

Beyond Numbers: Exploring Factors Influencing Company Value In Indonesian Consumer Goods (2018-2022)

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ABSTRACT

This study analyzed Indonesian consumer goods' business value determinants (2018-2022) using numerical methods, focusing on the impact of key variables like debt-to-equity ratio, total asset turnover, logarithm of assets, and return on equity. The research investigated the influence of these factors on companies listed on the Indonesian Stock Exchange, revealing significant effects of debt-to-equity ratio and total asset turnover on return on equity and subsequently on price-to-book value. The logarithm of assets directly affected return on equity but had no impact on price-to-book value. Regression analysis, measured by R-Square and Q-Square values, demonstrated the variables' impact on cost-to-book value and return on equity. The study confirmed that financial leverage and asset utilization significantly affect enterprise value, highlighting the importance of effective financial management in optimizing investment returns in Indonesia's consumer goods sector.

Keywords: Debt to Equity Ratio, Logaritma Natural Asset, Price to Book Value, Stock Return on Equity, Total Aset Turn Over.

INTRODUCTION

Companies aim for stable and growing value crucial for investor interest (Arsyad et al., 2021). The price-to-book value (PBV) ratio rose from 3.93 to 10.78 (2018-2020), dipping to 4.64 in 2021 due to Covid-19 challenges. Managers may diverge from shareholder interests, focusing on company scale and solvency, which doesn't always benefit shareholders (Purnasari et al., 2020). In their study, (Fatima et al., 2023) study, positive influences of capital structure, investment decisions, and profitability on firm value were found. Total Asset Turnover Ratio (TATO) measures asset efficiency, with higher TATO linked to increased profitability. (Tantorio et al., 2023) Conflicting research on TATO's impact on firm value suggests investor focus may prioritize return on capital over asset turnover rates.

In Q1 2023, the food and beverage sector grew by 12.78%, ranking fourth among processing subsectors, trailing metal and transportation industries (15.51% and 17.27% growth). Assessing consumer product company worth is crucial for economic impact, contributing to employment, revenue, and taxation. Analyzing factors influencing company value aids in effective economic strategies (Putri & Kisman, 2022). The consumer products industry serves as an indirect indicator of public consumption levels (Angestu & Hanum, 2023). Researchers will explore how key financial metrics impact Indonesian stock exchange consumer product company values from 2018 to 2022.



LITERATURE REVIEW

The effect of debt to equity ratio on Return on equity

A company's capital mix, balancing equity and debt, significantly impacts profitability (Wibowo & Surjandari, 2023). Striking the right balance is vital; excess borrowed capital means high interest expenses, reducing net profit, while too much own capital diminishes return on investment (Affandi et al., 2019). This balance also affects the correlation between sales growth and profitability, with a strong internal capital structure positively influencing profitability and reducing reliance on interest expenses.

H1: Debt to equity ratio affects Return on equity

The Effect of Total Asset Turn Over on Return on equity

Asset management gauges how efficiently firm assets generate revenue. A high asset rotation rate, indicating substantial revenue with fewer assets, correlates with increased profitability (Makori & Jagongo, 2013). Study "Asset Turnover to Profitability" underscores the importance of effective asset utilization. Conversely, low asset turnover may reduce profitability, emphasizing the need to analyze it for optimal financial performance.

H2: Total Asset Turn Over affects Return on equity

The effect of natural asset logarithms on Return on equity

Company profitability is influenced by size, with larger enterprises often having more resources, market access, and bargaining advantages (Ehiedu, 2014), resulting in higher profitability compared to smaller counterparts (Le & Nguyen, 2020). Effective management, strategy, and resource utilization are crucial, and factors like economies of scale, risk management, and market power contribute to higher returns.

H3: The natural asset logarithm affects return on equity

The effect of debt to equity ratio on price to book value

A firm's capital structure determines its market value, reflecting overall worth. Optimizing internal and external fund allocation maximizes shareholder returns (Fangohoi et al., 2023). Prudent use of borrowed funds can boost profits, but careful examination is required to mitigate risks like bankruptcy (Fonseca et al., 2022). finds a direct relationship between company size and profitability, with larger organizations generally exhibiting higher profitability.

H4: Debt to equity ratio affects price to book value

The effect of total asset turn over on price to book value

Asset turnover impacts a company's value by signaling its efficiency in revenue generation from assets (Tahu & Susilo, 2017). High asset turnover, associated with increased firm value, optimizes income from existing assets (Purba et al., 2020), Efficient asset use boosts profit margins, enhancing overall company value.

H5: Total asset turn over affects price to book value

The effect of natural asset logarithms on price to book value

A company's size significantly impacts its value, with larger organizations generally generating better value due to increased resources, market access, and a broader client base. However, size alone doesn't determine value; operational efficiency, strategic approaches, innovation, and good management play key roles. Metrics like total assets, sales, or market capitalization indicate larger firms generally have higher values, attributed to factors like increased resource availability, risk diversification, and economies of scale (Aouadi & Marsat, 2018).

H6: Natural asset logarithms affect price to book value

The effect of debt to equity ratio on price to book value through Return on equity

A company's capital composition, incorporating both external and internal resources, is crucial in corporate financial theory (Molodchik et al., 2014). Effective expansion enhances brand standing, providing a competitive advantage and positively impacting worth (Cordiaz et al., 2021). H7: Debt to equity ratio affects price to book value through return on equity

The effect of total asset turn over on price to book value through Return on equity

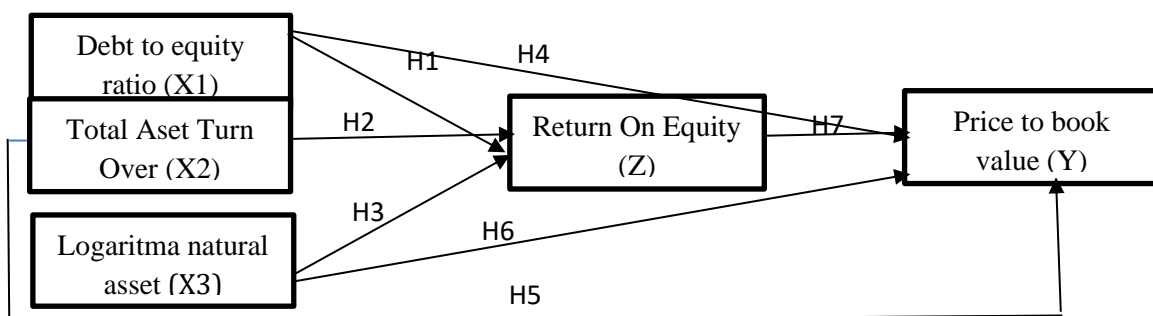
The company's worth is greatly influenced by high asset turnover, which improves the efficiency of assets and leads to increased revenue. This has been supported by studies such as (Saleh Alarussi & Mohammed Alhaderi, 2018). Enhancing efficiency not only increases profits but also decreases the chance of bankruptcy, thereby fostering investor confidence. H8: total asset turn over affects price to book value through return on equity

The effect of natural asset logarithms on price to book value through return on equity

Larger enterprises, with higher total assets or market cap, are perceived as more stable and resilient, boosting investor confidence (Chu et al., 2022). Increased size provides better access to resources, markets, and opportunities, enhancing value and profitability through improved operational efficiency, cost reductions, and profit margins, attracting diverse investors for increased financial access and value.

H9: Natural asset logarithms affect price to book value through return on equity

Figure 1. Research model



METHOD

This study uses a quantitative approach, focusing on the consumer products sector companies listed on the Indonesian Stock Exchange from 2018 to 2022. Purposive sampling yielded 18 companies meeting specific criteria. Data, including income statements, balance sheets, cash flow statements, and financial notes, will be sourced from the Indonesia Stock Exchange. The outer model, following (Hair et al., 2019), assesses model validity and reliability. Convergent validity requires a loading factor > 0.4 and AVE > 0.5. Discriminant validity is tested using cross-loading measurements. The inner model depicts variable relationships in PLS, with R2 values indicating predictive model strength. Hypothesis testing relies on t-values exceeding 1.65 at 0.10, > 1.96 at 0.05, and > 2.58 at 0.01, using a significance level of 0.05 in this study.

RESULTS

Reflective constructs in the SEM-PLS model undergo convergent validity assessment (outer model, CFA in covariance-based SEM). Criteria include loadings > 0.7 and p-value < 0.05 (Hair et al., 2019). If not met, (Hair et al., 2017) suggest a range of 0.40-0.70, especially for new questions. For indicators within 0.40-0.70, evaluate their impact on AVE and composite reliability; remove indicators < 0.40 if it enhances AVE and composite reliability (≥ 0.50, ≥ 0.70). Assess construct content validity post-removal.

Table 1. Validity Testing based on Loading Factor

Variable	Price to book value (Y)	Total aset turn over (X2)	Return on equity (Z)	Debt to equity ratio (X1)	Logaritma a natural aset (X3)
Price to book value	1,000				
Return on equity			1,000		
Total aset turn over		1,000			
Debt to equity ratio				1,000	
Logaritma natural aset					1,000

Source: Outputs of data processing using SmartPLS 3.3.

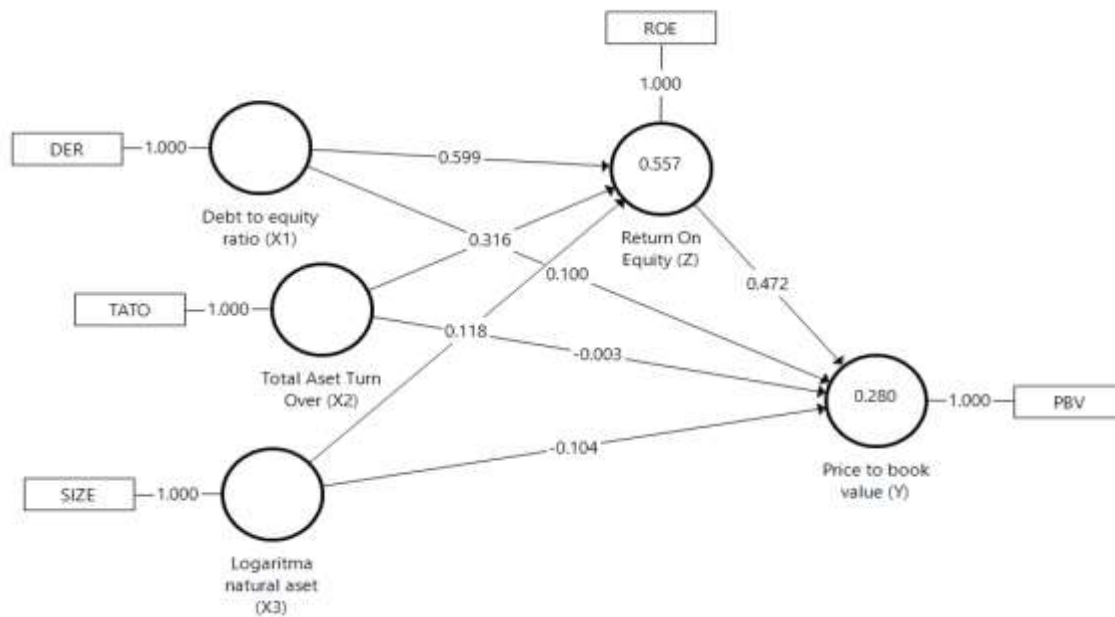


Figure 2. Validity Testing based on Loading Factor

Source: Outputs of data processing using SmartPLS 3.3.

By analyzing the loading factor presented in Table 1 and Figure 2, it has been concluded that any loading factor beyond 0.7 meets the validity criteria set for the loading value. Furthermore, the evaluation of validity is performed by assessing the average variance extracted (AVE).

Table 2. Validity Testing based on CA, CR and AVE

Variable	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Nilai Perusahaan (Y)	1,000	1,000	1,000
Perputan Aset (X2)	1,000	1,000	1,000
Profatabilitas (Z)	1,000	1,000	1,000
Struktur Modal (X1)	1,000	1,000	1,000
Ukuran Perusahaan (X3)	1,000	1,000	1,000

Source: Outputs of data processing using SmartPLS 3.3.

Table 2 indicates that the CA value surpasses 0.7, meeting the established reliability threshold. The Fornell-Lacker technique validates discriminant validity, with the recommended CR value exceeding 0.7, indicating reliability standards are met. The AVE values in Table 2, exceeding 0.5, demonstrate the fulfillment of validity standards based on AVE. Reliability testing, employing the CR value, further supports the assessment.

Table 3. Discriminant Validity Testing

Variable	Price to book value (Y)	Total asset turn over (X2)	Return on equity (Z)	Debt to equity ratio (X1)	Logaritma natural aset (X3)
Price to book value (Y)	(1,000)				
Total asset turn over (X2)	0,213	(1,000)			
Return on equity (Z)	0,516	0,404	(1,000)		
Debt to equity ratio (X1)	0,396	0,165	0,675	(1,000)	
Logaritma natural aset (X3)	0,017	-0,087	0,214	0,205	(1,000)

The value between () is the root of the AVE quaternary

Table 3 tests the selective validity of AVE square root values compared to correlation values between latent variables. Each latent variable's AVE square root value is bigger than its correlation value with other latents. Thus, it meets discriminant validity requirements.

Table 4. Multiconolnearity Test

Variable	Price to book value (Y)	Total asset turn over (X2)	Return on equity (Z)	Debt to equity ratio (X1)	Logaritma natural aset (X3)
Price to book value (Y)					
Total asset turn over (X2)	1,269		1,044		
Return on equity (Z)	2,259				
Debt to equity ratio (X1)	1,893		1,082		
Logaritma natural aset (X3)	1,092		1,061		

From the table 4, it can be seen that there are all variables that have tolerance values above 0.1 and VIF values below 10, so it can be concluded that the regression model in this study does not occur multicollinearity.

Inner Model

Table 5. Coefficient Path Test & Influencing Significanceh

Construct	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Debt to equity ratio (X1) -> Price to book value (Y)	0,100	0,096	1,040	0,149
Debt to equity ratio (X1) -> Return on equity (Z)	0,599	0,145	4,131	0,000
Total asset turn over (X2) -> Price to book value (Y)	-0,003	0,042	0,079	0,469
Total asset turn over (X2) -> Return on equity (Z)	0,316	0,064	4,942	0,000
Logaritma natural aset (X3) -> Price to book value (Y)	-0,104	0,078	1,343	0,090
Logaritma natural aset (X3) -> Return on equity (Z)	0,118	0,060	1,964	0,025
Return on equity (Z) -> Price to book value (Y)	0,472	0,206	2,294	0,011

Source: Outputs of data processing using smartPLS 3.3.



Based on the results in table 4, the results are obtained:

- With a coefficient value of 0.100, the debt to equity ratio (X1) has a positive effect on the price to book value (Y), but this relationship is not statistically significant with a P-Value of 0.149, which is higher than the significance level of 0.05.
- With a coefficient value of 0.599, the debt to equity ratio (X1) has a positive effect on the return on equity (Z), which is statistically significant at a P-value of 0.000 (less than 0.05).
- The coefficient's value of -0.003 indicates that Price to book value (Y) and Total asset turnover (X2) are negatively correlated. Nonetheless, this relationship isn't genuinely critical, as demonstrated by the P-Worth of 0.079, which is more noteworthy than the importance level of 0.05.
- The coefficient worth of 0.316 shows that there is a positive connection between Complete Resource Turnover (X2) and Return on Value (Z). Additionally, this relationship is statistically significant because the p-value of 0.000 is less than the significance level of 0.05.
- The resource's normal logarithm (X3) adversely affects the Cost to book esteem (Y) with a coefficient worth of - 0.104. In any case, its importance is uncertain as shown by a P-Worth of 0.090, which is more than the limit of 0.05.
- The logarithm of the resource (X3) decidedly influences the Profit from value (Z) with a coefficient worth of 0.118, which is genuinely critical at a P-worth of 0.025 (under 0.05).
- The coefficient value of 0.472 indicates that price to book value (Y) and return on equity (Z) are positively correlated. This relationship is measurably critical, as confirmed by the P-worth of 0.011, which is not exactly the importance level of 0.05.

Table 6. Indirect Effects

Construct	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Debt to equity ratio (X1) -> Return on equity (Z) -> Price to book value (Y)	0,283	0,135	2,099	0,018
Total aset turn over (X2) -> Return on equity (Z) -> Price to book value (Y)	0,149	0,071	2,099	0,018
Logaritma natural aset (X3) -> Return on equity (Z) -> Price to book value (Y)	0,056	0,038	1,456	0,073

Source: Outputs of data processing using smartPLS 3.3.

Based on the partial mediation results in table 5, results are obtained:

- The effect of variable Debt to equity ratio (X1) on Price to book value (Y) mediated Return on equity (Z). With a t-statistical value of 2.099, the relationship between debt-to-equity ratio (X1) and price-to-book value (Y) mediated by return on equity (Z) shows a positive sample value exceeding the critical t-value of 1.970. The p-value of 0.018, below the significance level of 0.05, validates the hypothesis. Return on equity (Z) acts as a positive and significant mediator in the connection between debt-to-equity ratio (X1) and price-to-book value (Y).
- The effect of Total asset turn over (X2) on Price to book value (Y) mediated Return on equity (Z). The t-value (2.099) for the link between total asset turnover (X2) and price-to-book value (Y), mediated by return on equity (Z), surpasses the critical threshold (1.970) at a 0.05 significance level, confirming a positive pattern. This validates the hypothesis that return on equity (Z) serves as a significant mediator in the relationship between total asset turnover (X2) and price-to-book value (Y).
- The effect of the natural logarithm of the asset (X3) on the variable Price to book value (Y) mediated by Return on equity (Z). The t-value for the impact of the natural logarithm of assets (X3) on price-to-book value (Y), mediated by return on equity (Z), is 1.456, below the critical t-table value (1.970). With a p-value of 0.073 exceeding 0.05, it lacks statistical significance. The positive observed value leads to the rejection of the study hypothesis, indicating that return on equity (Z) is not a significant mediator in the relationship between the natural logarithm of assets (X3) and price-to-book value (Y)

DISCUSSION

This review investigates determinants of organizational value in the Indonesian consumer products sector from 2018 to 2022. Focusing on factors like debt-to-equity ratio, total asset turnover, natural logarithm of assets, and return on equity, the study measures firm value using the price-to-book value (PBV). Findings indicate that PBV is influenced by return on equity (ROE), shaped by the debt-to-equity ratio. This supports the finance principle that a balanced capital structure can improve a company's cost of capital and market valuation. The relationship between debt-to-equity ratio and ROE in the consumer goods industry may be attributed to tax benefits and increased financial leverage, boosting investor profits. Total asset turnover significantly influences PBV through ROE, emphasizing the importance of efficient asset utilization for driving profitability and company value in the consumer goods sector. Larger companies may have higher profitability due to economies of scale, but this doesn't always translate into higher market valuation, challenging conventional wisdom. The central role of ROE in connecting financial ratios to PBV highlights profitability's impact on company value, reinforcing its importance in strategic decision-making.

CONCLUSION

The review expected to examine the elements that impact the value of organizations in the Indonesian customer items industry, explicitly between the years 2018 and 2022. The exploration requests revolved around the effect of the obligation to value proportion, all out resource turnover, the regular logarithm of resources, return on value, and cost to book esteem on the valuation of an organization. The outcomes demonstrate that both the proportion of obligation to value and the turnover of all out resources impact the worth of an organization, which is intervened by means of the profit from value. This lines up with earlier examinations that have stressed the meaning of benefit as a middle person in the connection between's firm size, deals development, and worth. The study also found that, despite the fact that larger assets, as indicated by the natural logarithm of assets, increase profitability, they have no direct effect on market valuation. This could be because of the mind boggling nature of overseeing bigger firms or a change in financial backer inclinations towards more modest, more spry organizations.

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