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## Determinants of Financial Performance on Firm Value in Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange (IDX)

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### ABSTRACT

Stock investment is an investment that is considered exclusive for investors. One thing that needs to be known when investing is price-to-book value. The importance of price to book value for investors is the urgency of this study. This study aimed to analyze the factors that can influence Price to Book Value. This study is a quantitative study, using secondary data from textile and garment companies listed on the Indonesia stock exchange for the 2018-2021 period. A total of 8 companies were included in this study. Data were analyzed using multiple linear regression. The results of this study indicate that partially the return on assets and total asset turnover variables have no significant effect on the price book value, while the current ratio and debt to equity ratio have a significant effect on the price to book value. But simultaneously, return on assets, total asset turnover, current ratio, and debt to equity ratio have a significant effect on price to book value.

### 1. Introduction

The manufacturing industry in Indonesia is experiencing rapid progress, as evidenced by the fact that until 2022 there are 227 manufacturing companies listed on the Indonesia stock exchange (IDX). The large number of companies listed on the Indonesia stock exchange (IDX) proves that the manufacturing industry still has an advantage over the Indonesian economy, and the government is also supporting the Indonesian manufacturing industry by establishing new centers of economic activity. The products produced by the manufacturing industry are very important products for society, such as food, beverages, textiles, cement, and others. Because many of the people's needs come from the manufacturing

industry and constitute a basic need, many foreign and domestic investors are interested in investing their capital because, in general, it has favorable prospects. In addition, Indonesia is a country that has raw materials and a large market, so it can be more convincing for investors. One of the manufacturing industries that is attractive to investors is the textile and garment sub-sector industry. Industry This industry has made a very important contribution to the development of the national economy, including in terms of absorbing a large number of workers, also obtaining export foreign exchange, and being able to meet the needs of the domestic market, which makes this industry one of the main contributors to the manufacturing industry sector (Kemenprin, 2021).



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In 2019 the share price of the textile and garment industry decreased due to exposure to selling by market players, driven by pressure from the company's fundamental performance due to import flows in the upstream product sector and increased competition for the export market. The Indonesian textile association (API) noted that 9 textile factories closed due to being unable to compete with imported products in the 2018-2019 period (Anjani et al., 2021). The COVID-19 pandemic that occurred in 2020 resulted in the textile and garment industry experiencing a growth contraction that was quite high

(Kemenprin, 2021). In addition, the imposition of large-scale social restrictions (LSSR) in Indonesia, regulated by Government Regulation Number 21 of 2020, has had an impact on company operations until the termination of economic activity (Shifa, 2021). These factors contributed to the decline in stock prices of companies in the textile and garment sub-sector. The following is a graph of the average closing stock price in the textile and garment sub-sector for the 2017-2021 period:

Figure 1. The average closing share price for the textile and garment sub-sector for the 2017-2021 period.



Based on chart 1 above, it is explained that there was a very significant decline in share prices in 2019 from the previous year. This is an impact that occurred due to the action of selling shares carried out by investors and the entry of the COVID-19 pandemic in 2020. The decline in share prices will certainly influence enterprise value in the textile and garment sub-sector. According to Putri et al. (2016), the higher the company's profit, the higher the company's value, and vice versa. According to Silvia (2019), the value of the company is something that investors consider regarding the level of success of the manager in managing the company's resources entrusted to him, which is often linked to the stock price. The value of the company can be measured by using the valuation

ratio/market ratio consisting of price book value, price earning ratio, and Tobin's Q. The price book value ratio is a ratio that is often used to calculate company value as research has been conducted by Paulus et al. (2022), Yulianti et al. (2021), and Marli (2018). Price to book value (PBV) is the ratio between stock prices and the company's book value (Silvia, 2019). Book value is a stable and simple measure that can be compared to market prices. In addition, PBV can be compared between similar companies to show the high and low of a stock (Khoirunnisa, 2018). Based on these reasons, this study will use price to book to value (PBV) as a tool for measuring company value.

The high and low value of the company is strongly influenced by the quality of the company's financial

performance because good performance can increase the value of the company. This can describe the prosperity of the company's shareholders (Rudangga, 2016). In general, financial ratios consist of profitability ratios, liquidity ratios, solvency ratios, and activity ratios (Rustiani et al., 2017). Profitability ratios consist of several types of ratios, including profit margin (PM), earning per share (EPS), return on assets (ROA), and return on equity (ROE) (Rahardjo, 2020). Among all the profitability ratios, Return on Assets (ROA) is the ratio that is able to provide the most comprehensive information about the profits obtained by the company because the calculation uses total assets (all assets owned by the company) (Hery, 2018). Based on research conducted by Ningsih et al. (2019), the results show that the profitability ratio has a significant effect on company value. Also supported by research conducted by Aqabah et al. (2021) and Paulus et al. (2022), which state that profitability (ROA) has a significant positive effect on firm value (PBV).

Antriksa (2019) states that liquidity represents the amount of investment in current assets and the productivity of these current assets in increasing profitability. The liquidity ratio consists of the current ratio (CR), quick ratio (QR), and working capital (WC) (Rahardjo, 2020). However, this study uses the current ratio (CR) because the CR calculation uses all current assets owned by the company (Rahardjo, 2020) so that investors can find out more information about the productivity of current assets in the company if they use CR as a measure of liquidity. Suriana et al. (2020) stated that liquidity has a significant effect on company value. These results are in line with research from Sukmayanti et al. (2022), which states that liquidity (CR) has a significantly positive effect on firm value (PBV).

The solvency ratio consists of several types of ratios, namely debt to asset ratio (DAR), debt to equity ratio (DER), times interest earned, and the ratio of fixed to long-term liabilities (Rahardjo, 2020). In this

study, the solvency ratio uses DER, where DER is a ratio between total liabilities and capital (Rahardjo, 2020). In other words, DER has an important role in dealing with the risks posed by DAR. Suriana et al. (2020) obtained the result that the solvency ratio has a significantly positive effect on company value. This result is also supported by a study from Sirait et al. (2021) and Savira et al. (2022), which state that solvency (DER) has a significant positive effect on firm value (PBV).

The activity ratio is the ratio used to measure the effectiveness of the use of company resources. (Indawati et al., 2021). The activity ratio is divided into several types of ratios, including receivable turnover (RTO), inventory turnover (ITO), fixed assets turnover (FATO), and total assets turnover (TATO) (Rahardjo, 2020). In this study, researchers will use TATO to project activity. This is because TATO is a ratio that calculates the effectiveness of using total assets in supporting sales activities, so this ratio can provide broader information because it takes into account the entirety of the company's assets compared to RTO, which only compares credit sales with average receivables, ITO which only shows inventory turnover in one period, as well as FATO which only calculates how efficiently the company's fixed assets are used. Muchsidin et al. (2021) showed results that activity has a significant effect on firm value. These results are supported by research from Hulasoh et al. (2022) and Adita et al. (2018), which state that activity (TATO) has a significant effect on firm value (PBV). This study aimed to analyze the factors that can influence price to book value.

## 2. Literature Review

Brigham et al. (Suganda, 2018) state that signaling theory is an action taken by company management to provide instructions for investors regarding the company's prospects. Meanwhile, according to Wolk et al. (2017), signaling theory explains why companies have the initiative and encouragement to provide



information to external parties. Signaling theory explains the reasons companies present information to the capital market. Signaling theory emphasizes the importance of information issued by the company on the decisions of parties external to the company. This information is important because information basically presents information, notes, or descriptions of past, present, and future conditions for the survival of a company and how the stock market is. Investors need relevant, accurate, and timely information to analyze the market information. This is used as an investment decision making. Based on the explanation above, it can be concluded that the relationship between signaling theory and firm value is that if firm value can be categorized as good, it will also be a good signal for investors.

According to Wardani et al. (2018), the Trade-off theory is a theory that explains the balance between benefits and sacrifices arising from external funding. According to Bringham et al. (Umdiana et al., 2020), the trade-off theory is said to be a theory of exchange of benefits. What is meant by the exchange of benefits is that companies exchange tax benefits obtained from debt with problems caused by potential bankruptcy. PBV (price book value) is a ratio that shows the results of a comparison between the market price per share and the book value per share. The lower the PBV means that the stock is categorized as having a low value. This is very good for long-term investment. However, a low PBV can also be an indicator of a decline in the quality and performance of a company's fundamentals. The current ratio is the ability to pay obligations that mature in less than one year, such as the ability to cover short-term creditor claims with assets that are expected to be converted into cash within a period that roughly coincides with the maturity of the liabilities. (Rahardjo, 2020). Debt to equity ratio (DER) is a ratio that compares debts and equity in company funding and shows the ability of the company's own capital to fulfill all of its obligations. Total asset turnover is the ratio used to calculate the

effectiveness of using total assets. A high ratio usually indicates good management, whereas a low ratio must make management evaluate its strategy, marketing, and capital expenditures (Hanafi et al., 2018). Return on Assets (ROA) is a ratio that measures the productivity of assets in generating profits. This ratio shows the net profit generated for every rupiah of assets invested in the company (Rahardjo, 2020). High ROA indicates asset management efficiency (Hanafi et al., 2018).

According to Azhar (2018), profitability has a positive relationship with company value because a high level of profitability will be followed by an increase in the value of a company. Based on the results study conducted by Paulus et al. (2022), profitability proxied by return on assets (ROA) has a significant effect positively significant to company value proxied by price to book value (PBV). This is also supported by research from Ningsih et al. (2019), Marli (2018), Aqabah et al. (2021), and Sari (2022). However, research conducted by Sondakh et al. (2019), Artati (2020), and Dzulhijar et al. (2021) results shows that profitability proxied by return on assets (ROA) has no significant effect on firm value proxied by price to book value (PBV).

According to Sianipar (2015), there is a positive relationship between activity and firm value. The higher the activity ratio, the better it will look, and it is likely to increase the value of the company, which is reflected in the stock price. Based on research from Hulasoh et al. (2022), proxied activity ratios with total asset turnover (TATO) has a significant positive effect on firm value proxied by price to book value (PBV). This is also supported by research results from Adita et al. (2018) and Utami et al. (2016). However, according to the results of research conducted by Sutrisno et al. (2017), Nursalim et al. (2021), and Nasution (2021) stated that activity (TATO) has no significant effect on firm value (PBV).

According to Iman et al. (2021), liquidity has a positive relationship with company value. Larger



companies have greater liquidity, which means they have more current assets to finance their operational activities. The better the company's liquidity indicates that the company is able to pay debts that are due, and the company will be viewed favorably by investors so. That many investors invest shares in the company, causing the company's stock price to increase, and the company's value will increase. Based on the results of a study conducted by Sukmayanti et al. (2022) stated that liquidity proxied by the current ratio (CR) had a positive and significant effect on company value proxied by price to book value (PBV). This is also supported by several research results conducted by Aprilia et al. (2018), Sirait et al. (2021), and Sukma (2021). However, the results of research conducted by Dzulhijar et al. (2021) stated that liquidity (CR) has no significant effect on firm value (PBV).

According to Abrori (2019), the relationship between solvency and company value is negative. The higher the solvency ratio, the higher the risk of losing it can cause a company's value to decrease. If the value of a company decreases, the company's stock price will also decrease. This will affect the level of investor confidence in the company and will further affect the value of the company. Research results from Suriana et al. (2020), the solvency ratio proxied by the debt to equity ratio (DER) has a significant positive effect on company value which is proxied by price to book value (PBV). This is also supported by the results of research from Suwardika et al. (2017), Dewi et al. (2019), Sirait et al. (2021), as well as Savira et al. (2022). However, the results obtained from the study Mahaayati et al. (2021) show that there is no significant effect between solvency (DER) and firm value (PBV).

### 3. Methods

This study uses a quantitative approach that focuses on data in numerical form and uses analysis statistics. The type of research data is secondary data in the form of financial ratios, current ratio (CR), total asset turnover (TATO), debt to equity ratio (DER), return on assets (ROA), and price to book value (PBV),

textile and garment industry companies for the 2017-2021 period. The population used in this study are textile and garment sub-sector companies listed on the Indonesia stock exchange (IDX) for the 2017-2021 period. Determination of the selection of the sample used is purposive sampling, namely by determining several criteria to obtain a representative sample as follows: Textile and garment sub-sector companies listed on the Indonesian Stock Exchange (IDX) during the 2017-2021 period, Textile and garment sub-sector companies which provide a complete annual report for the 2017-2021 period, textile and garment sub-sector companies that have never experienced suspend on the Indonesia stock exchange (IDX) during the 2017-2021 period, textile and garment sub-sector companies using the US Dollar exchange rate in recording their financial statements to avoid differences in currency exchange rates. The research model used in this study is multiple linear regression. The data analysis method in this study uses the SPSS application program. The processed data includes the ratio of price book to value (PBV), return on assets (ROA), current ratio (CR), total asset turnover (TATO), and debt to equity ratio (DER). Testing procedures include classical assumption tests and multiple linear regression tests through partial tests (t-test), simultaneous tests (f-test), and the coefficient of determination.

### 4. Results and Discussion

The Normality Test is carried out with the aim of assessing the distribution of data on the variables used that are normally distributed or not. To detect the normality of the data, it is done by looking at the plot points. If the data points are close or follow the diagonal line, it can be said that the residual values are normally distributed.

The results of the normality test in Figure 1 below show that each data point spreads close or follows a diagonal line, meaning that the data or residual value is distributed normally.



Test Multicollinearity was used with the aim of determining whether the regression model found a correlation between independent variables. The basis for the decision in the multicollinearity test is that if the VIF value is < 10 or the tolerance value is > 0.01, then it is declared that there is no multicollinearity.

The results of the multicollinearity test in Table 1 show that the tolerance value for each variable is > 0.01, or the VIF value for each variable is < 10, meaning that there is no multicollinearity between the variables. independent

The heteroscedasticity test was carried out to test whether, in a regression model, there is an inequality of variance from the residuals of one observation to another. The way to find out if there is an inequality of variance is by looking at the scatter plot graph.

Based on the scatterplot graph of the heteroscedasticity test in graph 3, it can be seen that the dots spread randomly and do not form a pattern either above or below zero on the Y-axis. It can be concluded that the regression model used does not show symptoms of heteroscedasticity.

An autocorrelation test was conducted to determine whether there is autocorrelation between a period t and the previous period (t-1). A good regression model is a regression that is free from autocorrelation. To find out, this can be done by comparing the D-W value with the d value of table Durbin Watson.

Based on Table 2 below, it can be explained that the DW value is known to be 2,190. This value is compared with a significance level of 5% with a sample size of 40 (n) and a number of variables independent 4 (k = 4), then the du value is 1.65889. The value of d > dU is 2.190 > 1.65889, which means there is no autocorrelation from the regression model. Then the regression model can be continued.

The regression model is used to determine the effect of one variable on another. The results of data processing using the regression model can be seen in Table 2 below:

Based on Table 3 shows that the multiple linear regression equation is as follows:

$$Y = 0.081 + 0.984 X_1 + 0.042 X_2 + 0.095 X_3 + 0.163 X_4$$

The regression equation obtained can be explained as follows; The constant value is 0.081. This shows that if the independent variable does not change or is in constant condition (value 0), The regression coefficient value of the ROA variable (X1) is 0.984. This means that changes in ROA are directly proportional to PBV. If the ROA variable increases by 1%, then there tends to be an increase in the PBV variable; The TATO regression coefficient (X2) is 0.042. This means that changes in TATO are directly proportional to PBV. If TATO experiences an increase of 1%, then there tends to be an increase in the PBV variable; The CR regression coefficient (X3) is 0.095. This means that changes in CR are directly proportional to PBV. If CR has increased by 1%, then there tends to be an increase in the PBV variable; The DER regression coefficient (X1) is 0.163. This means that changes in DER are directly proportional to PBV. If the DER increases by 1%, then there tends to be an increase in the PBV variable.

Hypothesis testing was carried out with the aim of knowing the effect of the relationship between the independent (independent) variable and the dependent (dependent) variable. The hypothesis in this study will be tested using multiple linear regression tests through partial tests (t-test), simultaneous tests (f-test), and the coefficient of determination. Partial hypothesis testing is intended to determine the relationship of each independent variable to the dependent variable. The results of the t-test are described in Table 4 below.

Based on the table, it can be explained as follows; Hypothesis test (H1)

The results of the t-test show that the variable Return on Assets (ROA) has no effect significant to Price to Book Value (PBV). This is evidenced by a significant value of 0.130 which is greater than the





significance level of 0.05. Then  $H_1$  was rejected. This can be explained by the fact that the conditions in several textile and garment sub-sector companies in 2017 experienced a decline. In fact, six out of the eight companies that were in the research sample were in a loss condition for the last three to five years, one of which was due to decreased income from export activities. The textile and garment industry has also been affected by the COVID-19 pandemic and the upward trend in inflation. The unstable global conditions at that time forced the company to terminate of employment (PHK), so production activities also decreased. In such situations and conditions, management is unable to manage assets company well.

#### Hypothesis test ( $H_2$ )

The results of the t-test show that the variable total asset turnover (TATO) has no significant effect on Price to book value (PBV). This is evidenced by a significant value of 0.577 which is greater than the significance level of 0.05. Then  $H_2$  was rejected. This happens because based on data from the sample companies shows that some of the sample companies have total assets disproportionate to the sales generated. It also proves that a high level of activity does not always guarantee an increase in profit.

#### Hypothesis test ( $H_3$ )

The results of the t-test show that the variable current ratio (CR) has a significant effect on price to book value (PBV). This is evidenced by a significant value of 0.000 which is less than the significance level of 0.05. Then  $H_3$  accepted. The results of the study explain that if the company is optimistic that it can pay off its short-term liabilities, it can increase the company's value (PBV). The high Current Ratio (CR) value reflects assets. The company's current liabilities are greater than its current liabilities. This condition means that the amount of receivables has decreased so that more company funds will be used to finance

company operations and investments. If the Current Ratio is too high, it will have a negative impact on the company because the company owns assets unproductive flow.

#### Hypothesis test ( $H_4$ )

The results of the t-test showed that the debt to equity ratio (DER) variable has a significant effect on price to book value (PBV). This is evidenced by a significant value of 0.000 which is less than the significance level of 0.05. Then  $H_4$  was accepted. The results of the study explain that the company is able to manage capital obtained from debt well. The assumption is that corporate investors can take advantage of this opportunity to develop the company. The more the company progresses and develops, the more investors will also benefit because the company's profits will increase, and this condition can also attract more markets, meaning that the company's value (PBV) will increase.

A simultaneous test is a test that aims to determine the effect of independent variables on the dependent variable simultaneously. The results of the simultaneous test (f-test) can be explained in Table 5 below:

The results of the f test in Table 5 show that the variables return on assets (ROA), current ratio (CR), total asset turnover (TATO), and debt to equity ratio (DER) have a significant effect. This is evidenced by a significant value of 0.000 which is less than the significance level of 0.05. So it can be concluded that  $H_0$  was rejected.

#### The coefficient of determination ( $R^2$ )

The coefficient of determination shows how far the contribution of the independent variables in the regression model is able to explain variations in the dependent variable. The output results of the coefficient of determination are presented in Table 6 below:



The coefficient of determination in Table 6 shows the adjusted R-square value of 0.796. This can be interpreted that the variables return on assets (ROA), current ratio (CR), total asset turnover (TATO), and debt to equity ratio (DER) affect the price book to value (PBV) of 79.6%, while 20.4% is explained by other variables that are not used in this study, namely dividend payout ratio, return on equity (ROE), Firm Size. The results of this study have implications for companies, investors, and academics. Companies can pay attention to the company's financial performance in order to maintain company value and make alternatives if business or economic conditions are not good. For investors, this research provides an overview

of the considerations that can be made before making an investment. Investors can also see other financial ratios in order to know the overall financial performance of the company. Academics are expected to be able to conduct better research by accommodating matters not examined in this study. The limitation of this study is the use of proxies in each financial performance ratio, including the ratio of liquidity, solvency, profitability, activity, and firm value. Relatively short research time with the use of annual reports for the 2017-2022 period. For further research, it is expected to increase the use of variables such as firm size, dividend policy, return on equity (ROE), and firm growth.

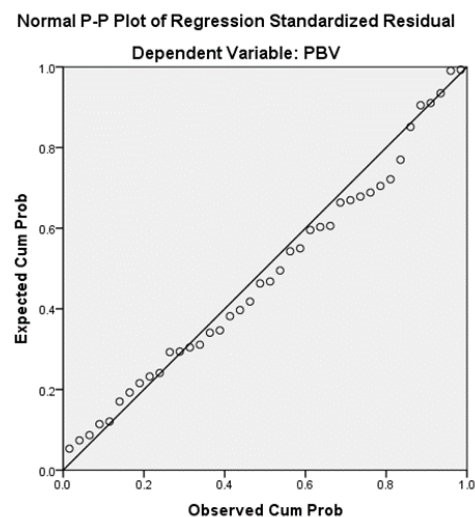


Figure 2. Scatter plot graph of normality test.

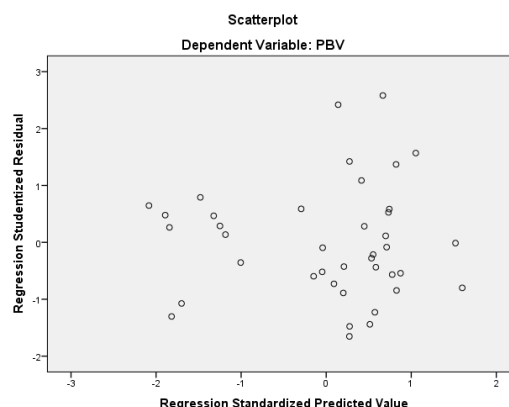


Figure 3. Heteroscedasticity test scatterplot graph.





Table 1. Multicollinearity test results.

Model	Collinearity statistics	
	Tolerance	VIF
(Constant)		
ROA	0,769	1,301
TATO	0,891	1,123
CR	0,959	1,043
DER	0,849	1,178

Table 2. Autocorrelation test results.

Model	R	R square	Adjusted R square	Std. Error of the estimate	Durbin Watson
1	0,904	0,817	0,796	0,18866	2,190

Table 3. Regression test results.

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.081	0.085		0.963	0.342
ROA	0.984	0.634	0.128	1.552	0.130
TATO	0.042	0.074	0.043	0.563	0.577
CR	0.095	0.016	0.451	6.109	0.000
DER	0.163	0.02	0.65	8.291	0.000

Table 4. Partial test results (t-test).

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.081	0.085		0.963	0.342
ROA	0.984	0.634	0.128	1.552	0.130
TATO	0.042	0.074	0.043	0.563	0.577
CR	0.095	0.016	0.451	6.109	0.000
DER	0.163	0.02	0.65	8.291	0.000

Table 5. Simultaneous test results (f-test) ANOVA.

	Sum of squares	Df	Mean square	F	Sig.
Regression	5,572	4	1,393	39,140	0,000
Residual	1,246	35	0,036		
Total	6,818	39			

Table 6. Results of the coefficient of determination (R<sup>2</sup>).

Model	R	R square	Adjusted R square
1	0,904	0,817	0,796

## 5. Conclusion

Partially the variables return on assets (ROA) and total asset turnover (TATO) do not have a significant effect on price book to value (PBV), while the variables current ratio (CR) and debt to equity ratio (DER) have

an effect on price book to value (PBV). Simultaneously the variables return on assets (ROA), total asset turnover (TATO), current ratio (CR), and debt to equity ratio (DER) have a significant effect on price book to value (PBV).



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