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FINANCIAL CONTINGENCY PERFORMANCE ON COMPANY VALUE (A STUDY OF TRADING COMPANIES ON THE INDONESIA STOCK EXCHANGE 2018-2022)

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ABSTRACT

This study aims to examine the effect of financial performance on firm value with Intellectual Capital as a moderating variable. Financial performance is proxied by Return on Assets (ROA) and Return on Equity (ROE) as independent variables, while Intellectual Capital serves as the moderating variable, and firm value is the dependent variable for the period 2018–2022. The research adopts a quantitative approach using secondary panel data obtained from the Indonesia Stock Exchange (IDX) website, company websites, Yahoo Finance, and the Indonesian Central Statistics Agency. Data collection was conducted through literature study. The population consists of financial reports of trading companies, firm value, Intellectual Capital, Return on Assets (ROA), and Return on Equity (ROE). The research object is the financial data of trading companies listed on the Indonesia Stock Exchange during 2018–2022. The sampling technique applied is purposive sampling. Data were analyzed using multiple regression and Moderated Regression Analysis (MRA) with SPSS version 20. The findings reveal that Return on Assets (ROA) has a direct and significant effect on firm value. In contrast, Return on Equity (ROE) shows no direct effect on firm value. Furthermore, Intellectual Capital strengthens the relationship between Return on Assets (ROA) and firm value, but weakens the relationship between Return on Equity (ROE) and firm value in trading companies listed on the Indonesia Stock Exchange during 2018–2022.

Keywords: *Financial Performance, Return On Assets (ROA); Return On Equity (ROE); Company Value; Intellectual Capital.*

Introduction

The fundamental objective pursued by every company is essentially to maximize its corporate value on a sustainable basis. The achievement of an enhanced firm value should not merely be interpreted as a business accomplishment, but also as a crucial indicator that generates positive impacts, particularly in terms of increasing financial returns and improving shareholder welfare (Do et al., 2020). In principle, corporate value is strongly influenced by investors' responses to publicly available information, especially those related to the company's financial performance (Soewondo et al., 2019).

In recent years, the Indonesian capital market, particularly the Indonesia Stock Exchange (IDX), has encountered significant challenges. This was evident from the movement of the Jakarta Composite Index (JCI), which declined by 2.76% in the first half of 2023 and closed at 6,850.74, marking the lowest level since the

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pandemic. This figure represents the weakest performance since the first half of 2020, when the initial outbreak of Covid-19 in Indonesia triggered a 5.29% drop in the JCI. Throughout the first half of 2023, the index fluctuated only within the range of 6,500 to 6,950, reflecting an unstable market trend (CNBC Indonesia, 2023). One of the factors contributing to this decline was Indonesia's trade balance, which was initially projected to generate a surplus but in reality experienced a downturn (Michael et al., 2021)

Previous studies have provided valuable insights into the impact of individual factors on financial performance. However, more detailed examinations regarding the moderating role of intellectual capital remain underexplored. For instance, research conducted by Adim et al., (2022),revealed differing results, indicating the need for further investigation. Therefore, the present study aims to re-examine the relationship among corporate financial performance, firm value, and intellectual capital, with particular emphasis on the moderating role of intellectual capital in strengthening the link between these variables(Bawono, 2020).

Literature Review

a. Financial Performance

Financial performance is one of the most essential aspects in evaluating the overall condition and achievements of a company within a particular reporting period. It reflects the ability of management to utilize the resources available—such as assets, liabilities, and equity—in an efficient and effective manner to achieve organizational objectives (Muhtar, 2022). According to Rahmatika & Afiah, (2014)financial performance can be defined as the accomplishment achieved by a company over a specific time frame, which is typically presented in its financial statements. These statements serve as a formal record of business activities and financial results, thereby providing the basis for internal decision-making and external assessment by stakeholders, particularly investors. To analyze financial performance, a variety of financial ratios are commonly used. Liquidity ratios measure the ability of a company to meet its short-term obligations, ensuring that it has sufficient current assets to cover current liabilities(Rahmatika, 2014). Solvency ratios, on the other hand, examine the long-term stability of a company and its capacity to pay long-term debts, providing insights into the level of financial risk faced by the organization. Profitability ratios assess the company's ability to generate earnings relative to sales, assets, or equity, thereby showing the effectiveness of its operational and strategic decisions. Activity ratios measure how efficiently a company utilizes its assets to generate revenue. Together, these indicators provide a comprehensive picture of whether a firm is financially healthy, capable of sustaining operations, and attractive to both existing and potential investors(A.M. Furqon et al., 2023). Strong financial performance not only signals that the company is well-managed but also creates confidence in its future growth prospects.

b. Firm Value

Firm value is considered a key indicator in assessing how the market perceives the success of a company in creating wealth for its shareholders. It is essentially the investors' perception of the company's current performance as well as its growth potential (Nazaripour & Hossain Ranjbar, 2022). Cheng & Tzeng, (2011) describe firm value as the sum of the market value of a company's equity and debt, which together reflect the overall market value of the business. This concept is significant not only because it shows how much investors are willing to pay for the company, but also because it highlights the effectiveness of managerial strategies in sustaining long-term competitiveness (Victor, 2020). Several measurement indicators are widely employed to capture firm value. One of the most common is the Price to Book Value (PBV), which compares the market price of a company's shares with its book value per share. A high PBV indicates that the market appreciates the company's ability to generate returns beyond the value recorded on its books(Rahmatika, 2014). Tobin's Q is another important measure, calculated by dividing the market value of a company's assets by their replacement cost. A Tobin's Q greater than one suggests that the company is expected to produce returns exceeding the cost of replacing its assets, reflecting market optimism(Reidhead, 2021). The Price Earning Ratio (PER) measures how much investors are willing to pay for each unit of net income, indicating growth expectations. High PER values typically signify that investors anticipate substantial future earnings growth. A firm with a high valuation is perceived as financially strong and trustworthy, which in turn attracts more investors and lowers the cost of capital. For this reason, managers often prioritize strategies aimed at enhancing firm value, as it is closely tied to maximizing shareholder wealth.

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ISSN 2987-6761

Increasing firm value not only benefits investors but also contributes to the sustainability of the business by ensuring ongoing access to capital markets and improving the company's reputation in the industry

c. Contingency in the Relationship between Financial Performance and Firm Value

While financial performance is generally expected to influence firm value, the relationship is not always straightforward or consistent across different contexts. This is where contingency theory becomes highly relevant. Contingency theory asserts that there is no universal approach that guarantees organizational effectiveness; instead, the success of a strategy depends on situational factors both inside and outside the organization(Rehman et al., 2019). Rosadi & Barus, (2022), emphasizes that organizational outcomes are context-dependent, and thus the effect of financial performance on firm value may vary depending on specific conditions faced by the company. In the capital market context, several contingency factors may alter the strength of the relationship between financial performance and firm value. For instance, macroeconomic conditions such as inflation, exchange rate volatility, and interest rates can either amplify or weaken the impact of financial performance on firm valuation. During times of economic stability, investors may place greater trust in financial indicators like profitability and solvency ratios. Conversely, in uncertain environments, even strong financial performance may not significantly enhance firm value if external risks overshadow company fundamentals. Internal factors such as corporate governance structures, management policies, capital structure decisions, and competitive intensity also act as contingencies. For example, a company with high leverage may experience a weaker link between profitability and firm value, as investors perceive greater financial risk(Do et al., 2020). Similarly, firms operating in highly competitive markets may need to demonstrate stronger performance metrics to maintain or increase their market valuation. Empirical studies provide mixed results regarding the relationship between financial performance and firm value. Some research has shown a positive and significant association, indicating that better profitability, liquidity, or solvency leads directly to higher firm value. Other studies, however, found weak or insignificant relationships, suggesting that performance indicators alone are not sufficient to explain market valuation. This inconsistency supports the idea that contingency factors play a critical role in shaping outcomes (A.M. Furqon et al., 2023). Thus, the application of contingency theory provides a more nuanced understanding of why financial performance may influence firm value differently across industries, time periods, and economic conditions.

Methodology

The research method applied in this study is a quantitative approach with a causal design. A causal study is defined as a type of research that relies on significant statistical calculations to draw conclusions regarding the cause-and-effect relationship between two or more variables (Upadhyay, 2023). In other words, this study aims to examine the extent to which one variable influences another. The research data were obtained from the companies' annual reports accessed through the official website of the Indonesia Stock Exchange (www.idx.co.id), as well as stock price data sourced from Yahoo Finance. The variables employed in this study consist of the dependent variable, namely firm value (Y); the independent variables, which are Return on Assets (X1) and Return on Equity (X2); and the moderating variable, namely Intellectual Capital (X3). The sampling technique applied is purposive sampling, which refers to the selection of samples based on specific criteria determined by the researcher (Ghozali, 2018). From a total population of 24 companies, after applying the criteria, 9 companies were selected as the research sample. The data collection technique used is documentation, which involves gathering information from written documents, reports, images, and other relevant records related to the research variables. The data analysis procedure consists of descriptive statistics and classical assumption tests, including multicollinearity tests, heteroscedasticity tests, and autocorrelation tests. Subsequently, hypothesis testing was conducted using the significance test of individual parameters (t-test) and the coefficient of determination (Adjusted R^2) to determine the direct effects and moderating effects among the variables. All statistical analyses were carried out with the aid of SPSS version 20 software.

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ISSN 2987-6761

Result and Discussion

a. Descriptive Statistics

Table 1. Descriptive Statistical Test Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1	28	.04	25.10	.4107	.20033
X2	28	.13	65.49	.3014	.14393
Y	28	.95	9.57	.3729	.06061
X3	28	1.77	9.32	.5596	.20553
Valid N (listwise)	28				

Source: processed data, 2023

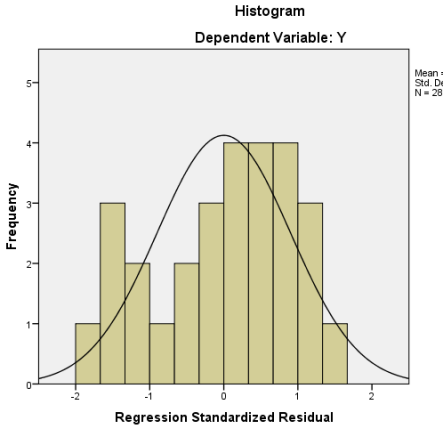
a. Return on Assets (ROA)
Based on the descriptive analysis presented in Table 4.1, the Return on Assets (ROA) variable from 28 observation units shows a minimum value of 0.04, a maximum value of 25.10, an average of 0.4107, and a standard deviation of 0.20033. This indicates that the lowest ROA was recorded by PT Midi Utama Indonesia at 0.04%, while the highest ROA, 25.10%, was achieved by Hero Supermarket Tbk.

b. Return on Equity (ROE)
The descriptive analysis in Table 4.1 also shows that the Return on Equity (ROE) variable from 28 observation units has a minimum value of 0.13, a maximum value of 65.49, an average of 0.3014, and a standard deviation of 0.14393. These results reveal that the lowest ROE was obtained by PT Midi Utama Indonesia Tbk at 0.13%, while the highest ROE, 65.49%, was achieved by Hero Supermarket Tbk.

c. Firm Value
According to the descriptive data in Table 4.1, the firm value variable from 28 observation units recorded a minimum value of 0.95, a maximum of 9.57, an average of 0.3729, and a standard deviation of 0.06061. This demonstrates that the lowest firm value was found in PT Supra Boga Lestari Tbk at 0.95%, whereas the highest firm value, 9.57%, was achieved by Hero Supermarket Tbk.

d. Intellectual Capital
The descriptive analysis in Table 4.1 indicates that the Intellectual Capital variable from 28 observation units has a minimum value of 0.77, a maximum value of 9.32, an average of 0.5596, and a standard deviation of 0.20553. This shows that the lowest Intellectual Capital was recorded by PT Supra Boga Lestari Tbk at 0.77%, while the highest value, 9.32, was obtained by Hero Supermarket Tbk.

b. Normality Test



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ISSN 2987-6761

Figure 1. Normality Test Results Using Histogram Graphs

Based on the illustration in Figure 1, it can be observed that the residuals are normally distributed, forming a symmetric pattern without any skewness to the right or left. This indicates that the data employed in this study tend to follow a normal distribution.

c. Multicollinearity Test

Table 2. Multicollinearity Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.093	.574		3.291	.502		
	X1	.363	.532	.634	.030	.002	.549	1.821
	X2	.172	.194	.222	.072	.290	.499	2.006
	X3	.062	.073	.133	.852	.399	.878	1.139

a. Dependent Variable: Y

Source: processed data, 2023

Based on the results of the analysis, it is observed that all independent variables have tolerance values greater than 0.10, while the Variance Inflation Factor (VIF) values are less than 10.00. Therefore, it can be concluded that the research model does not exhibit any indication of multicollinearity.

d. Determination Coefficient Test

Table 3. Goodness of Fit Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.514[a]	.465	.310	.91765	1.633

a. Predictors: (Constant), INTERAKSI2, X1, X3, INTERAKSI1, X2

b. Dependent Variable: Y

Source: processed data, 2023

Based on the R Square test results, the Adjusted R Square value was found to be 0.245. This indicates that the independent variables, namely Return on Assets (ROA) and Return on Equity (ROE), moderated by intellectual capital, are able to explain 24% of the variation in the dependent variable. Meanwhile, the remaining 76% is explained by other factors beyond the scope of this study that were not further examined.

e. T-Test (Partial)

Table 4. Partial t-Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.048	.467		4.383	.000
	X1	1.485	7.783	.966	2.247	.030

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ISSN 2987-6761

	X2	1.794	2.822	.340	.636	.529
	X3	.263	.101	.564	2.611	.013
	INTERAKSI1	2.967	1.589	.968	1.867	.039
	INTERAKSI2	.213	.375	.327	.568	.573

a. Dependent Variable: Y

Source: Processed Data, 2024

Based on the results of the t-test in equation 2, the following findings were obtained:

a. Return On Asset (X1) on Firm Value (Y)
   The regression coefficient of Return On Asset (X1) is 1.485, with a t-count of 2.247, which is greater than the t-table value of 2.05954 (n-k = 28-3=25), and a significance level of 0.030. Since the significance value is smaller than the error tolerance (0.030 < 0.05), this indicates that every one-unit increase in Return On Asset will raise firm value by 1.485. Thus, Return On Asset has a positive effect on firm value as proxied by Price Book Value, supporting the first hypothesis (H1).
b. Return On Equity (X2) on Firm Value (Y)
   The regression coefficient of Return On Equity (X2) is 1.794, with a t-count of 0.636, which is lower than the t-table value of 2.05954 (n-k = 28-3=25), and a significance level of 0.529. Since the significance value is greater than the error tolerance (0.529 > 0.05), it shows that every one-unit increase in Return On Equity will raise firm value by 1.794. However, Return On Equity has a negative effect on firm value as proxied by Price Book Value, meaning that the second hypothesis (H2) is not supported.
c. Intellectual Capital (X3) on the Relationship between Return On Asset (X1) and Firm Value (Y)
   The regression coefficient for the interaction between Return On Asset and Intellectual Capital is represented by the equation Y = a + b1X1 + b4X1*X3. This indicates that each interaction between Return On Asset and Intellectual Capital increases the value by 1.482. Therefore, it can be concluded that Intellectual Capital strengthens the relationship between Return On Asset and firm value.
d. Intellectual Capital (X3) on the Relationship between Return On Equity (X2) and Firm Value (Y)
   The regression coefficient for the interaction between Return On Equity and Intellectual Capital is reflected in the equation Y = a + b2X2 + b5X2*X3. The findings indicate that each interaction between Return On Equity and Intellectual Capital decreases the value by 1.581. This suggests that Intellectual Capital weakens the relationship between Return On Equity and firm value.

Conclusions and Suggestions

a. Conclussions

Based on the results of the tests and analyses conducted regarding Return On Assets (ROA), Return On Equity (ROE), and Intellectual Capital, the following conclusions can be drawn:

1. Return On Assets (ROA) has a positive and significant effect on firm value in trading companies listed on the Indonesia Stock Exchange.
2. Return On Equity (ROE) has a negative and significant effect on firm value in trading companies listed on the Indonesia Stock Exchange.
3. Intellectual Capital strengthens the relationship between financial performance, as proxied by Return On Assets (ROA), and firm value in trading companies listed on the Indonesia Stock Exchange.
4. Intellectual Capital weakens the relationship between financial performance, as proxied by Return On Equity (ROE), and firm value in trading companies listed on the Indonesia Stock Exchange.

b. Suggestions

1. Trading companies listed on the IDX should optimize asset management to improve ROA, carefully manage ROE, and strengthen intellectual capital.

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ISSN 2987-6761

2. Investors are advised to prioritize ROA in investment decisions and pay closer attention to ROE.
3. Future researchers are encouraged to include additional variables such as liquidity, leverage, or firm size and extend the research period.

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