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Analysis of the Effectiveness of Company Value in Manufacturing Companies

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Abstract:** Currently, the industrial world is developing increasingly rapidly. The emergence of various types of small and large companies has created intense competition between companies. Competition in the industrial world, especially in the manufacturing industry, makes every company increasingly improve its performance so that its goals can still be achieved. Every company aims to increase the prosperity of its owners or shareholders through maximizing company value. The factors that effect the effectiveness of company value used in this research are return on asset and debt to equity ratio. The purpose of this research is to analyze the effectiveness of company value in Manufacturing Companies. This research uses quantitative methods. The population in this study are companies operating in the manufacturing sector which are listed on the Indonesia Stock Exchange. The observation sample in this research was taken from 2020 to 2023 with a total of 55 manufacturing companies selected according to the criteria. The data analysis method to answer the problem formulation and hypothesis uses panel data regression analysis. The results of this research show that return on asset has a significant effect on company value in Manufacturing Companies, because the probability value of 0.021 is smaller than the alpha of 0.05. Debt to equity ratio has a significant effect on company value in Manufacturing Companies, because the probability value of 0.002 is smaller than the alpha of 0.05.

***Keywords:** Company Value, Return on Asset, Debt to Equity Ratio.*

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1. INTRODUCTION

Currently, the industrial world is developing increasingly rapidly. The emergence of various types of small and large companies has created intense competition between companies. Competition in the industrial world, especially in the manufacturing industry, makes every company increasingly improve its performance so that its goals can still be achieved. Every company aims to increase the prosperity of its owners or shareholders through maximizing company value.

The company was founded with the aim of generating profits and providing prosperity for investors and shareholders. The level of company success can be determined by looking at the company value. Information about company value is useful for investors because it can provide an assessment of how the company manages its assets (Pandiangan et al., 2024). Because, the high value of the company will also provide high prosperity for investors. The share price is a fair price so it is used as a proxy for company value because share prices in the capital market are generated due to the relationship between investor demand and supply. The higher the share price, the higher the company value. Because the rise and fall of share prices determines the company's value in the eyes of investors (Yoppy et al., 2023).

Company value is a certain condition that has been achieved by a company as an illustration of public trust in the company after going through activities for several years, namely since the company was founded until now (Anggraini, 2009). Company value is very important because it reflects the company's financial performance which can influence investors' perceptions of the company.

Company valuation can be influenced by many factors. The basic concept of company valuation used includes value being determined over a certain period, value must be determined at a reasonable price, valuation is not influenced by certain groups. In general, many methods and techniques have been developed in company assessment, including:

1. Profit approach, including the profit level ratio method or price earnings ratio, profit projection capitalization method.
2. Cash flow approach, including the cash flow discount method.
3. Dividend approach, including the dividend growth method.
4. Asset approach, including asset valuation methods.
5. Stock price approach.
6. Economic value added approach.

With current developments, there is intense competition between each company, which requires companies to remain stable in order to survive and grow with good company value and investors will later consider this value in making decisions. A high company value can mean that the company has achieved one of its goals because the company value is directly proportional to the company's goal of increasing profits over time.

The financial performance of a company can be seen from the financial reports. This financial report is prepared and interpreted for the benefit of management and other parties who are concerned or have an interest in the company's financial data. Financial reports are a medium for companies to communicate financial information to interested parties, both external and internal. This financial report is a realization of the manager's form of responsibility in managing company assets and resources.

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The factors that effect the effectiveness of company value used in this research are return on asset and debt to equity ratio. Return on assets shows the company's ability to generate after-tax operating profit from the total assets owned by the company (Brigham and Houston, 2011). Return on assets is used to measure the company's overall capability and is invested in activities used for the company's operational activities with the aim of generating profits. The better the return on assets value, the theoretically the company's financial performance is said to be good, which also results in an increase in the company's share price. Where the share price and number of shares outstanding will influence it as a proxy for company value. A high return on assets value will provide a positive signal to investors that the company can generate profits under favorable conditions. This is an attraction for investors to own company shares and will increase the share price so that the company value increases.
Debt to equity ratio is measuring the debt owned with its own capital. It is best if the company's debt does not exceed the company's own capital (Fahmi, 2011). This is so that the fixed expenses incurred by the company are not high. The smaller the debt to capital, the better and safer.
The purpose of this research is to analyze the effectiveness of company value in Manufacturing Companies.

2. RELATED WORKS

Company value is a certain condition that has been achieved by a company as an illustration of public trust in the company after going through activities for several years, namely since the company was founded until now (Husnan, 2013). Company value is very important because it reflects the company's financial performance which can influence investors' perceptions of the company. The better the return on assets value, the theoretically the company's financial performance is said to be good, which also results in an increase in the company's share price. Where the share price and number of shares outstanding will influence it as a proxy for company value. A high return on assets value will provide a positive signal to investors that the company can generate profits under favorable conditions. This is an attraction for investors to own company shares and will increase the share price so that the value of the company increases (Mamduh, 2004).
Company value is a benchmark in assessing the company as a whole which is considered by investors when making investments. Debt to equity ratio measures the debt owned with its own capital. It is best if the company's debt does not exceed the company's own capital. This is so that the fixed expenses incurred by the company are not high. The smaller the debt to capital, the better and safer (Husnan, 2013). The existence of a debt to equity ratio will have a disciplinary impact on managers to optimize available funds. When funds can be utilized optimally, it is likely to produce high profits for the company. This increase in profits will attract investors to buy company shares. Increasing demand for company shares will have an impact on increasing company share prices.

3. METHODOLOGY

This research uses quantitative methods. Quantitative methods are used to test predetermined hypotheses and are based on positivism theory which is generally used to analyze

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certain populations and samples, random, and use research instruments in data collection and quantitative data analysis (Alimuddin et al., 2023).
The data used in the research is secondary data in the form of annual reports obtained from www.idx.co.id. Secondary data is data indirectly obtained by the author through the Indonesian Stock Exchange website.
Population is a generalized area of objects consisting of objects or subjects that have certain qualities and characteristics that have been determined by researchers to be studied and conclusions drawn (Pandiangan et al., 2023). The population in this study are companies operating in the manufacturing sector which are listed on the Indonesia Stock Exchange. The sample is a part of the number and characteristics of the population (Tambunan et al., 2024). The sample was selected using a purposive sampling technique, namely based on certain criteria. The observation sample in this research was taken from 2020 to 2023 with a total of 55 manufacturing companies selected according to the criteria. The data analysis method to answer the problem formulation and hypothesis uses panel data regression analysis. Panel data regression analysis is a combination of time series data and cross-sectional data. Data collected at one time on many units of observation is called cross-individual data, while data collected over time (Kurdhi et al., 2023).

4. RESULTS AND DISCUSSION

Hypothesis Test Result

Table 1. Hypothesis Test Result

Variable	Prob.
Return on Asset	0.021
Debt to Equity Ratio	0.002

The results of this research show that return on asset has a significant effect on company value in Manufacturing Companies, because the probability value of 0.021 is smaller than the alpha of 0.05. Profitability is a company's ability to earn a profit. Profits are obtained by the company from sales and investments made by the company. One important indicator to see the company's future prospects is to see the extent of the company's profitability growth. This indicator is very important to pay attention to to find out how much return investors can receive on their investments. Every company will always try to increase its profitability because this will have an impact on the survival of its business in the long term. The higher the level of company profitability, the more guaranteed the survival of the business will be, thus showing good prospects for the company in the future. Company profitability can be calculated by return on assets, by dividing net profit after tax by total assets. The higher the return on assets, the higher the company's ability to generate profits. The higher the profits generated by the company, the more investors will be interested in the value of the company's shares.

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Debt to equity ratio has a significant effect on company value in Manufacturing Companies, because the probability value of 0.002 is smaller than the alpha of 0.05.Debt to equity ratio is a company funding policy that comes from external parties.Debt to equity ratio is related to the capital structure because debt is one of thecompositions of the capital structure. The use of debt will increase the amount of funds the company has. The greater the amount of funds a company has, the easier it will be for the company to develop its business. The existence of a debt toequity ratio will have a disciplinary impact on managers to optimize available funds. When funds can be utilized optimally, it is likely to produce high profits for the company. This increase in profits will attract investors to buy company shares. Increasing demand for company shares will have an impact on increasing company share prices. The higher the share price, the higher the company value will be. This shows that debt policy has a positive effect on company value.

5. CONCLUSION

The results of this research show that return on asset has a significant effect on company value in Manufacturing Companies, because the probability value of 0.021 is smaller than the alpha of 0.05. Debt to equity ratio has a significant effect on company value in Manufacturing Companies, because the probability value of 0.002 is smaller than the alpha of 0.05.

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