



THE IMPACT OF FINANCIAL PERFORMANCE, FIRM SIZE AND CAPITAL STRUCTURE ON FIRM VALUE

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Abstract

This study aims to prove the effect of financial performance, company size and capital structure on firm value. The sample in the study was 144 manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period. The research sample was obtained by purposive sampling technique. The analytical method used is multiple linear regression analysis using SPSS version 23. The results of this research prove that financial performance has a positive effect on firm value, firm size has a positive effect on firm value and capital structure simultaneously has a positive effect on firm value.

Keywords: Financial performance, company size, capital structure, firm value

<i>Article History:</i>	<i>Received:</i> 18 April 2023	<i>Revised:</i> 7 May 2023	<i>Accepted:</i> 19 May 2023
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INTRODUCTION

The development of the industrial world is currently running so rapidly that it creates increasingly fierce competition (Heven & Fitty, 2022). Competition in the manufacturing industry has enabled every company to improve its performance in order to achieve goals (Rici & Haposan, 2022). The purpose of a company being established is to generate profits by maximizing the resources it has (Pasaribu *et al.*, 2016). Firm value is an investor's perception of the company's level of success which is reflected in the stock price (Nurminda, 2017). The higher the value of a company, the greater the value of its shareholders (Hariyanto & Lestari, 2016). Every company going public really wants the shares sold to have the potential for high prices to attract investors to invest their funds (Mery, 2017).

The company strives to achieve its goals in order to generate profits and maximize company value (Utama & Fidia, 2016). The value of a company is used as an indicator that can be used as a guide in assessing market confidence in company performance (Maharani, 2022). Investors will judge a company as good if it is able to provide a positive signal in improving company performance and increasing company value (Suyanto & Risqi, 2022). The decline in performance and stock prices will affect the value of the company. This requires every company to be able to face and anticipate all situations in order to be able to survive and move forward amidst various conditions, especially in order to achieve the main goals (Budi & Erlita, 2016).

In carrying out its business operations, of course, every company will be faced with a situation where the value of the company

will increase or decrease which can be influenced by various factors. One of the interesting phenomena quoted from www.cnbcindonesia.com, PT. Unilever Indonesia Tbk (UNVR) posted a profit of IDR 5.76 trillion in 2021, and experienced a decrease in profit of 19.6% compared to the previous period in 2020, the company recorded a net profit of IDR 7.16 trillion. This was due to decreased sales, where in 2021 the company posted net sales of IDR 39.5 trillion, a decrease of 7.97% from IDR 42.97 trillion in the 2020 period. PT. Unilever Indonesia Tbk in 2021 will affect the performance and price of the company's shares. The decline in the performance and price of the company's stock will affect the value of the company which can reflect what price is available to be paid by investors for a company.

More and more companies joining the stock exchange will make it easier for investors to evaluate companies through finance (Wardhaningrum *et al.*, 2022). Financial performance is one of the important factors considered by investors in determining stock investment (Harningsih, 2019). Future financial performance can be a very useful indicator for making decisions in buying and selling shares, as well as a warning to managers to improve company performance (Putra, 2021). Financial performance that has good prospects will automatically affect stock prices and attract investors' attention to invest (Aprilia & Wahjudi, 2021). The research by Yunina & Asmaul (2018), Afni & Uci (2019) and Hardian (2016) shows that financial performance has a positive effect on company value. Meanwhile, research by Erawati & Sihalo (2019) states that financial performance does not affect company value.

The size of the company reflects how big or small the company is which can be seen both from the scale of the company, the number of assets owned by the company, the frequency of sales, market share and other factors, large companies will give the impression of having higher certainty or going concern than small companies (Agustin, 2021). The larger the size or scale of the company, the easier it will be for the company to obtain funding sources, both internal and external, which can affect company value (Susanti *et al.*, 2018). The results of Suryana & Rahayu (2018) research show that company size has a positive effect on firm value. while the results of Machali (2017) show that company size has no effect on firm value negatively on firm value.

The capital structure is a comparison between debt and own capital (Mercyana, 2022). A company can be categorized as having good performance if the company has an optimal proportion of capital structure (Shaputri & Wibowo, 2016). Capital structure decisions are one of the decisions that managers must face in relation to the continuity of company operations (Zahra *et al.*, 2019). The value of the company will increase when the debt ratio to the capital structure is increased (Yuniastri, 2021). Based on research conducted by Hamidy *et al* (2015) and Nugraha (2021) it shows that capital structure has a positive effect on firm value. Meanwhile, the results of research by Oktrima (2017) show that capital structure has a negative effect on firm value.

This research is important to do because previous research still shows inconsistency and strengthens the theory and results of previous research, so that firm value is still an interesting topic to be re-

examined. With the aim of examining the effect of financial performance, company size and capital structure on firm value with regard to phenomena that occur in one manufacturing company. The reason for using manufacturing companies listed on the Indonesian stock exchange is because manufacturing companies are a sector that has high business complexity.

THEORETICAL LITERATURE

Signalling Theory

Signaling theory or signaling theory explains how investors can have the same information about the company's prospects. Signal theory emphasizes the importance of asymmetric information released by companies on investment decisions by parties outside the company (Ross, 1977). The information issued by the company is very important for investors and business people because in essence the information provides information, notes or descriptions for both the present and the future (Erawati *et al.*, 2022). Investors need complete, relevant, accurate and timely information needed by the capital market as an analytical tool for investment decisions (Dien & Fidiana, 2016). This positive signal is expected to attract investors to invest their share capital in the company. The information contained in the financial statements can be used as a signal for the users who are provided in the form of accounting information or non-accounting information.

Firm Value

Firm value is a value that can be used to measure the level of interest of a company, which is seen from the point of view of several parties such as investors who associate company value with its stock

price (Andriani, 2022). So the bigger or higher the share price, the more profits for shareholders will increase so that this situation will be in demand by investors because with increased demand for shares, the value of the company will also increase (Ayem & Nugroho, 2016). Increasing the value of the company can provide success for the shareholders. The company has a goal to increase the value of the company so that investors believe that the company's current performance can be seen or maintained in the future (Aeni & Asyik, 2019). Firm value is formed by stock market value indicators which are strongly influenced by investment opportunities (Bukit *et al.*, 2018).

Financial Performance

Financial performance is an achievement of a company that can be reflected in the company's financial condition based on the goals, standards and criteria applied for a period (Bhernadha, 2017). Financial performance is a measure used to assess how companies manage business assets to generate profits (Putra *et al.*, 2021). The company's financial performance is also one of the important factors that investors consider in determining stock investment (Harningsih, 2019). Financial performance with good prospects will affect stock prices and attract investors' attention to invest (Aprilia & Wahjudi, 2021). Financial performance needs to be carried out in the company so that it can be known and evaluated the level of success of the company based on financial activities that have been carried out (Hasti, 2022). In order for investors to be interested in investing their share capital, every company must improve its financial performance. Investors observe and assess

whether a company is good or not through its financial performance (Aprilia & Wahjudi, 2021).

Financial performance will also provide an overview of the efficiency of the use of funds regarding the results in obtaining profits which can be seen after comparing net income after tax (Yunina & Asmaul, 2018). This statement is supported by the results of research (Agustin, 2022) which states that financial performance can influence company value because one way investors assess a company is good or not through financial performance. So that potential investors are interested in investing, companies must improve financial performance which can be seen from the reflection condition or financial position of the company for a period. In accordance with the results of research (Ulfa & Asyik, 2018) which states that financial performance has a positive effect on firm value. Based on the description above, the hypothesis formulation can be derived::

H₁: Financial Performance has a positive effect on Firm Value

Firm Size

Company size is a value that shows the size of a company in various ways, namely from total assets, total sales, and market capitalization (Nurminda *et al.*, 2017). Company size is one of the variables that is first considered in determining company value (Ayem & Wulandari, 2022). If a company has large total assets, then the company can more freely use these assets to make it easier for the company to manage the company while at the same time increasing the value of the company (Suyanto, 2022). The larger the size of the company, then there is a tendency for more investors to pay attention to it so that it is

easier to obtain sources of funding from investment activities in shares of companies (Yuniastri *et al.*, 2021). Signaling theory states that the larger the size of the company, the greater the pressure to process information so that company management has a higher awareness of the importance of information in maintaining the company's existence.

The size of a company that is getting bigger will also have a high level of asset addition so that it can earn profits which will affect the increase in company value (Oktaviani *et al.*, 2019). Easier accessibility in obtaining these sources of funds will allow larger companies to have greater flexibility and the ability to raise funds in a short time (Zahra, 2019). Company size can be a scale for projecting whether bankruptcy will occur (Suyanto *et al.*, 2022). If the source of these funds can really be managed optimally so as to produce good business feedback, then this is considered to be able to attract potential investors to invest their shares in related companies so as to increase the value of the company. This is in line with the results of research by Agatha & Irsad (2021) which states that company size has a positive and significant effect on company value. Likewise with the results of Siswanti & Ngumar (2019) which states that a large company size indicates that the company is experiencing development so that investors respond positively and will increase the value of the company. Based on the description above, the hypothesis formulation is as follows:

H₂: Firm size has a positive effect on firm value.

Capital Structure

Capital structure is a comparison between debt and equity owned by the

company, debt can be divided into two categories, namely long-term debt and short-term debt (Mercyana *et al.*, 2022). The capital structure describes the proportion of debt used to finance an investment, so that investors can determine the balance between risk and return on investment (Mismana, 2020). Capital structure is one of the crucial indicators that can determine the sustainability of a company that is related to financial issues because good or bad capital structure policies adopted can affect the company's financial position (Anum, 2018). The sequence of capital structure funding is retained earnings which is internal funding, external funding in the form of debt and the last option is funding from share capital (Margana & Wiagustini, 2019). Based on the signaling theory, large companies tend to use debt to finance company assets because this shows that high use of debt is considered a positive signal for investors. In good business conditions, the use of debt as business capital can accelerate development if the company is able to optimize its business operations to get returns as expected, so that this can also make investors think that companies that have high debt can indicate that the company has good business prospects. good for the future (Mayasari, 2019).

Capital structure is an asset owned by a company that can show the use of debt in financing so that investors can see the balance between risk and return on investment (Aeni & Asyik, 2019). In the research of (Ayem & Nugroho (2016) explains that every company will expect an optimal capital structure that can maximize the value of the firm and minimize the cost of capital. Companies need large funds to support their operations, which is wrong. an alternative to fulfillment is with foreign

capital (debt) if own capital is insufficient. According to the explanation from the trade off theory if the position of the capital structure is below the optimal point, then any additional debt will increase the value of the company. Research results (Susanti, 2018) state that capital structure has a positive effect on firm value. Likewise, the results of research (Nugraha (2021) which prove that capital structure has a positive and significant effect on firm value. Any use of debt in the capital structure will increase firm value because from an investor perspective the use of a company's debt can shows good prospects in the future. Based on the description above, the hypothesis formulation is as follows:

H₃: Capital structure has a positive effect on firm value.

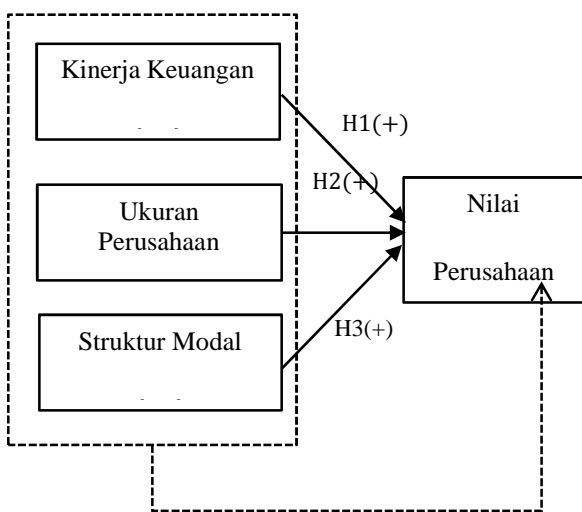


Figure 1. Conceptual Framework

RESEARCH METHODS

The type of research used is quantitative, namely the type of research in the form of statistical numbers (Sugiono, 2006). This study uses data obtained from the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id. Data processing uses SPSS software tools (Statistical Package for Social science)

version 23. The population in this study are companies in the manufacturing sector listed on the Indonesia Stock Exchange (IDX) for the period 2018 to 2021. The sampling technique in this study used a purposive sampling technique, which is a sampling technique with certain considerations for manufacturing companies listed on the Indonesia Stock Exchange. (IDX) Period 2018 to 2021 with the following sample criteria: Manufacturing companies listed on the Indonesia Stock Exchange (IDX) 2018-2021 period, Manufacturing companies that did not issue complete financial statements during the study period, Manufacturing companies that did not use the rupiah currency in displaying its financial statements and manufacturing companies that did not receive during the period 2018 to 2021.

Table 1. Sample Selection Criteria

No	Criteria	Total
1	Manufacturing companies listed on the Indonesian Stock Exchange (IDX) in 2018-2021	120
2	Manufacturing companies that do not issue complete financial reports from 2018-2021.	(54)
3	Manufacturing companies that do not use the rupiah currency in displaying their financial statements.	(22)
4	Manufacturing companies that do not earn profits during the period 2018 to 2021.	(8)
The research sample used		36
Total research data for 4 years (36 x 4 years)		144

Source: Indonesia Stock Exchange, data processed (2023)

The company value variable (Y) is the level of performance and success of companies that market through stock price

indicators on the market (Kusumawati & Rosady, 2018). The measurement of this company value variable uses the price to book value ratio (PBV). The price to book value (PBV) measurement ratio is considered very important for investors to determine investment strategies in the capital market which can be seen from the level of the company's ability to create value relative to the amount of capital invested (Oktaviani *et al.*, 2019). The ratio of formula price to book value in this study is as follows:

$$\text{Price to Book Value} = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$$

To calculate the book value per share, you can use the formula:

$$\frac{\text{Book Value Per Share} = \text{Total Equity}}{\text{Number of Shares Outstanding}}$$

The financial performance variable (X1) is an independent variable which is measured using the Return on Assets ratio. A high Return on Assets (ROA) ratio means that the company's ability to obtain higher expected profits will certainly increase the value of the company (Setiawati, 2022). Financial performance can be calculated by the following formula:

$$\text{Return on Asset} = \frac{\text{Earning After Tax}}{\text{Total Asset}} \times 100\%$$

The company size variable (X2) is a value that shows the size of a company in various ways, namely in terms of total assets, total sales and market capitalization (Nurminda, 2017). Company size with a natural logarithmic assessment of the total assets owned by the company is generally very large compared to other financial

variables. Measurement of firm value in this study uses the following formula:

$$\text{Firm Size} = \text{Log Natural}$$

The capital structure variable (X3) is the ratio of the company's long-term funding indicated by the ratio of long-term debt to equity (Ningsih & Soekotjo, 2017). *Debt to equity ratio (DER) is used to measure how good the company's capital structure is to company value. The following formula is used for the capital structure variable:*

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}} \times 100\%$$

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 2. Descriptive Statistical Analysis

	N	Min	Max	Mean	Std. Dev
Financial Performance	144	,116	1,724	,65301	,380159
Firm Size	144	26,100	32,130	28,65569	1,526648
Capital Structure	144	,003	1,831	,58037	,442087
Firm Value	144	,100	3,320	1,18146	,777857
Valid N (listwise)	144				

Source: Data processed using SPSS v.23 (2023)

Descriptive statistical analysis has the goal of providing a description (description) of a data so that the data presented is easy to understand and informative. Descriptive statistics explain various data characteristics such as the average (mean), standard deviation (standard deviation), minimum and maximum values. In this study descriptive analysis was carried out on the variables of financial performance, firm size, capital structure and firm value. Based on the statistical test results in Table 2, it shows that the firm value variable (Y) has a minimum value of 0.100 and a maximum value of 3.320, an average value of 1.18146

with a standard deviation of 0.777857. Financial performance (X1) has a minimum value of 0.116 and a maximum value of 1.724, an average value of 0.65301 with a standard deviation of 0.380159. Firm size (X2) has a minimum value of 26.100 and a maximum value of 32.130 with an average value of 28.65569 with a standard deviation of 1.526648. Capital structure (X3) has a minimum value of 0.003 and a maximum value of 1.831, an average value of 0.58037 with a standard deviation of 0.442087.

Normality Test

Table 3. Results of Normality Test Using *One-Sample Kolmogorov-Smirnov Test*

		Unstandardized Residual
N		144
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,24949934
	Most Extreme Differences	
	Absolute	,078
	Positive	,078
	Negative	-,049
Kolmogorov smirnov Z		,078
Asymp. Sig. (2-tailed)		,338 ^d

Source: Data processed using SPSS v.23 (2023)

The normality test is used to see whether the residual values are normally distributed or not. The data normality test process is carried out by paying attention to the distribution of data in the normal P-Plot test of the independent variables, if the data spreads over the diagonal line and follows the diagonal line, then the regression model meets the assumption of normality. By looking at the display of the normal p-plot graph, it can be seen that the dots spread around the diagonal line and follow the direction of the diagonal line, this shows that the regression model is feasible to use because it meets the assumption of normality. In addition, the way to determine

normality is to use the Kolmogorov-Smirnov non-parametric statistical test as used in this study. The criteria for the Kolmogorov-Smirnov test are: If the significant value is $p > 0.05$, the variable has a normal distribution and a significant value is $p < 0.05$, then the variable has an abnormal distribution (Ghozali, 2018). Based on the results in Table 3, it shows that the Kolmogorov-Smirnov Z value is 0.078 and the Asymp value. Sig (2tailed) is 0.338 $0.338 > 0.05$ so it can be concluded that the data is normally distributed.

Multicollinearity Test

Multicollinearity testing was carried out with the aim of testing whether in a regression model a correlation was found between the independent (independent) variables. The multicollinearity test is carried out by looking at the tolerance value and the variance inflation factor (VIF) value, if the tolerance value is > 0.10 and the VIF value is < 10 then there are no symptoms of multicollinearity. The results in this study indicate that the tolerance value for financial performance variables is 0.893 with a VIF value of 1.120. Firm size is 0.748 with a VIF value of 1.337. The capital structure is 0.710 with a VIF value of 1.408. The above results of all independent variables have a VIF value of less than 10, so it can be concluded that the data has passed the classical assumption test because there is no multicollinearity problem in the regression model of this study.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether there is an inequality of variance from the residuals in the regression model of one observation to another observation (Ghozali, 2018). Heteroscedasticity

detection can be done using the scatter plot method by plotting the ZPRED value (predicted value) with SRESID (residual value). Based on the results of the Glejser test, it shows that all independent variables have a significant level (sig) > 0.05. So it can be concluded that the data has passed the classical assumption test because all the independent variables in this study did not experience heteroscedasticity in the regression model, so the regression model is feasible to use. to predict firm value based on input variables of financial performance, company size and capital structure.

Autocorrelation Test

The autocorrelation test aims to test whether in the linear regression model there is a correlation between the confounding errors in period t and the previous t-1 period. In this study using the Durbin-Watson Test. The Durbin-Watson criterion is that the resulting Durbin-Watson value is between -2 to +2, meaning that there are no autocorrelation symptoms. Based on Table 6, the results of the autocorrelation test data show that the Durbin Watson value is 1.828 with N = 144 and K = 3. The values obtained are dl = 1.6854 and dU = 1.7704. So the results show that the regression model used is included in the testing area $dl > du < 4-du$, namely $1.7704 > 1.828 < 2.2296$, which means that the data in this study have passed the classical assumption test because there is no autocorrelation in the regression model on this research.

Multiple Linear Test

The requirement to be able to use multiple linear regression equations is the fulfillment of the classical assumptions. From the results of testing the classical assumptions it was concluded that the

regression model used in this study is feasible for multiple regression analysis. Multiple linear regression analysis was used to test the effect of the independent variables on the dependent variable. In the results of the table above, a multiple linear equation can be obtained as follows:

$$Y \text{ (PBV)} = -6.754 + 0.331 \text{ (ROA)} + 0.276 \text{ (SIZE)} + -0.308 \text{ (DER)}$$

The constant value of -6,754 explains that if the financial performance, company size and capital structure are constant, then the company value is -6,754. The value of the financial performance regression coefficient of 0.331 is positive, meaning that for every 1% increase in financial performance, it will increase the company's value by 33.1%. The company size of 0.276 is positive, meaning that for every 1% increase in company size, the company value will increase by 27.6%. and a capital structure of 0.308 has a positive value, which means that every 1% increase in capital structure will increase the value of the company by 30.8%.

Hypothesis Test

Table 4. Hypothesis Test Results

Model	t	Sig
(Constant)	-6,832	0,000
Financial Performance	2,888	0,004
Firm Size	6,298	0,000
Capital Structure	1,106	0,002

Dependent Variable:
Firm Value

Source: Data processed using SPSS v.23 (2023)

Based on the results in the table above, the analysis of the relationship between financial performance and firm value reveals that the t value of financial performance is 2.888 and the significance

level is 0.004 which is less than 0.05 which indicates that H1 and Ho are accepted. This shows that individual financial performance has a positive impact on value company. Analysis of the effect of firm size on firm value shows that H2 is accepted and Ho is accepted because the t score of firm size is 6.298 and the significance level is 0.000 which means less than 0.05. This indicates that firm size has a positive impact on firm value. Analysis of the effect of capital structure on firm value shows that H3 is accepted and Ho is accepted because the capital structure t score is 1.106 and the significance level is 0.000 which means less than 0.05. This shows that capital structure has a positive effect on firm value.

Simultaneous Test (F test)

The f test aims to determine whether the independent variables jointly affect the dependent variable by looking at the significant value of f. The decision-making criterion used is probability <0.05 , so the independent variables simultaneously or jointly affect the dependent variable, whereas if the probability value is > 0.05 , there is simultaneously no significant effect between the independent variables on the dependent variable. Based on the results of the f test in this study, the significant value of 0.002 is less than the error probability of 0.05, meaning that the independent variables of financial performance, firm size and capital structure jointly affect firm value (the dependent variable).

Determination Coefficient Test (*Adjusted R²*)

The coefficient of determination (R^2) essentially measures how far the model's ability to explain the variation in the dependent variable. The small R^2 value

means that the ability of the independent variables to explain the variation in the dependent variable is very limited. Values close to 1 mean that the independent variables provide almost all the information needed to predict the variation of the dependent variable. The calculation results from the table above can be seen that the Adjusted R Square value is 0.276 or 27.6% of the dependent variable firm value (Price to Book Value) which is measured through independent variables namely Financial Performance (Return On Assets), company size (Natural Logarithm) and structure capital (Debt to Equity Ratio).

Effect of Financial Performance on Firm Value

In testing the hypothesis, it shows that the magnitude of the coefficient on the financial performance variable using return on assets (ROA) is 0.331 with a significance value of 0.033 which is less than 0.05, which means that the company's financial performance has a positive and significant effect on firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX). The results of this test show that every increase in the company's financial performance by 1% will affect the increase in company value by 33.1%, thus the second hypothesis is accepted. Signaling theory explains that companies with increasing earnings are a signal that the company has good prospects in the future. The results of this study are supported by Yunina & Asmaul (2018), Mumtazah & Purwanto (2020) which show that financial performance has a positive effect on firm value.

The Effect of Company Size on Firm Value

In the results of testing the hypothesis that firm size has a positive and significant effect on firm value, this is evidenced by a coefficient value of 0.276 and a significance value of 0.000, which is less than 0.05. The results of this study indicate that large companies are considered to have good operational performance and have well-established and stable finances, so that with financial stability they tend to attract investors because they are considered to have good performance and promise to return returns on investment. given so that the value of the company increases. Large companies will also find it easy to obtain funds from third parties, namely creditors by submitting large assets. This is certain to make it easier for companies to make new investments related to expansion which can make the company grow more rapidly, which investors see as a positive signal that can increase company value. The results of this study are supported by previous research (Robiyanto *et al.*, 2020) which shows that company size has a positive and significant effect on firm value.

Effect of Capital Structure on Firm Value

Based on the results of hypothesis testing which shows the magnitude of the regression coefficient for the capital structure variable proxied by the debt to equity ratio (DER) is 0.308 with a significance value of 0.040 which is smaller than 0.05. So it can be concluded that the capital structure has a positive and significant effect on the value of manufacturing companies listed on the Indonesian stock exchange. Each increase in debt as company funding by 1% will affect the increase in company value by 30.8%,

thus the third hypothesis is accepted. This is in accordance with the theory of modern capital structure by MM in 1963 which states that by including corporate income tax, the use of debt will increase firm value, because debt interest costs are costs that reduce tax payments. These results are in line with the research of Susanti & Mintarti (2018), Susilowati (2019) and Muliana & Ahmad (2021) which show that capital structure affects company value.

CONCLUSION AND SUGGESTIONS

This research is focused on the factors that can affect the value of the company. researchers use the factors of financial performance, company size and capital structure to explain the value of the company. In this study we found that financial performance as measured by ROA, firm size as measured by SIZE and capital structure as measured by DER have a significant positive effect on firm value. The limitations of this study only measure financial performance with ROA and the objects in this study are only focused on manufacturing sector companies on the Indonesia Stock Exchange for the 2018-2021 period. For future similar research, it is recommended to measure financial performance using the ROE and ROI approach, adding the period and number of research samples to get better results. Future researchers are also advised not only to use secondary data but also to use primary data such as direct observation of companies.

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