesia Stock Exchange provides financial information for publicly traded companies, allowing stakeholders interested in the targeted issuer companies to utilize this information in evaluating their performance (Lata & Kumar, 2022).

According to (Zutter & Smart, 2022), the debt ratio assesses the portion of total assets funded by a company's creditors. A higher debt ratio indicates that the company is using a larger amount of borrowed funds (not owned by the shareholders) to finance its operations, meaning it is employing greater financial leverage. While additional capital from debt tends to enhance a company's ability to exploit profitable investment opportunities, thereby fostering company growth, it should be noted that high financial leverage can exacerbate poor operational performance, increasing the likelihood of company failure (Altman et al., 2019). The common financial ratios utilized to evaluate debt management performance in the Indonesia Stock Exchange are the debt to equity ratio (DER) and the debt to assets ratio (DAR). The Debt to Equity Ratio (DER) is computed by dividing the total debt by the total equity, while the Debt to Assets Ratio (DAR) is calculated by dividing the total debt by the total assets.

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Debt}}{\text{Total Equity}} \quad (1)$$

$$\text{Debt to Assets Ratio (DAR)} = \frac{\text{Total Debt}}{\text{Total Assets}} \quad (2)$$

The leverage theory suggests that companies with high business risk, stemming from the operational or business activities of the company (rather than from its financing strategy), will face high financial risk if they utilize debt financing in a significant proportion. Financial risk entails additional risk arising from the fixed burden of debt imposed by financial leverage, representing the burden that the company must bear regardless of business conditions (Zutter & Smart, 2022).

The capital structure theory is closely related to debt management, as the outcomes of debt management decisions constitute the capital structure. Myron J. Gordon and John Lintner (1963) introduced the idea that, under perfect capital market conditions, the capital structure does not impact a firm's value. Instead, they proposed that firms aim for a specific target capital structure to maximize firm value. Companies must weigh the advantages and drawbacks of utilizing debt and equity in investment and financing decisions. By acknowledging the existence of taxes, a refinement of the MM Irrelevance Theory emerged, leading to the Trade-off Theory within the corporate capital structure framework. Essentially, this theory posits that corporate capital structure decisions involve balancing the tax benefits of debt, such as tax-deductible interest payments resulting in lower debt costs compared to equity, against the increasing bankruptcy costs associated with higher debt levels. In essence, firms strive to strike the optimal balance between debt and equity in their capital structure, taking into account the tax advantages of debt and the risks of bankruptcy (Brigham & Ehrhardt, 2020; Gitman & Zutter, 2017; Ross et al., 2019).

Jensen & Meckling (1976), presented the agency conflict theory, which delves into the clash of interests between shareholders and managers, resulting in the emergence of agency costs. They highlighted the influence of a company's ownership structure on managerial behavior and the extent of agency costs, as well as the implications these factors hold for firm performance. This serves as a crucial foundation for understanding corporate finance theory.

Stephen Ross (1977), in his paper titled "The Determination of Financial Structure: The Incentive-Signaling Approach," proposed the signaling hypothesis, suggesting that company management can utilize its capital structure policy to send signals to the market regarding the true value of the company. This hypothesis sheds light on how financial decisions can be utilized as a tool for conveying information to investors and stakeholders. Asset management indicators are tools that demonstrate how effectively a company employs its assets to generate revenue (Ross et al., 2019). According to Besley & Brigham (2019), these metrics gauge the efficiency with which a company manages its assets. These indicators are tailored to address the following inquiries: Does the sum of each asset type as presented in the balance sheet seem appropriate, excessive, or insufficient relative to existing or anticipated sales levels? One benchmark of a company's asset management effectiveness is the achieved current ratio. A heightened current ratio suggests robust liquidity within the company, enabling it to fulfill short-term obligations. This may signify the company's stability and financial soundness, thereby bolstering investor confidence (De Luca, 2018). Conversely, a low current ratio may be perceived as a short-term risk by investors, indicating that the company may struggle to meet its short-term obligations, potentially disrupting its ability to generate net earnings and thereby negatively impacting the Price-Earnings Ratio (PER) (Onyuma et al., 2012). The current ratio is calculated by dividing the total of current assets by the total of current liabilities (Easton et al., 2021).

$$\text{Current ratio (CR)} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \quad (3)$$

The efficacy and efficiency of asset management in generating sales can be evaluated through its working capital turnover and total assets turnover. Frequently employed metrics encompass working capital turnover (WCT) and total assets turnover (TAT). (Ross et al., 2019), formulated as follows:

$$\text{Working Capital Turnover (WCT)} = \frac{\text{Net Sales}}{\text{Current Assets}} \quad (4)$$

$$\text{Total Assets Turnover (TAT)} = \frac{\text{Net Sales}}{\text{Total Assets}} \quad (5)$$

According to Fridson & Alvarez (2020), the principal aim of financial reporting is to accurately disseminate financial statements that gauge a company's profitability and financial status. According to Wahlen et al. (2015) and Brigham & Houston (2019), investors have a keen interest in profitability to evaluate how efficiently managers utilize invested capital in the company to yield returns. Various ratios are employed to assess a company's profitability in the Indonesia Stock Exchange, such as net profit margin (NPM), return on equity (ROE), and return on assets (ROA). Net profit margin signifies the percentage of sales that translate into profit (Brealey et al., 2017) or the company's income from every Rupiah of sales (Easton et al., 2021). Net profit margin can be formulated as follows:

$$\text{Net Profit Margin (NPM)} = \frac{\text{Net Income}}{\text{Net Sales}} \quad (6)$$

Return on Equity (ROE) represents the relationship between net income and common equity, serving as an indicator of the return on investment for common shareholders (Brigham & Houston, 2019; Zutter & Smart, 2022). Aligned with financial management goals, managers naturally prioritize stock prices. Although managers have limited direct influence on stock market performance, they possess control over their company's ROE. Consequently, ROE typically garners primary attention in showcasing performance to company owners (common shareholders). According to De Luca (2018), from a financial standpoint, maximizing the return on investment for shareholders is the company's objective, making ROE a true measure of company performance. According to (Reilly, Frank K.; Brown, Keith C.: and Leeds, 2019), if a company achieves a higher return on equity (i.e., the company generates more equity each year), By achieving a higher ROE, a company can potentially allocate a greater portion of its earnings as dividends, thereby increasing the amount of free cash flow accessible to shareholders. The formula for ROE is as follows.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Common Equity}} \quad (7)$$

Return on Assets (ROA) measures the net income available for every unit of funds invested by equity and debt investors in the total assets of the company (Zutter & Smart, 2022). ROA reveals the management's effectiveness in generating profits from its assets, and it may represent the most critical measure of return or compensation reward (Smart & Zutter, 2020). The formulation for calculating ROA is as follows:

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}} \quad (8)$$

Large companies typically generate greater profits compared to smaller companies. Therefore, most profitability measures focus on income per dollar of assets, with the most common measure being return on assets ((Bodie, Zvi, author; Kane, Alex; Marcus, 2018).

The dividend payout ratio is a financial metric that assesses the portion of a company's net income distributed to shareholders in the form of dividends. This ratio is significant for investors as it illustrates the proportion of the company's earnings allocated to shareholders as dividends in contrast to retained earnings earmarked for reinvestment in the company. A higher dividend payout ratio suggests a larger fraction of net income dedicated to dividend disbursements, potentially indicating stability and regular cash returns to shareholders. However, it could also signify constraints on the company's capacity to expand or reinvest earnings for future growth. The formula for the dividend payout ratio is as follows: (Indonesia Stock Exchange (IDX), 2022).

$$\text{Dividend payout ratio (DPR)} = \frac{\text{Dividend per share}}{\text{Earnings per share}} \quad (9)$$

According to Ross et al. (2019), state that typically, changes in dividends prompt reactions in stock prices. This response is primarily driven by alterations in anticipated future dividend amounts, rather than specifically by shifts in dividend payment policies. This phenomenon is referred to as the information content effect of dividends. In response to Modigliani and Miller's theory of irrelevant dividend policy, Gordon and Lintner proposed the Bird in Hand Theory. According to this theory, investors generally prefer current dividends (the "bird in hand") over potential future capital gains. This preference stems from the perception that current dividends are more certain compared to potentially larger gains that may result from reinvesting retained earning (Brigham & Ehrhardt, 2020).

Empirical evidence is still needed to determine whether dividend policies affect a company's value or not. Brigham & Ehrhardt (2020), argue that it is challenging to find a set of publicly traded companies differing solely in their distribution levels (dividend payout ratios). Additionally, obtaining precise estimates of their equity costs is difficult. As a result, no definitive relationship between distribution levels (the proportion of dividends to net income) and equity costs or company value has been unequivocally identified.

The Price-Earnings Ratio (PER) is among the most commonly used ratios by investors and analysts for relative stock assessment. It measures a company's stock price relative to its earnings per share ((Zutter & Smart, 2022; Reilly, Frank K.; Brown, Keith C.; and Leeds, 2019; Brigham & Ehrhardt, 2020).

The usefulness of this ratio lies in its ability to compare a company's valuation against its historical performance, as well as against other companies in the industry or the overall market. The Efficient Market Hypothesis (EMH) in its semi-strong form suggests that security prices are rapidly adjusted to the release of all public information, indicating that current security prices are fully reflective of all available public information. Among such information, the Price-Earnings Ratio (PER) is included, and PER information is frequently utilized by investors to forecast future abnormal returns (Reilly, Frank K.; Brown, Keith C.: and Leeds, 2019).

Across various global stock markets, a plethora of empirical evidence exists regarding how financial performance and its measurement variables impact firm value.

Sucuahi & Cambarihan (2016), the impact of profitability on firm value in the Philippine Stock Exchange (PSE) was investigated. The objective was to ascertain if there was a significant correlation between company characteristics such as industry, company age, profitability, and firm value measured using Tobin's Q. The results of the multiple regression analysis indicated that out of the three factors (industry, company age, and profitability) hypothesized to influence firm value, only profitability displayed a notable positive effect.

Research conducted by (Rehman, 2016) explored the influence of capital structure and dividend policy on non-financial firms listed on the Kyrgyzstan Stock Exchange (KSE) from 2006 to 2013 in Pakistan, employing a fixed-effect panel data regression model. The findings revealed significant impacts of both capital structure and dividend policy variables on firm value (Tobin's Q). Three independent variables, namely total debt to total assets (TDTA) as leverage ratio, sales growth (SG) as earnings sustainability ratio, and equity ratio (EQ) as a component of capital structure, were analyzed. Among these, only one independent variable (EPS as profitability ratio) from the dividend policy exerted a significant influence on the dependent variable (Tobin's Q). However, two other independent variables, fixed assets turnover (FATO) as a proxy for capital structure performance, and DPO as a cash flow indicator of dividend policy, did not have a significant impact on the dependent variable, firm value (Tobin's Q). Specifically, earnings per share (EPS) validated predictions from the signaling hypothesis theory, while equity ratio (EQ), total debt to total assets ratio (TDTA), and firm size (sales growth, SG) statistically validated assumptions from the trade-off theory and pecking order theory.

Akhtar M et al.(2016), conducted a study focused on capital structure, with a primary aim of determining whether debt influences firm value or if the proportion of debt usage is irrelevantly associated with firm value. This study examined the relationship between leverage and firm value in the context of Pakistan to elucidate the impact of financial leverage changes on firm value. Using secondary data collected from the Karachi Stock Exchange (KSE) by sampling financial reports from one hundred companies over six years, data analysis employing multiple regression revealed a positive correlation between leverage and firm value.

Sorin (2016), analyzed the influence of dividend policy measured by dividend payout ratio (DPR) on firm value measured by Tobin's Q (TQ), with control variables including leverage, firm size, return on assets (ROA), and current ratio (CR). Employing a fixed-effects model, the study found that the dividend payout ratio positively affected firm value after controlling for other specific company variables. Furthermore, leverage and firm size were found to have a positive effect on firm value.

Demirgüneş (2017), study was conducted to explore the potential asymmetric causal relationship between capital structure and firm value. This investigation utilized the asymmetric causality test developed by Hatemi-J (2012) and analyzed time series data from the Turkish manufacturing industry, encompassing manufacturing companies listed on the Borsa Istanbul, over the period 1990-2015. The findings revealed that a reduction in the total debt ratio led to a decline in the market-to-book ratio (firm value). This negative impact partially corroborated the validity of the trade-off theory, which posits a positive relationship between debt levels and firm value to a certain extent.

Examining the impact of capital structure and firm quality on the firm value of hospitality firms in India listed on the Bombay Stock Exchange (BSE) from 2001 to 2015, Aggarwal & Padhan (2017), conducted a study. The study incorporated various variables, including firm quality measured by Altman Z-score, leverage, size, profitability, tangibility, growth, liquidity, as well as macro variables such as GDP growth and inflation, all assessed for their influence on firm value. Significant relationships were identified between firm value and firm quality, leverage, liquidity, size, and economic growth. These findings challenge the Modigliani-Miller theorem of capital structure irrelevance within the Indian hospitality sector.

Examining the impact of financial performance on firm value with ownership structure as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange from 2012 to 2016, Luthfiah & Suherman (2018), conducted a study. The research focused on financial performance as the independent variable, represented by return on assets (ROA). Firm value was measured using Tobin's Q, while ownership structure was assessed through managerial ownership and institutional ownership. Control variables such as firm size and leverage were also incorporated. Employing panel data analysis with a Fixed Effect Model approach, the study found that financial performance significantly and positively influenced firm value. However, neither managerial ownership nor institutional ownership moderated the relationship between financial performance and firm value. Additionally, firm size exhibited a significant negative impact on firm value, whereas leverage did not significantly affect firm value.

Husna & Satria (2019) conducted an analysis exploring the factors influencing the firm value of manufacturing companies listed on the Indonesia Stock Exchange from 2013 to 2016. The study investigated the effects of Return on Assets (ROA), Debt to Asset Ratio (DAR), Current Ratio (CR), Firm Size, and Dividend Payout Ratio (DPR). Utilizing multiple regression analysis, the research revealed that ROA and firm size were associated with firm value, whereas DAR, CR, and DPR showed no significant impact on firm value. In summary, the findings suggest that ROA positively influences firm value, DAR has no discernible effect on firm value, firm size plays a role in determining firm value, and the dividend payout ratio does not affect firm value.

Almahadin & Oroud (2020), delved into the connection between capital structure and firm value in Jordan, utilizing profitability as a moderating factor in the context of a developing country. Employing panel data regression analysis, the research unearthed compelling empirical evidence pointing to a negative correlation between capital structure and firm value. These results underscore the complexity of the impact of capital structure, which becomes clearer when considering the interaction between variables such as profitability, a pivotal determinant of firm value. Thus, examining these interaction effects furnishes substantial evidence and deepens comprehension of the relationship between firm value and capital structure.

The impact of capital structure and other suspected factors on firm value in Vietnam was investigated in a study conducted by Dang & Do (2021), for this purpose, 435 non-financial companies listed on the Vietnam stock exchange from 2012 to 2019 were selected and categorized into four groups to examine inter-industry variations. Utilizing the generalized method of moment (GMM), it was found that firm value is significantly influenced by capital structure and other control variables, albeit with variations across industries: a significantly positive effect of capital structure on firm value was observed in the food and beverage industry, while it had a negative impact on firm value in the wholesale and retail trade, construction, and real estate industries. Additionally, firm size

exhibited an insignificant influence on firm value across all industries. Apart from firm size, the impact of other control factors on firm value also displayed diverse outcomes.

A study conducted by Wira (2021), conducted a comprehensive study within the Indonesia Stock Exchange (IDX), utilizing a sample set of 45 companies across the tourism, hotel, restaurant, and transportation sectors spanning from 2016 to 2019. The study extensively scrutinized various financial performance indicators, including the current ratio, acid test ratio, debt ratio, debt to equity ratio, accounts receivable collection period, accounts receivable turnover, gross profit margin, and net profit margin. Meanwhile, the evaluation of firm value was meticulously conducted through the price-to-book value (PBV) metric. The discernments of the study elucidated notable influences of the debt ratio, accounts receivable turnover, and net profit margin on firm value. However, other metrics such as the current ratio, acid test ratio, debt to equity ratio, accounts receivable collection period, and gross profit margin exhibited negligible effects on firm value.

Sapiri et al. (2022), embarked on a thorough analysis of the intricate relationship between financial performance variables, financial distress, and firm value utilizing property companies enlisted on the Indonesia Stock Exchange between 2015 and 2019. Employing a sophisticated combination of multiple linear regression analysis and path analysis techniques, the study meticulously dissected the influence of intervening variables. The financial performance aspect was meticulously represented by the return on assets (ROA), while the leverage factor (served as an intervening variable) was meticulously gauged through the debt-to-equity ratio (DER). On the other hand, the assessment of firm value was meticulously anchored by the price-to-book value (PBV) metric. The insightful findings of the study discerned that the direct impact of financial performance variables on firm value distinctly outweighed the mediated effect by financial distress as an intervening variable.

In formulating their hypotheses to address the research questions, the authors posited the potential impact of the independent variables on the dependent variable as outlined below:

- The debt management performance of non-bank companies listed in the LQ45 Index of the Indonesia Stock Exchange from 2013 to 2022, as proxied by the debt to equity ratio (DER), is hypothesized to exert a negative influence on market valuation represented by the price-earnings ratio (PER).
- The debt management performance of non-bank companies listed in the LQ45 Index of the Indonesia Stock Exchange from 2013 to 2022, measured by the debt to asset ratio (DAR), is anticipated to negatively affect market valuation proxied by the price-earnings ratio (PER).
- Asset management performance of non-bank companies listed in the LQ45 Index of the Indonesia Stock Exchange from 2013 to 2022, characterized by the current ratio (CR), is expected to positively impact market valuation proxied by the price-earnings ratio (PER).
- Asset management performance of non-bank companies listed in the LQ45 Index of the Indonesia Stock Exchange from 2013 to 2022, gauged through working capital turnover (WCT), is predicted to positively influence market valuation proxied by the price-earnings ratio (PER).
- Asset management performance of non-bank companies listed in the LQ45 Index of the Indonesia Stock Exchange from 2013 to 2022, measured by total asset turnover (TAT), is projected to positively affect market valuation proxied by the price-earnings ratio (PER).
- Profitability performance of non-bank companies listed in the LQ45 Index of the Indonesia Stock Exchange from 2013 to 2022, represented by net profit margin (NPM), is anticipated to positively impact market valuation proxied by the price-earnings ratio (PER).
- Profitability performance of non-bank companies listed in the LQ45 Index of the Indonesia Stock Exchange from 2013 to 2022, evaluated through return on equity (ROE), is expected to positively influence market valuation proxied by the price-earnings ratio (PER).
- Profitability performance of non-bank companies listed in the LQ45 Index of the Indonesia Stock Exchange from 2013 to 2022, assessed by Return on Assets (ROA), is projected to positively affect market valuation proxied by the price-earnings ratio (PER).
- Dividend policy of non-bank companies listed in the LQ45 Index of the Indonesia Stock Exchange from 2013 to 2022, reflected by dividend payout ratio (DPR), is hypothesized to positively influence market valuation proxied by the price-earnings ratio (PER).

III. RESEARCH METHODOLOGY

A. Population and Sample

The study encompasses all non-bank companies listed in the LQ45 Index of the Indonesia Stock Exchange from 2013 to 2022 as its population. The sampling technique utilized in this investigation is purposive judgment

sampling, wherein samples are chosen by the researcher based on an evaluation of various characteristics of sample members tailored to the research objectives (Amin Kuncoro & Sudarman, 2018). The selection criteria for companies included as samples in this study are as follows:

- Companies that consistently provide annual reports and financial statements from 2013 to 2022.
- Companies that have never been delisted and have remained in the LQ45 index from 2013 to 2022.
- Companies that regularly distribute dividends from 2013 to 2022.
- Companies that implement corporate social responsibility (CSR) programs.

B. Operational Variables

The operational definitions of research variables along with the formulas for calculating the values of each variable are presented in the following Table 1.

TABLE I. THE OPERATIONAL DEFINITIONS OF RESEARCH VARIABLES

Variables	Abbr.	Definitions	Formulas
Price Earning ratio	PER	The dollar amount investors will pay for \$1 of current earnings is shown by the price per share to earnings per share ratio, as stated by (Brigham & Houston, 2019)	$PER = \frac{\text{Price Per Share}}{\text{Earnings per Share}}$
Debt to Equity Ratio	DER	The relative proportion of total liabilities and common stock equity used to finance the firm's total assets is measured by the debt to equity ratio, as indicated by (Gitman & Zutter, 2017)	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$
Debt to Assets Ratio	DAR	The proportion of total assets financed by the firm's creditors is measured by the debt ratio, as mentioned by (Gitman & Zutter, 2017)	$DAR = \frac{\text{Total Debt}}{\text{Total Assets}}$
Current Ratio	CR	Calculated by dividing current assets by current liabilities, the current ratio indicates the extent to which current liabilities are covered by those assets expected to be converted to cash in the near future, according to (Brigham & Houston, 2019)	$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$
Working Capital Turnover	WCT	Efficiency in generating sales through working capital management is depicted by this ratio. The higher the value of this ratio, the more efficient the company is in utilizing working capital to generate sales, as noted by (Ross et al., 2019)	$WCT = \frac{\text{Net Sales}}{\text{Current Assets}}$
Total Assets Turnover	TAT	Calculated by dividing sales by total assets, this ratio measures how effectively the firm uses its total assets, as stated by (Brigham & Houston, 2019)	$TAT = \frac{\text{Net Sales}}{\text{Total Assets}}$
Net Profit Margin	NPM	The ratio, which measures net profit per dollar of sales, is calculated by dividing net profit by sales, as mentioned (Zutter & Smart, 2022)	$NPM = \frac{\text{Net Income}}{\text{Net Sales}}$
Return on Equity	ROE	The rate of return on common stockholders' investment is measured by the ratio of net income to common equity, as stated by (Brigham & Houston, 2019)	$ROE = \frac{\text{Net Income}}{\text{Common Equity}}$
Return on Assets	ROA	The rate of return on the firm's assets is measured by the ratio of net income to total assets, as indicated by (Brigham & Houston, 2019)	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$
Dividend Payout Ratio	DPR	The percentage of each dollar earned that a firm distributes to the owners in the form of cash is indicated by the dividend payout ratio. It is calculated by dividing the firm's cash dividend per share by its earnings per share, as mentioned (Zutter & Smart, 2022).	$DPR = \frac{\text{Dividend per share}}{\text{Earnings per share}}$

C. Data and Data Sources

Derived from the publications of information and financial reports of the selected companies provided by the Indonesia Stock Exchange (Indonesia Stock Exchange, 2022; IDX Data Services Division, 2023; Indonesia Stock Exchange (IDX), 2022) the data utilized in this research comprises secondary data. Additional sources of data, such as the execution of corporate social responsibility (CSR) programs, are gathered from the official websites of the chosen companies and publications via online media.

D. Data Analysis

(Gujarati, 2003) three types of data are available for analysis in research: time series data, cross-sectional data, and pooled data (a fusion of time series and cross-sectional data). Time series data entail observations of variable values taken at different intervals (e.g., weekly, quarterly, semi-annually, or annually). Cross-sectional data

encompass data from one or more variables collected simultaneously (e.g., a population census conducted every 10 years). Pooled data, or amalgamated data, combine both time series and cross-sectional elements. Panel data, longitudinal data, or micro-panel data represent specific forms of pooled data where the same cross-sectional unit (e.g., families or companies) is surveyed over time. Therefore, panel data comprises a blend of cross-sectional and time series data (Hsiao, 2003). Considering that the data collected in this study is panel data, the regression model selected is panel data regression. The initial equation is formulated as follows.

$$PER_{it} = \beta_0 + \beta_1 DER_{it} + \beta_2 DAR_{it} + \beta_3 CR_{it} + \beta_4 WCT_{it} + \beta_5 TAT_{it} + \beta_6 NPM_{it} + \beta_7 ROE_{it} + \beta_8 ROA_{it} + \beta_9 DPR_{it} + u_{it}$$

where:

- PER_{it} represents PER for company i at time t .
- DER_{it} , DAR_{it} , CR_{it} , WCT_{it} , TAT_{it} , NPM_{it} , ROE_{it} , ROA_{it} , and DPR_{it} are independent variables for company i at time t .
- β_0 is the intercept.
- β_1 , β_2 , β_3 , β_4 , β_5 , β_6 , β_7 , β_8 , β_9 are regression coefficients measuring the influence of each independent variable on PER.
- u_{it} is the random error.

Within panel data regression estimation, Gujarati (2003:652) outlines three methods: the Common Effects Model (CEM), the Fixed Effects Model (FEM) – also referred to as the least-squares dummy variable (LSDV) Model – and the random effects model (REM). Agus Widarjono (2018) explains that three tests are utilized to determine the most suitable approach for panel data regression estimation. Initially, the F-statistic test, or Chow test, is employed to differentiate between models such as ordinary least square (OLS) or common effects model (CEM), as well as the Fixed Effects model. Next, the Lagrange Multiplier test is used to distinguish between OLS and the Random Effects Model. Finally, the Hausman test is utilized to decide between the Fixed Effect or Random Effect methodologies.

E. Hypothesis Testing

In order to address the research inquiries and validate the hypotheses posited in this investigation, an F-test will be administered to evaluate the capability of independent variables in elucidating alterations in dependent variables within the model. Additionally, a t-test will be employed to substantiate the impact of each proxy variable representing company financial performance on market valuation. Furthermore, an Adjusted R^2 test will be conducted to ascertain the degree to which changes in market valuation are explicated by financial performance variables.

IV. RESULTS AND DISCUSSION

A. Research Findings

After collecting and organizing the research data into pooled data (panel data), several stages of analysis have been executed, resulting in findings presented in Tables 2 to 5 below. The initial step involved determining the optimal model between the Common Effects Model (CEM) and the Fixed Effects Model (FEM) for estimating the regression model in this study, utilizing the Chow test. The outcomes of the Chow test are depicted in Table 2 below.

TABLE II: CHOW TEST RESULTS FOR SELECTING THE BEST CEM-FEM MODEL

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.140498	(8,72)	0.0000
Cross-section Chi-square	40.663644	8	0.0000

Source: Data processed using Eviews 12.

The cross-section F value in Table 2 indicates a significance level of 0.0000 or less than 0.05. Hence, among the two models tested, the fixed effect model significantly proves to be more suitable for estimating the panel data regression values in this study.

The subsequent phase entailed contrasting the most effective model determined from the Chow test, namely the Fixed Effects Model (FEM), with the Random Effects Model (REM). To identify the superior model between these two, the Hausman test was performed. The outcomes of the Hausman test are delineated in Table 3 below.

TABLE III: HAUSMAN TEST RESULTS FOR THE FIXED EFFECTS MODELRANDOM EFFECTS MODEL

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	9.460043	9	0.3959

Source: Data processed using Eviews 12.

The Chi-Square Statistic presented in Table 3 yields a random value of 9.460043, with a P-value of 0.3959, or exceeding 0.05. Consequently, it can be inferred that the Random Effects Model is the preferable model for estimating the panel data regression.

The final step is involves the application of the optimal model determined from the outcomes of the Hausman test, specifically the Common Effects Model, to the dataset under study. The findings derived from implementing the Common Effects Model are showcased in Table 4 below.

TABLE IV: SUMMARY OF RANDOM EFFECTS MODEL RESULTS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18.25975	11.68733	1.562354	0.1222
DAR	0.306483	0.284616	1.076831	0.2848
DER	-0.275022	0.104964	-2.620152	0.0105
CR	0.041583	0.015772	2.636494	0.0101
WCT	-0.461054	1.343352	-0.343212	0.7323
TAT	5.648564	8.104723	0.696947	0.4879
NPM	-1.077902	0.458643	-2.350201	0.0212
ROA	-1.123876	0.827524	-1.358119	0.1782
ROE	0.865760	0.243714	3.552355	0.0006
DPR	0.080357	0.021093	3.809722	0.0003
Weighted Statistics				
R-squared	0.741836	Mean dependent var		20.85111
Adjusted R-squared	0.712792	S.D. dependent var		12.80318
S.E. of regression	6.861447	Sum squared resid		3766.356
F-statistic	25.54226	Durbin-Watson stat		1.098458
Prob(F-statistic)	0.000000			

Source: Data processed using Eviews 12

B. Discussion of Research Results

After undergoing both the Chow test and the Hausman test among the three-panel data regression models - namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) - it is notably clear that the Random Effect Model (REM), which accounts for variations among individual firms over time, emerges as the most suitable model for estimating the regression equation in this study. As depicted in the output of the Random Effect Model (Table 4), it becomes apparent that five variables notably influence firm value (PER): Debt to Equity Ratio (DER), Current Ratio (CR), Net Profit Margin (NPM), Return on Equity (ROE), and Dividend Payout Ratio (DPR). This signifies that debt management performance, working capital management (liquidity), profitability, and dividend policy significantly affect the market assessment of the financial performance of non-bank companies listed in the LQ45 Index on the Indonesia Stock Exchange.

The analysis reveals that there is a significant negative correlation between the Debt to Equity Ratio (DER) and PER. This implies that as the ratio of debt to equity increases, the company's market valuation decreases. According to (Gitman & Zutter, 2017; Brigham & Houston, 2019), the leverage theory elucidates that a higher proportion of debt financing in a company's capital structure augments additional risk beyond its inherent business risk, potentially elevating the overall risk of the company and subsequently reducing its value. The trade-off theory of capital structure posits that additional debt can provide a tax shield for a company's income due to tax-deductible debt interest. However, as debt burdens escalate, so do bankruptcy costs (Brigham & Daves, 2019). Given that investors in the capital market typically exhibit risk aversion tendencies, they are inclined to assign lower valuations to companies with debt management strategies that overlook risk management.

The Current Ratio (CR) variable, utilized to evaluate a company's short-term asset management efficiency, is indicative of its capacity to settle short-term liabilities with current assets. In this study, it exhibits a noteworthy positive effect on market valuation, as indicated by the price earnings ratio. These findings align with corporate

finance theories positing that the current ratio mirrors both liquidity and working capital efficiency. However, an excessively high current ratio may signal inefficient asset utilization (Gitman & Zutter, 2017; Easton et al., 2021; Altman et al., 2019). The research underscores investors' tendency to attribute higher valuations to companies adept at meeting short-term obligations and efficiently managing their short-term assets, reflecting stability and financial adeptness in maximizing value.

The Net Profit Margin (NPM) is a ratio indicating a company's efficiency in generating net profit from sales. Research findings indicate that NPM has a significant negative impact on PER. This suggests that investors value companies with higher profit margins more, as it signifies better operational efficiency. However, the net profit margins achieved by companies in the LQ45 index are perceived to still fall short of expectations. Consequently, the company's value (PER) is low.

Return on Equity (ROE), which gauges the return on investment for shareholders, exhibits a significant positive impact on PER according to research outcomes. This indicates that investors tend to give a higher assessment to companies that can generate higher returns for shareholders because this reflects the efficiency of capital used by the company (Gitman & Zutter, 2017; Ross et al., 2019; Brigham & Ehrhardt, 2020).

The Dividend Payout Ratio (DPR), measuring the proportion of net income distributed as dividends to shareholders, significantly influences PER according to research findings. This research has found that DPR has a significant positive influence on PER. It indicates that investors tend to assign higher evaluations to companies with more aggressive dividend policies (Brigham & Houston, 2019) or those following the clientele (Brigham & Houston, 2019), reflecting the preferences of majority shareholders. Ownership dominated by passive investors, who are not seeking capital gains but rather prefer to wait for dividend distributions from their investments, tends to rate highly companies that offer larger and more stable dividends, as reflected in higher PER values.

Interrelationship Among Variables: There exists an interrelationship among the variables in this study, indicating that strong financial performance in debt management, asset management, profitability, and dividend policy significantly impacts the company's market valuation, reflected in a higher PER.

IV. CONCLUSION

A. Influence of Financial Performance Variables on Market Valuation:

From the analysis results, it can be concluded that good financial performance, particularly in terms of debt management, liquidity (CR), profitability (NPM, ROE), and dividend policy (DPR), has a positive impact on market valuation of non-bank companies in the LQ45 Index of the Indonesia Stock Exchange. This indicates that investors tend to assign higher evaluations to companies with strong financial performance and attractive dividend policies.

B. Model Validity:

The Random Effects model used in this study demonstrates a fairly good level of validity, with high values of R-squared and Adjusted R-squared (0.772189 and 0.714435). This indicates that the generated estimation model is capable of explaining variations in firm value effectively.

C. Managerial Implications:

These findings have implications for company managers to pay more attention to debt management, liquidity, profitability, and dividend policy to enhance the market valuation of the company's financial performance. By improving performance on these variables, companies can enhance their attractiveness in the capital market and achieve higher value from investors.

V. RECOMMENDATIONS

Based on the findings of this study, recommendations can be made to several stakeholders, including:

A. Company Management:

Company management needs to pay attention to factors such as capital structure expressed by debt-to-equity ratio (DER), liquidity (CR), profitability (NPM and ROE), and dividend policy (DPR) which have been proven to significantly influence the market valuation of the company represented by PER. Improving performance in these variables can help enhance the company's value. Sustainable CSR programs can help strengthen the company's image, increase investor trust, and have a positive impact on the company's market valuation.

B. Investors in the Capital Market:

Financial performance factors, such as capital structure, liquidity, profitability, and dividend policy, can be important considerations in investment decision-making. By considering future company growth, a high NPM but low PER could indicate future growth potential. Investors need to consider the company's growth expectations underlying the current market valuation.

C. Capital Market Authorities:

Capital market authorities may consider providing additional incentives or special assessments for companies that receive awards for implementing their CSR programs. This could encourage more companies to adopt sustainable CSR practices, which in turn could enhance the company's image and investor confidence, and promote sustainable growth in the capital market.

D. Further Research:

Researchers can conduct further research by understanding other factors such as macroeconomic factors that may influence the market valuation of companies listed in the LQ45 index on the Indonesia Stock Exchange, considering that the model generated in this study is only able to explain the variability of market valuation (PER) by approximately 71.44%.

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