

The Effect Of Current Ratio, Return On Equity, And Company Size On Company Value In The Pharmaceutical Sector

Ika Swasti Putri¹, Ayu Nurafni Octavia², Laili Nur Fitriani³, Tiara Bulqis⁴

¹Faculty of Economics, Dharma AUB University

^{2,3,4}Faculty of Economics, Semarang University

ABSTRACT

This study aims to determine the effect of the current ratio, return on equity, and firm size on firm value. The population of this study is pharmaceutical sub-sector companies listed on the IDX for the 2017-2021 period. Samples taken using the purposive sampling method resulted in 8 companies and 40 data. The analytical model used in this study is a multiple linear regression model. Data processing and analysis using multiple linear regression analysis using the SPSS version 25 application. The results of this study found that the current ratio, return on equity, and company size did not have a significant effect on firm value in pharmaceutical sub-sector companies listed on the IDX in 2017-2021.

Keywords: Current Ratio; Return On Equity; Firm Size; Firm Value;

INTRODUCTION

The occurrence of the Covid-19 Pandemic has had quite a serious impact on the pharmaceutical industry sector. At the beginning of 2020, the covid-19 pandemic was officially announced in Indonesia which was able to have a major impact on social, health, economic, and welfare conditions. With the sudden onset of the Covid-19 pandemic, society and the world must be alert to handle it. In this case, of course, the pharmaceutical sector is an important basis for responding to the Covid-19 pandemic. This resulted in the pharmaceutical sector companies having to provide medicines, medical devices, medical personnel, and others in quite large quantities. However, health companies in Indonesia still tend to import raw materials by 90-95%. The lockdown policy that was enforced in several countries including supplier countries, resulted in problems occurring. However, despite experiencing obstacles, the government provided relief in the form of import increases for the acquisition of these raw materials. With this, it can accelerate the growth rate of the health sector industry to deal with pandemics Covid-19.

The fast rate of industrial growth has resulted in increased competition between pharmaceutical companies which requires each company to improve its performance so that the company's goals are achieved, the goal is to maximize shareholder prosperity by maximizing company value (Kahfi et al, 2018). Firm value is the price investors are willing to pay if the company is sold. Having a high corporate value is the desire of company owners because the high corporate value, it can show or signal the level of shareholder prosperity (Sianipar, 2017). In measuring company value, the indicator used in this study is price book value (PBV). Price book value (PBV) is used because it can be used for comparisons between similar companies to show high or low stock prices. Based on the book value of the price book value, it can show how much the company can create company value that is relative to the amount of capital invested. The higher the level of market confidence in the company's prospects, the higher the attractiveness of investors to buy these shares.

One of the factors that can affect the ups and downs of a company's value is financial performance. Information about the company's financial performance is presented to the public to make investment decisions. With this information, the public can analyze the condition of the company before deciding to invest. Factors that can affect firm value are the current ratio (CR), return on equity (ROE), and company size. The Current Ratio (CR) is the most common measure of short-term smoothness because the short-term ratio shows how far creditors' bills in the short term can be covered by assets that can roughly turn into cash within the same timeframe as these claims (Rambe et al., 2017). The higher the value of the current ratio (CR) of a company means it reflects that the company is in good condition. Meanwhile, if the value of the current ratio (CR) is low, it can be said that the company lacks the capital to pay debts.

Return on equity is the ratio between net profit after tax and the total capital of the company as a whole. Return on equity also describes the extent to which the rate of return on all capital owned by the company. The higher the ROE value, the more interested investors will be in investing in the company. The high interest of investors will increase stock prices which will have an impact on increasing company value. Company size is assessed from the total assets owned by the company for its operations. The larger the

company, the greater the funds needed for the company's operational activities. One source of company funds is from external parties or debt, this will affect the company's obligations to be borne even greater. According to Pasaribu, et.al (2016) in Listyawati and Kristiana (2021) Assets used as collateral to obtain debt are of greater value than the return on assets received by the company. So that this shows a lack of solvency between assets and debt to the company. Insoluble in the company raises concerns for investors. This is due to the high risk in the company, thereby increasing the potential for bankruptcy.

Several previous studies have been conducted regarding the factors that influence firm value. The first is the research conducted by Listyawati and Kristiana (2021) which states that the current ratio (CR) has a significant effect on firm value, while the research conducted by Lumoly, et al (2018) states that the current ratio (CR) does not have a significant effect on company value. company. Research on the effect of a return to equity (ROE) on firm value was also carried out by Dewi and Rahyuda (2020) who stated that return on equity (ROE) has a significant effect on firm value. whereas research conducted by Wongso (2020) states that return on equity (ROE) has no significant effect on firm value. then further research on the effect of company size on firm value conducted by Sari and Muslihat (2021) stated that company size affected firm value, while research conducted by Lumoly, et al (2018) stated that company size did not affect firm value. Based on the background above, research will be conducted on the effect of the Current ratio (CR), Return to equity (ROE), and company size on firm value in pharmaceutical sub-sector companies listed on the IDX in 2017-2021.

THEORETICAL BACKGROUND

Agency Theory

Aljana and Purwanto (2017) state that an agency relationship is a contract between the manager (agent) and the investor (principal). The principal is a shareholder, while what is meant by the agent is the management who manages the company. The essence of the agency relationship is the separation between ownership (principal/investor) and control (agent/manager). Agency relationships arise when one or more people

(principals) hire another person (agents) to provide a service and delegate decision-making authority to the agent. If the agent does not act following the principal's interests, it will result in an agency conflict that triggers agency costs. Companies have many contracts such as employment contracts with managers and loan contracts with directors. Agents and principals want to maximize their utility through the information they have.

Firm value

Firm value is the value or price that prospective buyers are willing to pay if the company is sold, the higher the company value, the greater the prosperity that will be received by the company owner (Husnan & Pudjiastuti, 2015). Therefore, the value of the company is very important and necessary for investors to determine the optimal investment strategy in the capital market. According to Hery (2017), indicators that influence company value include the Price Earning Ratio and Price to Book Value. In this study, the firm value used by researchers is 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 calculation of price to book value is the market price per share divided by the book value per share (Hery, 2017). If the company is doing well, the price to book value (PBV) will have a value of more than one, which means that the market value of the shares is greater than the book value. A good company value will be able to show that a company's financial performance is also good so that it can provide added value to the company's value (Nofriyani et al, 2021).

Current Ratio

The current Ratio (CR) is the company's ability to fulfill its financial obligations in the short term or which must be paid immediately (Sumarni and Soeprihanto, 2014). Raja and Sudjiman (2022) reveals that Current Ratio is a ratio that compares current assets owned by companies with short-term debt. A low current ratio is usually considered to indicate a problem in liquidation, on the other hand, a current ratio that is too high is also not good, because it indicates a large number of idle funds which in turn can reduce the company's profit capability (Azizah dan Widayawati, 2021).

Return on Equity

Definition of ROE is according to Kasmir (2017) is a ratio to measure profit

net after tax with own capital. Pratiwi (2022) ROE becomes attractiveness for investors to invest investment in pharmaceutical companies. According to Hery (2015), ROE is a ratio that shows the role of company equity in generating profits (profits) from the money invested by investors, including the total equity of the company. This means that the ROE ratio shows how the company manages the capital it has to earn. The increase in profits earned by the company shows that the company's opportunities are getting better and marked by the greater value of ROE.

Firm Size

According to Brigham & Houston (2010), company size is a measure of the size of a company which is expressed or assessed by the total assets owned by the company. The size of large companies has a wider base of stakeholders so the policies of large companies will have a greater impact on the public interest compared to small companies. The category of company size is divided into large companies, medium companies, and small companies. According to Putra, et al (2022) it is stated that the size of a company that is large and continues to grow can affect the value of the company and is good information for investors.

Hypothesis

The Effect of Current Ratio on Firm Value

The CR ratio is used to calculate the ratio between total current debt and total equity to see how a company's business is paying its obligations that will soon be. If a company has a good level of liquidity, there will be less chance of the company failing to pay off its obligations and vice versa. The higher the CR value, the more liquid the company is, and vice versa. (Altaf, 2018) conducted research on the relationship between net working capital and corporate value for a sample of 2,483 companies in 16 Asian countries. The results confirmed a strong negative relationship between net working capital and company value. Based on previous research conducted by Listyawati and Kristiana (2021) stated that the Current Ratio shows a positive and significant effect on company value. Noegroho (2022) Liquidity proxied with Current Ratio (CR) partially has no significant effect on the value of the company

H1: Current Ratio has a significant positive effect on Firm Value.

Effect of Return on Equity on Firm Value

According to Hery (2015), ROE is a ratio that shows the role of company equity in generating profits (profits) from the money invested by investors, including the total equity of the company. An increase in company profits indicates that the company's opportunities are increasing and it is indicated by the greater value of ROE. Based on previous research conducted by Tarisa and Tri (2020) stated that Return on Equity shows a positive and significant effect on company value.

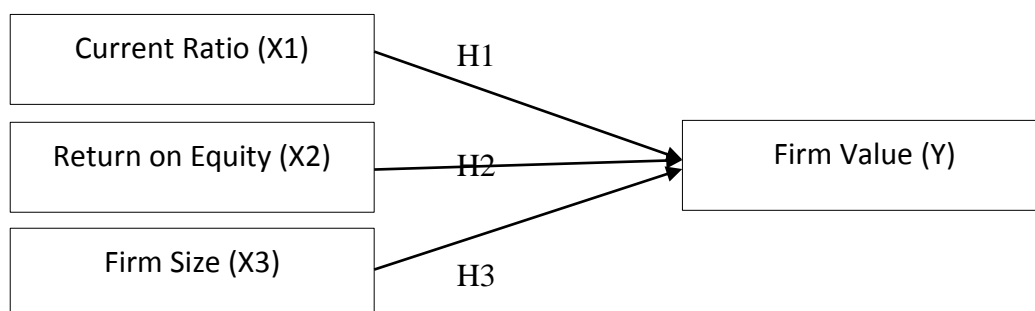
H2: Return on Equity has a significant positive effect on Firm Value.

The Effect of Company Size on Firm Value

Company size is a measure of the size of a company that is stated or assessed by the total assets owned by the company (Brigham & Houston, 2010). The larger the size of the company owned by the company will attract the attention of investors to the company. This happens because companies with large sizes tend to have better conditions. This good company condition can cause investors to buy company shares which results in increased share price offerings in the market. An increase in stock offerings will be in line with an increase in company value (Wulandari et al, 2021). Sari and Muslihat (2021) stated that company size affects company value which is proxied by price to book value (PBV).

H3: Firm size has a significant positive effect on firm value.

Research Model



Source : Author processed data (2022)

METHOD, DATA AND ANALYSIS

Types of Research and Description of the Study Population

The type of research used is comparative causal research because researchers want to see a causal relationship between two or more variables. In this study, the independent variables used were the Current Ratio (CR), Return On Equity (ROE), and firm size (SIZE) with firm value as the dependent variable. The population used in this study are pharmaceutical sector companies listed on the Indonesia Stock Exchange in 2017 – 2021 as many as 10 companies. Then the population was taken by purposive sampling which met the criteria, namely as many as 8 companies as samples. The data were processed using the SPSS Version 25 program. The data analysis tool used was multiple linear regression analysis with the equation:

$$PBV = \alpha + b_1CR + b_2ROE + b_3SIZE + e$$

Variable Measurement

In this study, the firm value used by researchers is 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 calculation of price to book value is the market price per share divided by the book value per share (Hery, 2017):

$$PBV = (\text{Price Per Share}) / (\text{Share Book Value})$$

The current ratio is the ratio that compares the company's current assets with short-term debt. Current Ratio (CR) can be calculated using the following formula: (Pratiwi, 2022)

$$CR = (\text{Current Assets}) / (\text{Current Liabilities}) \times 100\%$$

ROE is a ratio that shows the role of the company's equity in generating profits (profits) from the money invested by investors, which is included in the company's total equity.

The ROE formula is as follows: (Pratiwi, 2022)

$$ROE = (\text{Net Profit}) / (\text{Total Equity}) \times 100\%$$

According to Brigham & Houston (2010), company size is a measure of the size of a company which is expressed or assessed by the total assets owned by the company.

Measurement of company size can use the total asset log, with the formula:

$$SIZE = \text{LN}(\text{total assets})$$

RESULTS

Classic Assumption Test

Normality Test

The normality test is a test that aims to measure and assess whether the regression model has a normal distribution or not between the independent variables and the dependent variable (Ghozali, 2018). This study uses Kolmogorov-Smirnov statistical analysis on the residual equation with the testing criteria being if the significant value is > 0.05 then the data is normally distributed, and if the significant value is < 0.05 then the data is not normally distributed. The following are the results of the data normality test

Table 1 : Kolmogorov-Smirnov test (after outliers).

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		40
Normal Parameters ^b	Mean	.0000000
	Std. Deviation	1.02890246
Most Extreme Differences	Absolute	.089
	Positive	.089
	Negative	-.072
Test Statistic		.089
Asymp. Sig. (2-tailed)		.200 ^{c,d}

Source: SPSS output, processed data (2022)

Based on the table above, it is known that the distribution of research data on research variables seen from the unstandardized residual value has a probability number of 0.200 which is greater than the significance level of 0.05 so it includes data that is normally distributed.

Multicollinearity Test

The multicollinearity test is a test that aims to test and measure whether a regression model has a relationship between independent (independent) variables in a study (Ghozali, 2018). The multicollinearity test can also be tested through the Variance Inflation Factor (VIF) and Tolerance values, with the following assumptions: (1) If the VIF value > 10 and the Tolerance value ≤ 0.10 then it indicates the occurrence of multicollinearity; (2) If the VIF value ≤ 10 and the Tolerance value > 0.10 , it indicates that there is no multicollinearity. The results of the multicollinearity test in the regression model can be seen in the following table:

Table 2 : Multicollinearity Test

¹Email: ¹ ika@stie-aub.ac.id, ² ayunurafni@usm.ac.id, ³ lailinf12@gmail.com, tiarabulqis01@gmail.com

^{2*}Corresponden Author, Email: ika@stie-aub.ac.id

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Model		Coefficients				Collinearity Statistics		
		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Tolerance	VIF
1	(Constant)	1.204	3.499		.344	.733		
	CR	-.111	.119	-.153	-.930	.359	.994	1.006
	ROE	-.122	.493	-.041	-.248	.805	.995	1.005
	LN_X3	.012	.122	.017	.102	.919	.991	1.009

Source: SPSS output, processed data (2022)

The test results shown in the table show that all independent variables have a tolerance value of > 0.10 , which means there is no correlation between variables. Likewise with the Variance Inflation Factor (VIF) value < 10 . This means that the independent variables used in this study do not show any signs of multicollinearity between the independent variables in the regression model.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether, in the regression model, there is an inequality of variance from one residual observation to another. If the variance from the residual of one observation to another observation remains, then it is called Homoscedasticity and if it is different it is called Heteroscedasticity. A good regression model has homoscedasticity or does not have heteroscedasticity (Ghozali, 2018). If the significance value of each variable is the level of confidence above 5% or 0.05 then there is no heteroscedasticity. The results of the heteroscedasticity test on the regression model in the study using the Glejser test can be seen in the following table:

Table 3 : Heteroscedasticity Test – Glejser Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.204	3.499		.344	.733
	CR	-.111	.119	-.153	-.930	.359
	ROE	-.122	.493	-.041	-.248	.805
	LN_X3	.012	.122	.017	.102	.919

Source: SPSS output, processed data (2022)

From the results of the Glejser test in the table, it shows that the significance value of the three independent variables is above 0.05, so it can be concluded that there is no heteroscedasticity in the regression model so that the regression model is feasible to use.

Multiple Linear Regression Results

¹Email: ¹ ika@stie-aub.ac.id, ² ayunurafni@usm.ac.id, ³ lailinf12@gmail.com, tiarabulqis01@gmail.com

^{2*}Corresponden Author, Email: ika@stie-aub.ac.id

Data analysis in this study used a multiple linear regression analysis models, which is an analysis used to test the effect of two or more independent variables on the dependent variable with a scale of measurement or ratio in a linear equation. The aim is to obtain a comprehensive picture of the effect of the Current Ratio (CR), Return On Equity (ROE), and company size (SIZE), on Firm Value. The results of this multiple linear regression analysis can be seen in the following table:

Table 4 : Multiple Linear Regression

Model		Coefficients		Standardized Coefficients Beta	t	Sig.
		Unstandardized Coefficients B	Std. Error			
1	(Constant)	1.204	3.499		.344	.733
	CR	-.111	.119	-.153	-.930	.359
	ROE	-.122	.493	-.041	-.248	.805
	LN_X3	.012	.122	.017	.102	.919

Source: SPSS output, processed data (2022)

Based on the table above, the multiple linear regression equation formulae can be compiled as follows:

$$Y = 1,204 - 0,111X1 - 0,122X2 + 0,12X3 + e$$

The multiple regression equation above it can be explained as follows:

- 1) The constant has a positive value of 1.204, which means that if the Current Ratio (CR), Return On Equity (ROE), and company size (SIZE) are constant, it will have the potential to cause the company's value to increase.
- 2) The Current Ratio coefficient value is -0.111, meaning that the current ratio harms firm value, meaning that if there is a decrease in the value of the current ratio by one unit, the firm value will increase by 0.111
- 3) The coefficient value of Return On Equity is -0.122, meaning that Return On Equity harms firm value, meaning that if there is a decrease in the value of Return On Equity by one unit, the value of the company will increase by 0.111
- 4) The coefficient value of firm size is 0.012, meaning that firm size has a positive effect on firm value, meaning that with an increase in firm size by one unit, the firm value will increase by 0.012

Hypothesis Testing Results

Partial Significance Test (t-test)

¹Email: ¹ ika@stie-aub.ac.id, ² ayunurafni@usm.ac.id, ³ lailinf12@gmail.com, tiarabulqis01@gmail.com

^{2*}Corresponden Author, Email: ika@stie-aub.ac.id

According to Ghozali (2018), the t-test was carried out to show the effect of one independent variable in explaining the dependent variable, the t-test was carried out with a significance level of 0.05 or 5%. The t-test conditions are explained as follows: (1) If the significance value of $t \leq 0.05$ then the hypothesis is accepted and the independent variable has a significant effect on the dependent variable; (2) If the significance value of $t > 0.05$ then the hypothesis is rejected and the independent variable has no significant effect on the dependent variable.

Table 5 : Partial Significance Test (t-test)

Model		Coefficients		Standardized Coefficients Beta	t	Sig.
		Unstandardized B	Coefficients Std. Error			
1	(Constant)	1.204	3.499		.344	.733
	CR	-.111	.119	-.153	-.930	.359
	ROE	-.122	.493	-.041	-.248	.805
	LN_X3	.012	.122	.017	.102	.919

Source: SPSS output, processed data (2022)

Based on the table above, explains that the results of the T-test are as follows:

- 1) Current Ratio (X1) to Firm Value (Y) Calculation results using SPSS 23 can be seen that the calculated t value is -0.930 with a Firm Value of 0.359 greater than the significance level of 5% or 0.05 so that it can be said that part there is no significant and positive influence between Current Ratio on Firm Value.
- 2) Return On Equity (X2) to Firm Value (Y) The results of calculations using SPSS 23 can be seen that the calculated t value is -0.248 with a Firm Value value of 0.805 greater than the 5% or 0.05 significance level so that it can be said that part there is no significant and negative effect between Return On Equity on Firm Value.
- 3) Company Size (X3) to Firm Value (Y) The results of calculations using SPSS 23 can be seen that the calculated t value is 0.1.02 with a Firm Value of 0.919 greater than the significance level of 5% or 0.05 so that it can be said that part there is no significant and positive influence between Firm Size on Firm Value.

F test

The F test is used to determine whether the regression model is feasible or not to see the effect of the independent variable and the dependent variable. As for some of the provisions in testing the F test, namely as follows: (1) If the significance level of the F

¹Email: ¹ ika@stie-aub.ac.id, ² ayunurafni@usm.ac.id, ³ lailinf12@gmail.com, tiarabulqis01@gmail.com

^{2*}Corresponden Author, Email: ika@stie-aub.ac.id

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test ≤ 0.05 then indicates that the regression model is feasible to use; (2) If the significance level of the F test > 0.05 , it indicates that the regression model is not feasible to use.

Table 6 : Test F

Model	ANOVA ^a					
		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.082	3	.361	.314	.815 ^b
	Residual	41.287	36	1.147		
	Total	42.369	39			

Source: SPSS output, processed data (2022)

Based on the results of the F test in the table above, it can be concluded that the calculated F number is 0.314 with a probability value of 0.815 greater than the 5% or 0.05 significance level. Thus, the regression model can be used in this study where the independent variable's Current Ratio (CR), Return On Equity (ROE) simultaneously or together cannot have a positive and significant effect on the dependent variable Firm Value

Determination Coefficient Test (R2)

The coefficient of determination test (R2) is a test that aims to measure how far the regression model can explain the dependent variable. The criteria in the test are if the R2 value is close to 0 then the ability of the independent variable in explaining the dependent variable is very limited, whereas if the R2 value is close to 1 then the ability of the independent variable can provide the information needed by the dependent variable.

Table 7 : Test of the Coefficient of Determination (R2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. An error in the Estimate
1	.160 ^a	.026	-.056	1.07092

Source: SPSS output, processed data (2022)

Based on the table above, it is known that the coefficient of determination or R Square is 0.026 or equal to 2.6%. Variations in the dependent variable, namely firm value, can be explained by independent variables, namely current ratio (CR), return on equity (ROE), and firm size (SIZE). While the remaining 87.4% is explained by other variables outside this research model.

DISCUSSION

¹Email: ¹ ika@stie-aub.ac.id, ² ayunurafni@usm.ac.id, ³ lailinf12@gmail.com, tiarabulqis01@gmail.com

^{2*}Corresponden Author, Email: ika@stie-aub.ac.id

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Effect of Current Ratio on Firm Value

The results of testing the Current Ratio on Firm Value partially obtained at value of -0.930 with a significance of $0.359 > 0.05$, it can be said that the Current Ratio variable has no significant positive effect on firm value. Thus the first hypothesis (H1) in this study was rejected. The existence of this significant and positive influence indicates that the higher the Current Ratio can explain and predict an increase in Firm Value and conversely, the lower the Current Ratio can explain and predict a decrease in Firm Value. The research results are supported by research conducted by (Lumoly, et al 2018) which states that the current ratio (CR) has no significant effect on firm value. The current Ratio (CR) is the company's ability to fulfill its financial obligations in the short term or which must be paid immediately (Sumarni and Soeprihanto, 2014). A low current ratio is usually considered to indicate a problem in liquidation, on the other hand, a current ratio that is too high is also not good, because it indicates a large number of idle funds which in turn can reduce the company's profit capability (Dzulhijar et al, 2021).

Effect of Return On Equity on Firm Value

The results of the Return On Equity test on Firm Value partially obtained t value of -0.248 with a significance of $0.805 > 0.05$, so it can be said that the Return On Equity variable has no significant positive effect on firm value. Thus the first hypothesis (H2) in this study was rejected. The existence of this significant and positive influence indicates that the higher the Return On Equity can explain and predict an increase in Firm Value and conversely, the lower the Return On Equity Ratio can explain and predict a decrease in Firm Value. The results of this study are supported by research conducted by Wongso (2020) which states that return on equity (ROE) has no significant effect on firm value. According to Hery (2015), ROE is a ratio that shows the role of company equity in generating profits (profits) from the money invested by investors, including the total equity of the company. The increase in profits earned by the company shows that the company's opportunities are getting better and marked by the greater value of ROE.

Effect of Firm Size on Firm Value

The results of testing Company Size on Firm Value partially obtained t value of 0.102 with a significance of $0.919 > 0.05$, so it can be said that the variable Company

Size has no significant positive effect on firm value. Thus the first hypothesis (H3) in this study was rejected. The existence of this significant and positive influence indicates that the higher the firm size can explain and predict an increase in firm value and vice versa, the lower the firm size can explain and predict a decrease in firm value. The results of this study are supported by research conducted by (Lumoly, et al 2018) which states that company size does not affect firm value. According to Brigham & Houston (2010), company size is a measure of the size of a company which is expressed or assessed by the total assets owned by the company. The size of large companies has a wider base of stakeholders so the policies of large companies will have a greater impact on the public interest compared to small companies. According to Putra, et al (2022), it is stated that the size of a company that is large and continues to grow can affect the value of the company and is good information for investors.

CONCLUSIONS

Based on the results of the tests that have been carried out, it can be concluded as follows: (1) Current Ratio does not affect Company Value partially. This is evidenced by the results of calculations in multiple regression with a t value of -0.930 with a significance of $0.359 > 0.05$. (2) Return On Equity has no partial effect on Firm Value. This is evidenced by the results of calculations in multiple regression with a t value of -0.248 with a significance of $0.805 > 0.05$. (3) Company Size does not affect Firm Value partially. This is evidenced by the results of calculations in multiple regression with a calculated t value of 0.102 with a significance of $0.919 > 0.05$. After analyzing the data and interpreting the results, this study has several limitations, including This research only takes a period of 5 years, namely from 2017 – 2021, so the data taken may not reflect the company's condition in the long term, suggestions for further research can increase the research period. The variables used in this study are limited to 3 independent variables. For further research, you can add independent variables outside of this research model so that you can identify the main factors that influence firm value. The sample is only pharmaceutical companies listed on the IDX, it is hoped that for further research it will be possible to observe other companies.

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