Non-Cyclical Company Value in Indonesia: Analysis of Determining Factors Using an Intervening Variable Approach

Evi Juita Wailan'An[1]*, Sonya Enda Natasha S Pandia[2]

[1,2] *Faculty of Business, Undergraduate Accounting Program, Universitas Mikroskil*

**evijuita.wailanan@mikroskil.ac.id*

Abstract

This study investigates the influence of liquidity, capital structure, and operational efficiency on corporate value within Indonesian non-cyclical sector firms, employing profitability as an intervening mechanism. Grounded in the significance of maximizing shareholder wealth as a long-term performance indicator, this research examines 129 non-cyclical companies traded on the Indonesia Stock Exchange between 2020 and 2023. Through purposive sampling methodology, 82 companies were selected for analysis. Utilizing a quantitative descriptive framework with SmartPLS analytical tools, the findings demonstrate that capital leverage ratios and asset utilization efficiency directly enhance firm valuation. Conversely, debt financing exhibits an inverse relationship with profitability metrics. These outcomes underscore the critical importance of strategic capital management and resource optimization in value creation.
Keywords: Corporate Performance, Return on Assets, Shareholder Value, Capital Structure, Asset Efficiency

Introduction

The digital revolution has fundamentally reshaped corporate operations and stakeholder engagement patterns. Digital transformation empowers organizations to optimize operational processes, elevate customer satisfaction, and harness data analytics for strategic decision-making. Organizations that effectively integrate information and communication technologies typically demonstrate superior market valuations driven by enhanced revenues and profit margins (Brigham & Houston, 2021).

Corporate valuation represents a fundamental metric reflecting organizational performance and future growth trajectory. Encompassing both physical and intangible resources, it serves as a pivotal consideration for investment decision-making. Price to Book Value (PBV) stands among the most widely utilized valuation instruments, establishing a comparative measure between market capitalization and book equity per share (Damodaran, 2024). This ratio enables stakeholders to assess whether equity securities are appropriately valued relative to their underlying net assets.

However, empirical observations reveal inconsistencies between profitability trends and market valuations. Several Indonesian Stock Exchange-listed entities exhibit divergent patterns between financial performance and stock price movements. These anomalies prompt investigation into the authentic determinants of corporate value. Financial metrics including profitability, liquidity position, capital composition, and operational productivity frequently emerge as significant variables in value determination studies (Nugraheni & Risman, 2025).

Profitability, quantified through Return on Assets (ROA), demonstrates an organization's capacity to generate returns from its asset base. Liquidity, measured via the Current Ratio, indicates short-term obligation fulfillment capability. Capital structure, assessed through the Debt to Equity Ratio (DER), illustrates the funding mix between borrowed capital and shareholder equity. Operational efficiency can be evaluated using Total Asset Turnover (TATO) and Inventory Turnover metrics, reflecting asset deployment effectiveness and inventory management proficiency (Mills & Mwasambili, 2022).

Given the documented disconnect between earnings performance and equity valuations, combined with the relevance of these financial determinants, this investigation aims to examine the relationship between profitability, liquidity, capital structure, operational efficiency, and firm value. The research findings are anticipated to deliver meaningful insights to investors, corporate leadership, and other stakeholders regarding value dynamics within Indonesia's capital markets.

Literature Review

a. Firm Value

Corporate value constitutes a market-based metric reflecting an organization's authentic standing within capital markets, simultaneously providing management with signals regarding how strategic decisions may influence future outcomes. It embodies the discounted present value of anticipated cash flows, adjusted for risk parameters, while also encompassing asset valuation including securities (Rahman et al., 2020). Enhanced corporate value signifies greater prosperity for equity holders.

Price to Book Value (PBV) quantifies the extent to which markets value a company's book equity. Well-managed organizations typically maintain PBV ratios at or above unity, indicating market prices meet or exceed book values. Ratios below one suggest undervaluation, where securities trade beneath their accounting book values (Nawawi et al., 2024). The calculation formula is:

PBV = Market Price per Share / Book Value per Share

b. Profitability

Profitability assessment employs Return on Assets (ROA) as the primary proxy. ROA indicates the degree to which organizational assets contribute to net income generation. This metric measures profit earned per currency unit invested in total assets. Higher ROA values signal superior asset utilization efficiency in profit generation, while lower ratios suggest diminished profitability from existing resources (Jajuli et al., 2023). ROA additionally reflects management effectiveness in deploying corporate assets for income production. The calculation follows:

Return On Assets (ROA) = Net Income / Total Assets

c. Current Ratio

The Current Ratio quantifies an organization's capacity to satisfy short-term obligations using current assets. Elevated ratios indicate current asset surplus, whereas depressed ratios suggest potential difficulty in meeting near-term liabilities. The standard benchmark for optimal liquidity stands at 200% (2:1). This metric's primary utility lies in assessing liquidity position and facilitating cash flow and short-term debt planning (Brigham & Houston, 2021).

Current Ratio = Current Assets / Current Liabilities

H1a: Current Ratio influences profitability
H2a: Current Ratio affects corporate value
H3a: Current Ratio impacts corporate value through profitability mediation

d. Debt to Equity Ratio

The Debt to Equity Ratio (DER) measures the proportional relationship between organizational debt and equity. Elevated DER values indicate greater reliance on debt financing, amplifying creditor risk exposure. Conversely, reduced DER suggests predominant equity financing, thereby diminishing creditor risk. Optimally, DER should remain below 0.5, though this threshold varies across industries (Mills & Mwasambili, 2022).

Debt to Equity Ratio (DER) = Total Liabilities / Total Equity

H1b: DER influences profitability
H2b: DER affects corporate value
H3b: DER impacts corporate value through profitability mediation

e. Total Asset Turnover

Total Asset Turnover (TATO) measures organizational efficiency in deploying assets for revenue generation. This ratio divides total sales by total assets. Higher ratios demonstrate superior asset utilization for revenue production, whereas lower ratios may indicate underutilized assets. TATO increases from prior periods signal improved asset management efficiency, while decreases may reveal asset utilization challenges (Kamal et al., 2022).

Total Asset Turnover = Sales / Total Assets

H1c: TATO influences profitability
H2c: TATO affects corporate value
H3c: TATO impacts corporate value through profitability mediation

f. Inventory Turnover

Inventory Turnover measures how rapidly an organization converts inventory into sales within specified periods. Elevated ratios indicate efficient inventory liquidation, while depressed ratios suggest inventory accumulation and reduced liquidity. Higher turnover rates demonstrate efficient conversion of inventory to cash, supporting organizational liquidity and profitability. Conversely, low ratios may signal sales difficulties or inventory management inefficiencies (Siregar & Harahap, 2021).

Inventory Turnover = Cost of Goods Sold / Inventory

H1d: Inventory Turnover influences profitability

H2d: Inventory Turnover affects corporate value

H3d: Inventory Turnover impacts corporate value through profitability mediation

Methods

The analytical methodology employs a two-stage approach utilizing SmartPLS 3.2.9 software, appropriate for formative construct models where indicators constitute the construct. This two-stage framework specifically addresses mediation effects within formative construct models. The analytical model specification follows:

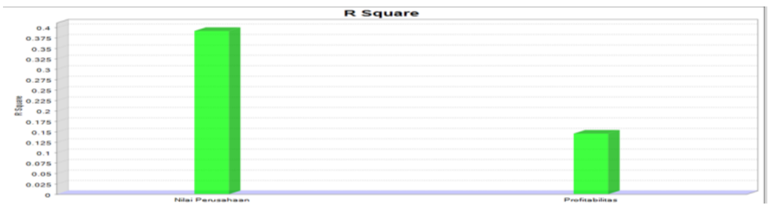
$$\eta = \gamma 1.1\xi 1 + \gamma 1.2\xi 2 + \gamma 1.3\xi 3 + \gamma 1.4\xi 4 + e$$

$$\eta = \gamma 1.1\xi 1 + \gamma 1.2\xi 2 + \gamma 1.3\xi 3 + \gamma 1.4\xi 4 + \beta 1.1\eta 1 + e$$

The mediation testing framework examines whether an intervening variable bridges relationships between independent and dependent variables. Testing proceeds through observation of both direct and indirect effects via bootstrapping methodology. Results achieve significance when P-values fall below 0.05. Significant indirect effects combined with insignificant direct effects indicate full mediation. When both effects demonstrate significance, partial mediation occurs. However, insignificant indirect effects confirm absence of mediation.

Results and Discussion

1. R-Square



R Square

Figure SEQ Figure * ARABIC 1. R-Square

	R Square	R Square Adjusted
Nilai Perusahaan	0.392	0.382
Profitabilitas	0.145	0.135

The R-Square coefficient for indirect effects of 0.145 indicates that Current Ratio, DER, TATO, and Inventory Turnover collectively explain 14.5% of profitability variation, categorized as weak explanatory power. The R-Square value for direct effects of 0.392 demonstrates these variables account for 39.2% of firm value variation, also classified as weak according to structural model interpretation criteria.

2. Direct Effect

Path Coefficients

	Original Sample (O)	Sample Mean (...	Standard Deviation ...	T Statistics (|O/STDEV|)	P Values
Current Ratio -> Nilai Perusahaan	0.020	0.023	0.030	0.672	0.502
Current Ratio -> Profitabilitas	0.088	0.107	0.053	1.657	0.098
Debt to Equity Ratio -> Nilai Perusahaan	0.527	0.561	0.185	2.849	0.005
Debt to Equity Ratio -> Profitabilitas	-0.359	-0.335	0.112	3.201	0.001
Inventory Turnover -> Nilai Perusahaan	0.004	0.023	0.038	0.103	0.918
Inventory Turnover -> Profitabilitas	-0.008	0.016	0.067	0.115	0.909
Profitabilitas -> Nilai Perusahaan	-0.109	-0.133	0.087	1.251	0.211
Total Asset Turnover -> Nilai Perusahaan	0.206	0.187	0.068	3.010	0.003
Total Asset Turnover -> Profitabilitas	0.094	0.089	0.056	1.671	0.095

The analysis yields the following conclusions:

a. Current Ratio: Findings reveal that liquidity ratios demonstrate no significant influence on either firm value or profitability, with P-Values of 0.502 and 0.098 (exceeding the 0.05 threshold). This indicates that liquidity levels within this context provide no meaningful direct contribution to enhancing financial performance or market valuation.

b. Debt to Equity Ratio (DER): Capital structure exhibits a significant but divergent effect pattern, positively influencing firm value (P-Value = 0.005 < 0.05) while negatively affecting profitability (P-Value = 0.001 < 0.05). This suggests that elevated debt utilization may receive positive market perception regarding value enhancement, yet simultaneously exerts downward pressure on profit levels.

c. Total Asset Turnover (TATO): Asset turnover demonstrates a positive and significant effect on firm value (P-Value = 0.003 < 0.05) but shows no significant profitability impact (P-Value = 0.095 > 0.05). This indicates that asset utilization efficiency can enhance firm value independent of direct profitability improvements.

d. Inventory Turnover: Inventory management metrics exhibit no significant effects on either firm value (P-Value = 0.918) or profitability (P-Value = 0.909), suggesting inventory management effectiveness does not constitute a dominant factor in determining financial or market performance within this sample.

3. Indirect Effect

Specific Indirect Effects

	Original Sample ...	Sample Mean (...	Standard Deviatio...	T Statistics...	P Values
Inventory Turnover -> Profitabilitas -> Nilai Perusahaan	0.001	-0.001	0.009	0.096	0.923
Current Ratio -> Profitabilitas -> Nilai Perusahaan	-0.010	-0.016	0.015	0.635	0.526
Total Asset Turnover -> Profitabilitas -> Nilai Perusahaan	-0.010	-0.011	0.010	1.026	0.305
Debt to Equity Ratio -> Profitabilitas -> Nilai Perusahaan	0.039	0.042	0.029	1.337	0.182

Indirect effects analysis demonstrates that profitability fails to function as a mediating variable in relationships between independent variables and corporate value. All P-Values exceed the 0.05 significance threshold. Specifically, profitability does not mediate Current Ratio's effect on corporate value (P-Value = 0.526), DER's impact on corporate value (P-Value = 0.182), TATO's influence on corporate value (P-Value = 0.305), nor Inventory Turnover's effect on corporate value (P-Value = 0.923). These findings indicate that while several independent variables directly affect corporate value, the indirect pathway through profitability lacks significance. Consequently, profitability does not explain the relationship mechanism between operational financial ratios and corporate value within this research model.

Conclusion

This investigation demonstrates that capital structure ratios positively influence corporate value, while asset turnover metrics similarly exhibit positive effects on firm valuation. However, liquidity ratios and inventory turnover demonstrate no significant impact on either corporate value or profitability. Profitability fails to mediate relationships between these variables and corporate value.

Future research recommendations include exploring additional determinants of corporate value, such as external environmental factors or untested variables. Subsequent studies could employ alternative mediation or moderation frameworks to examine more complex variable relationships.

Study limitations encompass the restricted variable set and potentially unrepresentative sample composition. Consequently, findings may differ when applied to broader industry sectors or extended time periods.

References

Brigham, F., & Houston, F. (2021). *Fundamentals of Financial Management* (15th ed.). Cengage Learning.

Damodaran, A. (2024). *The Little Book of Valuation: How to Value a Company, Pick a Stock, and Profit*. Wiley.

Jajuli, M., Kurniawan, A., & Santoso, B. (2023). Profitability ratios and corporate performance: Evidence from Indonesian manufacturing firms. *International Journal of Applied Finance and Business Studies, 11*(4), 964-969.

Kamal, S., Rahman, M., & Hassan, K. (2022). Asset efficiency and financial performance: A comparative study of emerging markets. *Journal of Financial Management, 45*(3), 234-251.

Mills, E. F. E. A., & Mwasambili, J. J. (2022). Capital structure and firm value nexus: The Ghanaian experience. *African Journal of Economic and Management Studies, 13*(2), 178-195.

Nawawi, A., Disman, Nugraha, & Waspada, I. (2024). The price to book value still influenced by the main factors on SDGs? *SDGs Review, 4*(1), 01-16.

Nugraheni, P., & Risman, A. (2025). The determinants of firm value: Commodity prices, exchange rates, inflation, and business risk as intervening variable. *International Journal of Economics Development Research, 6*(6), 145-162.

Rahman, A., Subhani, M. I., & Ushakov, D. (2020). Financial fundamentals and corporate valuation in emerging markets. *International Journal of Finance & Economics, 25*(4), 567-584.

Serrasqueiro, Z., & Nunes, P. M. (2023). Profitability determinants in European SMEs: The role of financial structure and market conditions. *Small Business Economics, 61*(2), 445-468.

Siregar, S., & Harahap, B. (2021). Total asset turnover and return on assets: Evidence from Indonesian listed companies. *Asian Journal of Accounting Research, 6*(2), 189-204.

Yu, W. (2024). Net profit margin and firm performance: A longitudinal analysis of Asian corporations. *Journal of Asian Business Studies, 18*(1), 78-95.