

Research Article

The Influence of Financial Performance, Firm Size, and Sales Growth on Firm Value

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Abstract: The food and beverage industry are generally known for its stability. Nevertheless, this sub-sector underwent fluctuations as a result of the COVID-19 pandemic, one of which was in its firm value. The study investigates how firm value is affected by key organizational characteristics, including financial performance, the scale of the firm, and the rate of sales growth. A firm's value is measured by its PBV (Price to Book Value). The study's measure of financial performance is a combination of Return on Equity (ROE) and the CR, DER, and TATO ratios. This study uses a quantitative approach. The study's population is composed of F&B firms publicly traded on the Indonesia Stock Exchange throughout 2019–2023. A purposive sampling technique was used to select the sample based on pre-defined requirements, leading to a total of 125 samples from 25 companies. Data were processed using WarpPLS version 8.0 to evaluate the research model through model fit, structural testing, and hypothesis testing. The results show that the model meets the required fit indices and has strong explanatory power. The findings reveal that profitability (ROE) and leverage (DER) have a positive and significant effect on firm value, while liquidity (CR) and sales growth exert a negative and significant effect. On the other hand, activity ratio (TATO) and firm size do not significantly influence firm value.

Keywords: Financial Performance; Firm Size; Firm Value; Profitability and Leverage; Sales Growth

1. Introduction

As an essential part of the financial system, the capital market enables companies to obtain public funds to support their business growth, while Investors gain a means to invest their money with the expectation of earning profits. The Indonesia Stock Exchange (IDX) serves as an intermediary connecting investors and issuers within Indonesia's capital market. A company's firm value reflects how the market views its future potential, making it a key metric for investors when deciding where to invest.

The firm's value illustrates how effectively management allocates available resources to produce earnings and support the organization's sustainable growth. One commonly applied method for evaluating a firm's market worth is the PBV ratio, reflecting the market price of a firm's shares in relation to their accounting value. It reflects the disparity between a company's market price and its accounting value (Rizky & Winarso, 2025). A low PBV ratio can suggest limited investor trust in the firm's current results or future outlook, while a high PBV ratio reflects optimism about the company's potential for growth.

The worth of a firm is shaped by numerous internal and external elements. Among the internal factors frequently highlighted in research are financial performance, firm size, and sales growth (Putri, 2024). This research evaluates financial performance through four key metrics: Return on Equity (ROE) representing profitability, Current Ratio (CR) indicating liquidity, Debt-to-Equity Ratio (DER) as a measure of solvency or capital structure, and Total Asset Turnover (TATO), which captures how efficiently assets are utilized in business operations (Shenurti et al., 2022; Subhanulfikri & Wikartika, 2024; Indrayani et al., 2021). Meanwhile, firm size represents the scale and capacity of the business, while sales growth reflects the increase in revenue generated from the company's core activities.

Received: May 09, 2025

Revised: July 08, 2025

Accepted: September 09, 2025

Published: November 07, 2025

Curr. Ver.: November 07, 2025



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However, in practice, improvements in these indicators do not always align with an increase in firm value. A high PBV ratio is not always found in firms with solid financial outcomes, such as substantial profitability or sustained revenue growth. Conversely, companies with moderate financial ratios may still be highly valued by the market. This condition shows the influence of a company's internal factors on its valuation is intricate and can differ depending on the business sector and the time of observation.

In this context, one sector worth examining is the food and beverage sub-sector, given its defensive characteristics and relative stability amid economic turbulence. The basic needs of society are largely met by products from companies in this sub-sector, leading to relatively steady demand. Nevertheless, the firm values of companies in this sector still experience significant fluctuations from year to year.

Table 1. PBV of Food & Beverages companies

Company	Years				
	2019	2020	2021	2022	2023
MYOR	4,63	5,38	4,01	4,35	3,64
INDF	1,28	0,76	0,64	0,63	0,56
ULTJ	3,09	3,48	3,18	2,63	2,49
ICBP	4,87	2,22	1,85	2,03	1,99
CLEO	3,94	3,34	2,81	2,74	2,80

Source: Indonesia Stock Exchange (2025)

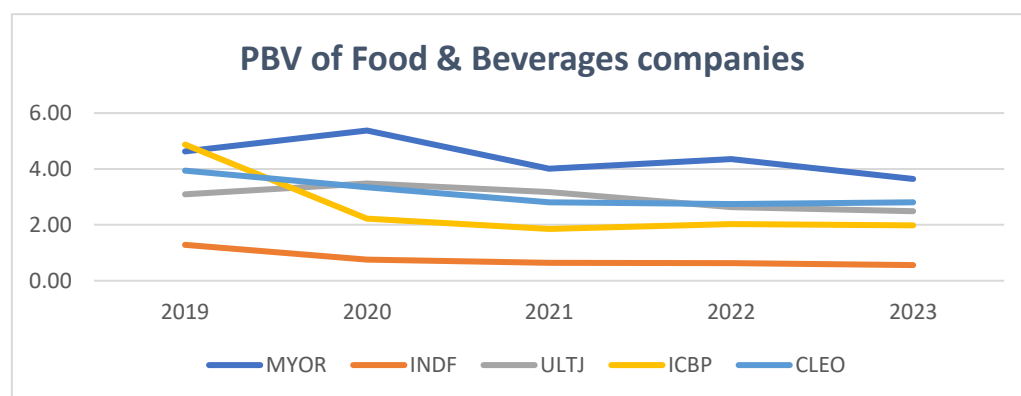


Figure 1. Graphics of the PBV of Food & Beverages companies

Source: Indonesia Stock Exchange (2025)

Based on the PBV data of five F&B firms during the 2019–2023 period, Notable changes occurred in 2020 amid the COVID-19 pandemic, with PBV rising for MYOR and ULTJ, but falling for INDF and ICBP. However, after the pandemic, nearly all companies showed a downward trend in PBV up to 2023, indicating pressure on the market value of businesses in the F&B industry despite the sector's relatively stable nature.

These five companies are part of the F&B industries, of which are generally considered stable. Nonetheless, the data reveals that firm value does not fully reflect the stability of the sector. This suggests that investors' assessment of a firm's worth is influenced by more than just the industry's performance but is also significantly influenced by internal company performance, market sentiment, and expectations of long-term profitability and efficiency.

Several factors influencing firm value have been widely studied by previous researchers, yet the findings remain inconsistent. This can be observed from the varying effects of variables such as financial results, company scale, and revenue growth on a firm's valuation. Such inconsistencies highlight the need for further studies, including replication research, in order to gain a more contextual understanding.

The financial performance variable has known to be reliable in similar research to examine its influence on firm value. The indicators employed vary depending on the research focus. In the study by Shenurti et al. (2022), which used ROA and ROE as proxies for measuring financial performance, the findings indicated that financial performance exerted no notable influence on firm value within manufacturing firms. Conversely, Dwima & Ruslim, (2024) reported that financial performance has a positive impact on a firm's valuation, using profitability as well as operational efficiency indicators as benchmarks. In another study,

Subhanulfikri & Wikartika (2024) examined aspects of liquidity and solvency; however, their findings revealed inconsistencies in the effect on firm value. These discrepancies suggest that financial performance indicators such as ROE, CR, DER, and TATO may yield different results based on the industrial setting, prevailing market environment, as well as the period of observation.

The firm size variable has also shown inconsistent results in relation to firm value. Indrayani et al. (2021) stated that company size does not influence corporate value in the agriculture sector. On the contrary, Dwima & Ruslim (2024) revealed that firm size demonstrates a significant positive effect on company value. Their argument is grounded in the notion that larger firms possess greater financial and operational capacity, making them more resilient and appealing to investors. These differing results indicate the potential variation in the influence of company size depending on the industrial field or macroeconomic conditions.

Similarly, the sales growth variable, which is frequently applied as a measure of a firm's future prospects, does not regularly influence firm valuation. Some studies use sales growth as an illustration of the achievement of marketing strategies and enterprise expansion. However, Faizal et al. (2024), in their research on coal companies, did not include sales growth as a primary variable, instead emphasizing profitability and leverage, which were also found to have no considerable impact on business value. In contrast, Indrayani et al. (2021) emphasized growth not accompanied by operational efficiency could lead to financial burdens, preventing an increase in firm value. This underlines that the effect of sales growth on firm value cannot yet be conclusively determined without more consistent supporting data.

The inconsistencies in earlier research results show the existence of a research gap warranting deeper examination. Moreover, most of these studies were conducted during periods prior to the worldwide economic disruption triggered by the COVID-19 pandemic. One example is the study by Siti Nur Elisa, which was conducted during the 2014–2019 period, when economic conditions were relatively stable and had not yet faced extreme external pressures.

2. Literature Review

Signaling Theory

Guided by Michael Spence's (1973) signaling theory, investors receive signals through the data communicated by company management to the market via financial reports and other financial indicators. Investors tend to respond positively to signals such as strong financial performance, large asset size, and stable sales growth, which can strengthen market trust and result in higher firm valuation (Subhanulfikri & Wikartika, 2024). Conversely, businesses that are unable to deliver positive signals will face difficulties in enhancing their market value.

Firm Value

The value of a firm illustrates the effectiveness of management in allocating resources as efficiently as possible and shows investors' views of an organization's future outlook. In the capital market, several indicators are commonly used to capture the way the market reacts to a firm's performance in determining its value, one of which is PBV ratio, showing how the market price of a company's shares compares to their book value (Rizky & Winarso, 2025). PBV illustrates the gap between a firm's market price and its accounting value. Since it directly affects shareholder wealth and represents the potential for long-term profitability, firm value is highly significant. Investors tend to be more optimistic about companies with a high PBV, as they are perceived to have promising growth prospects. Therefore, PBV is considered relevant in this study as an alternative measure of firm value, as it can indicate the extent of market appreciation toward a company.

Financial Performance

Financial performance reflects how far a firm can attain success in utilizing its resources to produce earnings. According to Brigham & Houston (2006), financial performance can be measured through a through ratios reflecting profitability, liquidity, leverage, and operational activity (Elisa & Amanah, 2021). These ratios offer investors insights into the financial condition of the firm, whether the organization is financially healthy or facing financial risks. Signaling theory explains that information on financial performance presented in annual reports will be interpreted by the market as either positive or negative signals, thereby influencing firm value (Saputri & Giovanni, 2021).

This research evaluates financial performance through multiple metrics, namely ROE measures profitability, CR assesses liquidity, DER evaluates leverage, and TATO gauges activity. ROE shows how effectively a firm earns from equity, CR assesses the ability to cover short-term liabilities, and DER evaluates the firm's dependence on debt relative to equity,

while TATO measures how effectively a company's assets are utilized in producing sales (Hidayat et al., 2021; Indrayani et al., 2021). Thus, strong financial performance sends a favorable signal to investors as it demonstrates the firm's capacity to efficiently manage its capital, assets, and liabilities, thereby contributing to higher value.

Firm Size

Firm Size represents an indicator that shows the magnitude of operations, the strength of resources, and the company's standing within its industry. Larger firms generally have easier access to external financing, greater production capacity, and stronger resilience against economic pressures. Firm size is frequently linked to investor confidence, as bigger firms tend to be viewed as more stable and possessing stronger corporate governance.

Sales Growth

Sales growth shows the rise in a firm's income during a given period from its operations. This variable indicates the firm's capacity to sustain and increase market share, as well as the effectiveness of its business strategies in boosting sales. Steady revenue growth is generally seen as a positive indicator for the firm's future profits and expansion potential (Seprina et al., 2023).

Conceptual Framework

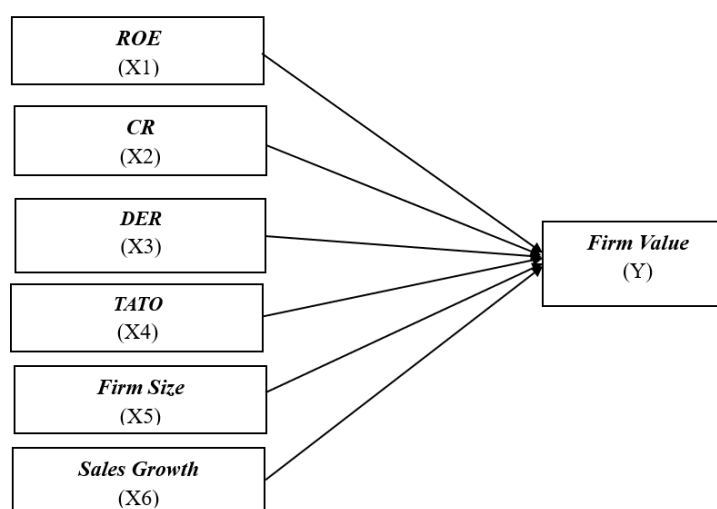


Figure 2. Conceptual Framework

Return on Equity and Firm Value

A high ROE provides a favorable signal to stakeholders including investors, indicating a strong managerial results in utilizing the capital entrusted by shareholders. Based on signaling theory, higher profits reflect a company's success in creating added value, thereby encouraging investors to allocate their funds. The increased demand for shares resulting from this positive signal drives share prices upward, ultimately enhancing firm value. Findings of prior research reinforce this view, showing that ROE exerts a considerable positive impact for the value of the company (Hidayat et al., 2021; Saputri & Giovanni, 2021). Thus, it may be inferred that ROE is positively related to firm value, as a higher ROE strengthens shareholders' trust in the firm's prospective performance.

H1: ROE effects firm value.

Current Ratio and Firm Value

CR is an indicator that reflects a firm's capability to cover liabilities, particularly short-term, using its current assets. A high CR may signify that this firm is financially liquid and remains capable of meeting its short-term obligations without experiencing financial strain. However, an excessively high CR can also convey a negative signal, as it may reflect an excess of current assets that are not being utilized optimally, which can be considered an inefficiency in resource utilization. From the perspective of signaling theory, information regarding a company's liquidity is important because it reflects management's ability to balance liquidity and the efficient utilization of assets. Therefore, CR's correlation to firm value is predicted, although the direction of its effect may differ depending on the firm's economic situation and strategy (Santoso & Junaeni, 2022).

H2: CR effects firm value

Debt-to-Equity Ratio and Firm Value

DER indicates a company's capital structure, particularly how much the debt is, in relation to the equity. A high DER generally provides a bad sign to stakeholders such as investors, as it indicates the firm's heavy reliance on external financing, which may increase the risk of bankruptcy. Investors often perceive a high DER as an additional liability, mainly the interest and principal repayment obligations, potentially reducing the company's future profitability. Conversely, a low DER sends a positive signal indicating the company depends more on equity than on borrowed funds, thereby lowering the firm's financial risk. Signaling theory suggests information about the firm's capital structure is considered vital for investors in determining its financial stability. Previous studies have shown that DER tends to negatively influence firm value, as high leverage is frequently seen as reducing investor interest (Fajriah et al., 2022). Therefore, it may be inferred that DER is inversely related to firm value, where the greater the DER, the lower the firm value.

H3: DER effects firm value

Total Asset Turnover and Firm Value

TATO is a performance ratio that measures how efficiently a firm uses total assets in order to produce sales. A high TATO value indicates efficiency in asset utilization to create revenue. Within the framework of signaling theory, an elevated TATO may be regarded as a favorable signal to investors. Conversely, a low TATO may provide a negative signal that the company's assets are underutilized, which can reduce investor confidence. Previous studies have shown that TATO has the potential to exert a favorable influence on firm value, though in some cases its impact may not always be significant, as it may be affected by other factors such as the scale of operations and industry conditions (Indrayani et al., 2021). Thus, A positive relationship between TATO and firm value is predicted, since asset management efficiency reflected in this ratio can enhance investor appeal.

H4: TATO effects firm value.

Firm Size and Firm Value

Firm size correlates to the firm's operational capacity, resources, and stability. Due to their projected ability to withstand economic fluctuations, larger firms are often perceived as more established, having stronger organizational structures, and being more attractive to investors. A larger scale also communicates market confidence in the firm's legitimacy as well as its capacity for further expansion. Consequently, firm size can influence firm value. Similar findings have also been reported in previous research (Dwima & Ruslim, 2024).

H5: Firms size effects firm value.

Sales Growth and Firm Value

Sales growth reflects a firm's achievement in maintaining its market presence as well as its ability to increase revenue over time. Consistent increase in revenue is often considered a sign of the effectiveness of a firm's operational and marketing strategies. Moreover, such growth indicates that the company possesses competitiveness and strong potential for business expansion, thereby sending a positive signal to investors. Thus, an increase in sales has an impact on firm value. Evidence from previous research (Saputri & Giovanni, 2021) also support this view, showing that firm value is affected by sales growth.

H6: Sales Growth effects firm value.

3. Research Method

Research Variables and Operational Definitions

Table 2. Operational Definition

Research Variable	Definition	Measurement
Y Price to Book Value	the level of success of management in managing assets as reflected in the Price to Book Value (PBV) ratio, which is the comparison between stock price and book value per share (Elisa & Amanah, 2021)	$PBV = \frac{\text{Price per Share}}{\text{Book Value per Share}}$ $= \frac{\text{Book Value}}{\text{Total Equity}} \times \frac{\text{Total Equity}}{\text{Total Outstanding Shares}}$
X1 Return on Equity	ratio that measures the company's ability to generate net income from	$ROE = \frac{\text{Net Income}}{\text{Total Equity}} \times 100\%$

		shareholders' equity (Saputri & Giovanni, 2021)	
		ratio that shows the company's ability to meet short-term obligations with its current assets (Santoso & Junaeni, 2022).	
X2	Current Ratio		$CR = \frac{Current\ Assets}{Current\ Liabilities}$
		ratio that describes the extent to which a company uses debt financing compared to its own equity (Fajriah et al., 2022)	
X3	Debt to Equity Ratio		$DER = \frac{Total\ Liabtiy}{Total\ Equity}$
		ratio that measures the efficiency of a company in utilizing its assets to generate sales (Indrayani et al., 2021)	
X4	Total Asset Turnover		$TATO = \frac{Net\ Sales}{Total\ Assets}$
		ratio that reflects the increase in the company's sales from one period to the next (Septina et al., 2023)	
X5	Firm Size		$Size = \ln(Total\ Assets)$
		how large a company is, usually proxied by the natural logarithm of total assets (Indrayani et al., 2021).	
X6	Sales Growth		$Growth = \frac{Sales_t - Sales_{t-1}}{Sales_{t-1}}$

Population

For this research, the population comprises firms in the F&B firms registered on IDX during the 2019–2023 period.

Sample

Sampling was carried out using a purposive approach, which involves selecting participants using criteria relevant to the study's aims. There are several criteria for sampling below:

- The company operates in the F&B industry and is registered on IDX.
- The company consistently publishes complete, audited annual financial statements and has available data on year-end closing stock prices for each year during the 2019–2023 period.
- The company did not undergo delisting or trading suspension throughout the observation period.
- The company presents its financial statements in Indonesian Rupiah.
- The company reported profits during the 2019–2023 period.

Table 3. Sample Selection

No	Criteria	Total
1	The company is part of the F&B industry registered on the IDX.	95
2	The company consistently releases complete, audited annual financial statements and has available data on year-end closing stock prices for each year during the 2019–2023 period	(44)
3	The company never had any delisting or suspension during the observation period	(4)
4	The company presents its financial statements in Indonesian Rupiah	(2)
5	The company reported profits during the 2019–2023 period	(20)
	Total sample companies	25
	Research period	5
	Total data sample	125

Source: Processed Secondary Data

Research Type and Data Sources

This research employs a quantitative approach, allowing for objective analysis using numerical data. The source for the data consists of secondary data, collected from official and documented publications.

Data Collection Method

The data were collected by downloading annual financial reports from official websites. The collected data were then compiled, recorded, and summarized based on the requirements of the study.

Data Analysis method

In this study, the data analysis method applied was Partial Least Square (PLS) – Structural Equation Modeling (SEM) using the WarpPLS 8.0 software. Hypothesis testing was conducted based on the rule of thumb for significance (two-tailed). The testing relied on the path coefficient values obtained and the significance of the p-value, where the significance of the relationship between variables was determined at the 1% p-value level. Referring to the empirical model of this research, the mathematical model can be formulated as follows:

$$PBV = \alpha + \beta_1 ROE + \beta_2 CR + \beta_3 DER + \beta_4 TATO + \beta_5 SIZE + \beta_6 GROWTH + e$$

4. Results and Discussion

Table 4. Model Fit

Criteria	Parameter	Rule of Thumb	Interpretation
Average path coefficient (APC)	$P < 0.001$	<i>Acceptable</i> $P < 0.05$	Accepted
Average R-squared (ARS)	$P < 0.001$	<i>Acceptable</i> $P < 0.05$	Accepted
Average adjusted R-squared (AARS)	$P < 0.001$	<i>Acceptable</i> $P < 0.05$	Accepted
Average block VIF (AVIF)	1.334	Acceptable if ≤ 5 , ideally ≤ 3.3	Accepted
Average full collinearity VIF (AFVIF)	2.027	Acceptable if ≤ 5 , ideally ≤ 3.3	Accepted
Tenenhaus GoF (GoF)	0.861	<i>Small</i> ≥ 0.1 , <i>medium</i> ≥ 0.25 , <i>large</i> ≥ 0.36	Accepted
Simpson's paradox ratio (SPR)	0.833	Acceptable if ≥ 0.7 , ideally = 1	Accepted
R-squared contribution ratio (RSCR)	0.971	Acceptable if ≥ 0.9 , ideally = 1	Accepted
Statistical suppression ratio (SSR)	1.000	Acceptable if ≥ 0.7	Accepted
Nonlinear bivariate causality direction ratio (NLBCDR)	1.000	Acceptable if ≥ 0.7	Accepted

Source: Output warppls8 (Processed data, 2025)

WarpPLS tests concludes this research model has fulfilled the required fit criteria. The APC obtained a value of 0.255 with a significance of $p < 0.001$, indicating that the overall relationships in the model are significant. ARS is 0.741 with $p < 0.001$ and the AARS is 0.728 with $p < 0.001$. Both values are above the recommended threshold of 0.10 and significant, which means that the independent variables in this model are deemed suitable to explain the variation of the dependent variable very well.

Furthermore, the AVIF value of 1.334 and the AFVIF value of 2.027 are both below the maximum cut-off of 3.3, which indicates that the model is free from multicollinearity problems. The Goodness of Fit (GoF) value is 0.861, which is categorized as large (>0.36), meaning that the explanatory power of the model is very strong. Other quality indices such as the Symptom's Paradox Ratio (SPR) of 0.833, RSCR of 0.971, SSR of 1.000, and NLBCDR of 1.000 also meet the required minimum threshold (>0.7).

These results confirm that the model developed in this study is robust, free from collinearity issues, and has a strong explanatory power. Thus, the model fit and quality indices provide evidence that the WarpPLS analysis can be continued to test the structural relationships between profitability (ROE), liquidity (CR), leverage (DER), activity (TATO), sales growth, and firm size on firm value.

Table 5. Structural Model Results

Variable	R ² (R-Square)	Q ² (Q-Square)	F ² (F-Square)
X1 (Return On Equity)			0.612
X2 (Current Ratio)			0.036

X3 (Debt To Equity Ratio)		0.048
X4 (Total Asset Turn Over)		0.023
X5 (Firm Size)		0.013
X6 (Sales Growth)		0.054
Y (Return on Assets)	0.741	0.701

Source: Output WarpPLS8 (Processed data,2025)

The evaluation of the structural model is carried out using the values of R-squared (R^2), Q-squared (Q^2), and the effect size (f^2) for each exogenous variable. The R^2 value for firm value is 0.741, which means that 74.1% of the variation in firm value can be explained by the independent variables used in the model, namely ROE, CR, DER, TATO, Growth, and Size. The remaining 25.9% is explained by other factors outside this research model. According to Sintha et al. (2025), R^2 values of 0.75, 0.50, and 0.25 are categorized as substantial, moderate, and weak, respectively. Thus, the R^2 obtained in this study is close to the substantial category, indicating that the model has strong explanatory power.

The predictive relevance of the model is reflected in the Q^2 value, which in this study is 0.701. This value is greater than zero, showing that the model has high predictive validity and is able to predict the endogenous variable, namely firm value, with good accuracy. In addition, the effect size (f^2) test shows that ROE has the largest effect with a value of 0.612, which is categorized as strong. Meanwhile, CR (0.036), DER (0.048), and Growth (0.054) fall in the weak to moderate category, while TATO (0.023) and Size (0.013) are categorized as weak. These results indicate that although several variables contribute only a small explanatory power, ROE has the most dominant influence in explaining variations in firm value.

Hypothesis Testing

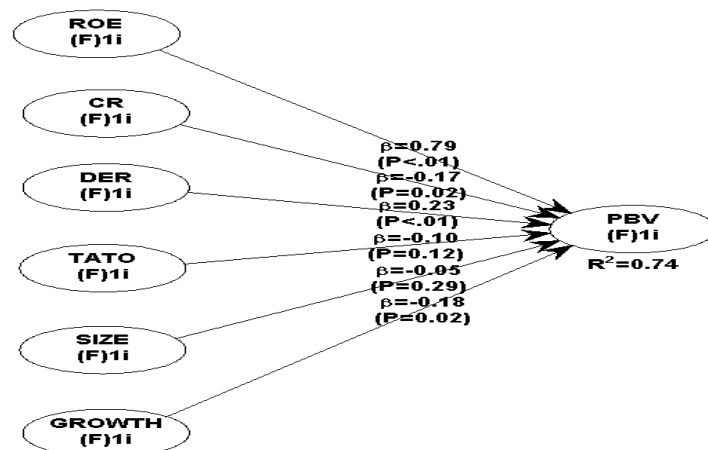


Figure 3. Research Result
Source: Research Result, 2025

Table 6. Table P-Value

Hypothesis	Variable	P-Value	B-value	Status
H1	Return On Equity	<0.01	0.79	Affected
H2	Current Ratio	0.024	-0.17	Affected
H3	Debt To Equity Ratio	0.004	0.23	Affected
H4	Total Asset Turn Over	0.115	-0.10	Not Affected
H5	Firm Size	0.294	-0.05	Not Affected
H6	Sales Growth	0.019	-0.18	Affected

Source: Output WarpPLS8 (Processed data, 2025)

The Effect of Return on Equity on Firm Value

The analysis shows that ROE has a positive and significant effect on firm value. This result indicates that the higher the ability of food and beverage companies to generate profits from shareholders' equity, the more attractive they become in the eyes of investors. A β -value of 0.79 also reflects a strong influence, suggesting that profitability is one of the most dominant determinants in explaining changes in firm value compared to other financial variables. In practice, companies that consistently report higher ROE are more likely to maintain investor trust, increase stock demand, and consequently improve their market valuation.

From the perspective of signaling theory, profitability is considered a strong and credible signal for the market. When a company demonstrates high profitability, it sends a message to

investors that management is capable of utilizing resources efficiently and has prospects for sustainable growth. Such a signal reduces information asymmetry, because investors gain confidence that the company can provide stable returns in the future. In the food and beverage sector, where competition and consumer preferences are highly dynamic, consistent profitability assures the market that the company is capable of adapting and maintaining performance under various conditions. Therefore, ROE not only represents financial performance but also serves as a strategic tool to communicate stability and growth potential to external stakeholders.

The findings of this study are supported by various previous studies. Sintha et al. (2025), confirmed that profitability significantly increases firm value because it reflects the company's ability to provide long-term returns. Similarly, Zahro & Syafnita (2025) found that profitability serves as one of the most important determinants of investor decision-making, as it signals efficiency in capital management. Indrayani et al. (2021) also emphasized that ROE provides an assessment of how effectively management utilizes shareholder capital, which directly influences investor perceptions and firm valuation. Taken together, these findings reinforce the results of this study that profitability, measured by ROE, plays a critical role in shaping firm value through its signaling function in the capital market.

The Effect of Current Ratio on Firm Value

The results show that CR has a negative and significant effect on firm value, meaning that an increase in the current ratio is related to the decrease in the Price to Book Value (PBV). A high CR shows a large proportion of the company's assets are tied up in current assets such as cash, receivables, and inventories, which are not being utilized effectively for productive investment or business expansion. Instead of being seen as a sign of financial health, this condition creates a negative perception among investors because it suggests inefficiency and missed opportunities to generate higher returns. When liquidity is too high, it signals that management is not optimizing resources, which reduces investor confidence in the company's growth prospects and ultimately lowers firm value.

Signaling theory tells us liquidity should ideally provide a positive signal regarding a company's financial stability. However, when liquidity is excessive, the signal can be reversed. A large accumulation of current assets may reflect conservative financial management or lack of strategic direction, which investors perceive as a waste of potential. This condition reduces confidence in the company's ability to optimize resources to generate returns, leading investors to devalue the firm. In the food and beverage sector, where growth and operational efficiency are critical, investors expect firms to utilize their assets actively rather than allowing them to remain idle.

The findings of this study are in line with several previous studies. (Kurniati et al., 2023) found that liquidity negatively affects firm value because high current ratios may signal idle funds and weak efficiency. Similarly, Lestari et al. (2025) reported that liquidity does not always provide a strong contribution to value creation, as investors often prioritize profitability and growth. Zahro & Syafnita (2025), also argued that liquidity tends to lose significance when profitability is high, meaning that investors are more focused on returns rather than short-term financial security. Consistent with this, Santoso & Junaeni (2022) observed that liquidity has a weak or even negative impact on firm value in manufacturing firms because investors assume most companies can already meet their obligations. These supporting findings strengthen the interpretation that, although CR is statistically significant, its negative coefficient shows that excessive liquidity acts as a counterproductive signal in determining firm value.

The Effect of Debt to Equity Ratio on Firm Value

The results indicate that DER has a positive and significant effect on firm value. This shows that the use of debt in the capital structure is perceived by investors as a positive factor, as long as it is managed at an optimal level. A moderate level of leverage can increase firm value because debt financing provides companies with additional capital to expand operations, enhance production, or capture new markets. For firms in the food and beverage industry, which requires continuous innovation and distribution efficiency, debt can serve as a strategic tool to drive growth and, in turn, increase firm valuation.

From the lens of signaling theory, leverage can be interpreted as a signal of management's trust in the firm's capability to produce enough future cash flows to meet obligations. By taking on debt, managers implicitly communicate that they are confident about future performance and earnings potential. This signal can reduce information asymmetry between management and investors, as debt commits the firm to fixed payments that can only be met

if the company maintains profitability. Therefore, leverage, when used wisely, sends a credible signal that supports investor trust and enhances firm value.

This finding is in line with several previous studies. Fajriah et al. (2022), found that leverage significantly increases firm value, as investors interpret debt as a sign of managerial confidence. Zahro & Syafnita (2025), also reported that DER has a positive effect on firm value in manufacturing companies because debt is used to finance productive investments. Lestari et al., 2025, confirmed that debt positively affects firm value in natural resource firms, showing that leverage contributes to higher valuations when aligned with profitability. Similarly, Indrayani et al. (2021) noted that leverage, though associated with financial risk, can enhance firm value when managed proportionally. Hutapea et al. (2023) further emphasized that leverage may even mediate profitability's effect on firm value, highlighting its strategic role in linking financial performance to investor perception. Thus, the significant positive impact of DER in this study confirms the important role of debt policy in enhancing firm value through its signaling function in the capital market.

The Effect of Total Asset Turn Over on Firm Value

The results show that TATO does not have a significant effect on firm value. This means that the efficiency of asset utilization in generating sales is not a primary determinant for investors in the food and beverage industry. Although a higher TATO reflects operational efficiency, it does not necessarily translate into greater profitability or long-term value creation. Investors may perceive that sales generated through asset turnover alone are insufficient if they are not accompanied by strong profit margins or consistent returns.

From the perspective of signaling theory, TATO should serve as a signal of efficient operations. However, the absence of significance implies that this signal is weak or ignored by investors in this sector. A high asset turnover ratio may show that assets are being used productively, but if the resulting sales do not lead to higher net income, the signal loses its relevance. In industries such as food and beverage, investors tend to place more weight on profitability and growth as stronger signals of value creation. Thus, even though TATO provides insight into operational activity, it fails to provide a convincing signal that can influence investor valuation.

The results of this study align with prior research. Indrayani et al. (2021), found that TATO does not significantly affect firm value, as investors focus more on profitability indicators. Septrina et al. (2023), also concluded that asset turnover does not strongly influence firm value because sales growth without profit expansion is not viewed positively by the market. Similarly, Amelia & Anwar (2022), emphasized that operational activity must be accompanied by financial performance to be relevant for investors. Lestari et al. (2025), likewise reported that liquidity and efficiency ratios often show weaker effects compared to profitability and leverage. These findings strengthen the interpretation that TATO, although useful for internal performance evaluation, does not serve as a decisive factor in determining firm value in the capital market.

The Effect of Firm Size on Firm Value

The results show that Firm Size does not have a significant effect on firm value. This means that the scale of assets owned by food and beverage firms is not considered a key determinant of market valuation. Larger companies are not automatically perceived as more valuable by investors, especially if their size is not accompanied by profitability and efficiency. For many investors, the ability to generate returns is more relevant than simply having a large asset base, which explains why firm size in this study fails to significantly impact firm value.

From the lens of signaling theory, firm size should serve as a signal of stability, resources, and market presence. Larger firms are often expected to have greater resilience, economies of scale, and stronger bargaining power. However, in this case the signal appears weak because investors may interpret size without profitability as inefficiency. A big company that cannot optimize its assets to create higher returns does not send a convincing signal of value creation. As such, the absence of significance suggests that in the food and beverage sector, investors prioritize signals of financial performance, particularly profitability and growth, over the mere scale of operations.

This result is consistent with previous studies. Zahro & Syafnita (2025), found that firm size has no significant effect on firm value, arguing that investors prefer to focus on profitability indicators. Similarly, Indrayani et al. (2021) emphasized that company size alone cannot guarantee higher firm value, as smaller firms with efficient performance may outperform larger competitors. Sembiring et al. (2025), also noted that while firm size can positively influence value in some contexts, its role is often mediated or moderated by other factors such as CSR or profitability. Lestari et al. (2025), further confirmed that firm size does not

consistently drive firm value across sectors, reinforcing that its effect is context-dependent. Taken together, these findings support the conclusion that firm size, although often associated with market strength, does not play a decisive role in shaping firm value in this study.

The Effect of Sales Growth on Firm Value

The results show that Sales Growth has a negative and significant effect on firm value, meaning that an increase in sales growth is followed by a decrease in the company's Price to Book Value (PBV). This indicates that rising sales do not always go hand in hand with higher firm value, because aggressive sales growth often requires substantial operational and expansion costs that reduce profitability. When profit margins decline as a result of these costs, investors perceive sales growth as inefficient, since the additional revenue does not create real value for shareholders. In the food and beverage sector, high sales figures can also be associated with heavy promotional expenses or price discounts that further erode profits, reinforcing the view that growth is not sustainable. Such conditions lead investors to interpret sales growth not as a positive signal, but as a warning of inefficiency in management strategy, thereby weakening market perception and ultimately lowering PBV.

From the perspective of signaling theory, sales growth should serve as a positive signal of future prospects. However, when sales increases are not accompanied by proportional profit increases, the signal becomes distorted. Investors may interpret rapid growth as risky, reflecting management strategies that prioritize volume over profitability. In this case, growth acts as a misleading signal, because high sales figures alone do not guarantee financial strength or long-term value creation. Thus, instead of reinforcing investor trust, sales growth in this context may generate skepticism about the company's ability to convert higher revenue into sustainable profits.

The findings of this study are supported by several previous studies. Amelia & Anwar (2022), found that growth does not always lead to higher firm value, as investors evaluate profitability more heavily than revenue expansion. (Kurniati et al., 2023) also reported that sales growth can negatively affect firm value, especially when it signals inefficiency or excessive cost structures. Lestari et al. (2025), showed that sales growth is not consistently a strong determinant of firm value across sectors, highlighting its limited reliability as a signal. In contrast, Seprina et al. (2023), emphasized that only growth supported by profitability is valued positively by investors. These findings reinforce the interpretation that while sales growth is statistically significant in this study, its negative relationship with firm value indicates investor caution toward firms that emphasize growth without efficiency.

5. Conclusions

This study analyzed the effect of profitability (ROE), liquidity (CR), leverage (DER), activity (TATO), firm size, and sales growth on firm value in food and beverage companies listed on the Indonesia Stock Exchange during 2019–2023 using WarpPLS analysis. The results show that profitability (ROE) and leverage (DER) have a positive and significant effect on firm value, liquidity (CR) and sales growth (SG) have a negative and significant effect, while activity (TATO) and firm size do not have a significant effect on firm value.

These findings emphasize that profitability provides the strongest positive contribution to firm value, reflecting the efficiency of management in generating returns for shareholders. Leverage also strengthens firm value by signaling management's confidence in future performance when debt is used optimally. On the other hand, the negative effects of liquidity and sales growth highlight that excessive current assets and aggressive sales expansion without profitability may be interpreted as inefficiency by investors. The insignificance of activity ratio and firm size shows that operational efficiency and scale are not sufficient signals of value creation unless supported by profitability and sustainable returns.

From a theoretical perspective, the findings reinforce the role of signaling theory in explaining investor behavior. Profitability and leverage serve as positive signals that reduce information asymmetry and build investor trust, while liquidity and sales growth, when excessive or inefficient, become negative signals that weaken investor confidence. This contributes to the understanding that not all financial indicators provide consistent signals to the market; their interpretation depends on how effectively they are linked to profitability and value creation.

From a managerial perspective, this research provides guidance that improving profitability and maintaining an optimal capital structure should be the main focus in enhancing firm value. Managers are also advised to manage liquidity prudently and ensure that sales growth

strategies are accompanied by profitability, so that they are not misinterpreted as inefficiency by investors.

From an investor perspective, the results of this study suggest that ROE and DER can be used as key benchmarks in evaluating the financial strength and growth prospects of food and beverage companies. At the same time, investors should be cautious when interpreting high levels of liquidity or rapid sales growth, as these may signal inefficiency rather than long-term value creation.

6. Suggestions

Based on the findings and conclusions of this study, several recommendations can be proposed. For future research, it is suggested that further studies expand the scope of analysis by including other sectors or incorporating additional variables such as corporate governance and corporate social responsibility (CSR) to gain broader insights into the determinants of firm value. For investors, it is recommended to pay greater attention to profitability, liquidity, leverage, and sales growth as key considerations when making investment decisions, particularly in the food and beverage sector.

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