



Management's Company Value Based Capital Structure, Liquidity Ratio, Coverage, Activity through Financial Performance

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Abstract—Encouraging performance synonymous with an increase in company value. Because this is the same as achieving the company's primary objective, maximizing company value is crucial for a business. Increasing the value of firm accomplishments in line with owner wishes since owner welfare will be ensured automatically. Investors' assessment of a company's success level, is frequently linked to stock prices. A high stock price is a sign of a valuable corporation. The purpose of this research is to explore and analyze how capital structure, liquidity ratios, coverage, and activity are related to financial performance and firm value. It also demonstrates the importance of financial performance as a mediator between these factors and firm value. Out of 16 automotive firms, a total of 13 are listed on the Indonesia Stock Exchange from 2018 to 2021. Using path analysis for hypothesis testing, Sobel test for mediation hypothesis testing. Results showed only financial performance had an impact on the firm's worth, coverage ratio had an impact on financial results. The financial performance was unable to mediate the relationship between capital structure, liquidity, coverage, activity ratio, and firm value. A novelty study compares two states, particularly those before and after the Covid-19 epidemic.

Keywords— *Activity Ratio, Capital Structure, Coverage, Financial Performance, Liquidity.*

I. INTRODUCTION

The global automotive industry experienced a decline in sales volume and laid off approximately 80.000 employees. The country's automotive industry experiencing the same thing marked by slow motorbike and car sales[1]–[6]. The drastic decline in car sales volume was due to a decline in demand in China as largest market in the world. Following the movement of car sales for three consecutive years in 2017:

Table 1. Movement Car Sales 2018 – 2019

Year	Sales (unit)
2017	81,8 juta
2018	80,6 juta
2019	77,5 juta

Source: CBC Indonesia

The growth country's car market in the first quarter weakened as a result virus which forced people to take shelter indoors. During January - March 2020, agents holding national automotive brands closed retail sales of 219,361 units, while factory sales dealers were 236,797 units. However, in the last few years, the contribution automotive

sector's national gross domestic product has been quite significant, namely around six percent[7]–[10]. It is proven national car sales will continue to increase in 2021, as economic conditions begin to improve because consumers take advantage end Discounted luxury products subject to 100 percent sales tax (PPnBM) at the end of August 2021.

The Performance automotive industry can accelerate amidst the impact of the COVID-19 pandemic, as can be seen from the growth transportation equipment industry's sales figures also increasing. In JANuari – September 2021, retail sales reached 600,344 units or an increase compared same period previous year 407,390 units. The increase indicates economic recovery is on the right track. The performance automotive industry continues to improve, able to support impressive economic growth.

Maximum performance achieved by the company shows an increase in firm value. Increasing firm value important role in maximizing main objectives. This achievement supports the wishes of owners, which impact on ensuring their welfare. Company value is the price that potential purchasers are prepared to pay, often known as the company's market price[11]–[16].

In several studies it has been shown there are differences in results between reality and theory in the field regarding variables able to measure firm value. Companies are required to understand and be more careful about several things that can increase company value, especially for automotive companies when the Covid-19 pandemic begins to subside, especially capital structure, liquidity, coverage, activity, and financial performance. The following are a few earlier studies that looked at the connection between financial performance, capital structure, liquidity ratios, coverage, and activity:

Fajaria's research [17] results show simultaneously investment, funding decisions, and dividend policies simultaneously influence firm value, while investment and funding decisions do not effect firm value . Fajaria and Isnalita's[17] research results show company profitability, and company growth are proven to increase firm value while liquidity, and leverage are proven to reduce the value company. Sumarau's [18] results study shows investment, funding decisions, and profitability simultaneously affect firm value, while partially only funding and profitability decisions influence firm value. Hertina, et al. research results

[19] show capital structure, and liquidity ratios have an effect, while company growth has no effect firm value .

Indraty, et al. [20] Financial distress is influenced by financial ratios (CR, DER, QR/TR, ROA, and ROE), local size, and local status, according to study results . Jariah [21] Only a small portion of investment decisions, according to the research, have an impact on financial performance and business value. Financial performance and corporate value are affected significantly and simultaneously . Meryana and Setiany [22] The study's findings indicate that while investment and earnings management have little bearing on financial distress, free cash flow and the interest coverage ratio do . Fauziah and Rafiqoh [23] research results show profitability and capital structure can increase share price .

Suleman and Sumani's [24] Research findings indicate that firm value is not significantly impacted by investment choices, capital structure, or profitability. On the other hand, corporate size has a major detrimental impact on firm value. Investment choices, capital structure, profitability, and firm size all have an impact on firm value simultaneously . Jariah's [21] Results reveal financial decisions and financial performance have little effect on stock returns. Investment and funding decisions affect financial performance. Financial performance cannot influence stock return-related financial decisions.

This study was conducted between the years of 2018 and 2021, both before and after the Covid-19 pandemic. Based on the justification, the study's goals are as follows: (1) to determine which factors, including capital structure, liquidity ratios, coverage and activity, and partial financial performance, influence firm value; (2) to determine which factors, including capital structure, liquidity ratios, coverage and activity, and partial financial performance, influence firm value; and (3) to demonstrate that financial performance serves as a mediating factor.

II. RESEARCH METHODS

Research type survey with the aim being explanatory. The object is capital structure (*LDER*), liquidity (*QR*), coverage (*ICR*), activity ratio (*ITO*), financial performance (*NPM*), and company value (*MBR*). Companies in the population's automotive sector listed on the Indonesia Stock Exchange in 2018–2021. A total sample of 52 observations from 52 purposive samples, or 13 companies. Next, discuss study factors, test conventional wisdom, do a route analysis, and last, Sobel test the mediation hypothesis.

III. RESULT AND DISCUSSION

A. Description of Research Object

Following moving average research variables:



Figure 1. Movement Company Values 2018 – 2021

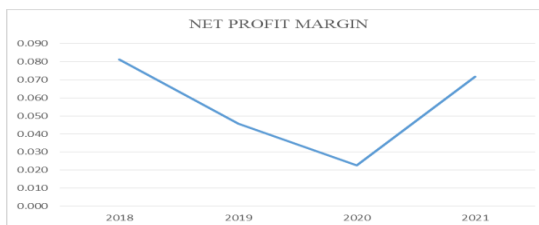


Figure 2. Movement Financial Performance 2018 – 2021

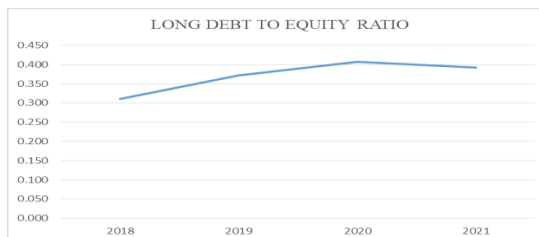


Figure 3. Movement Capital Structure 2018 – 2021

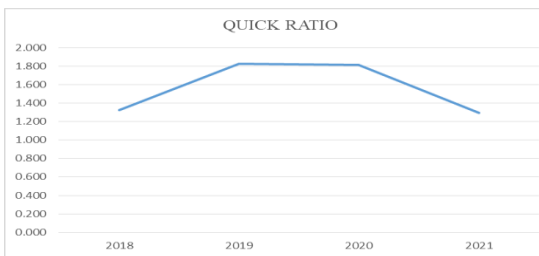


Figure 4. Liquidity Ratio Movement 2018 – 2021

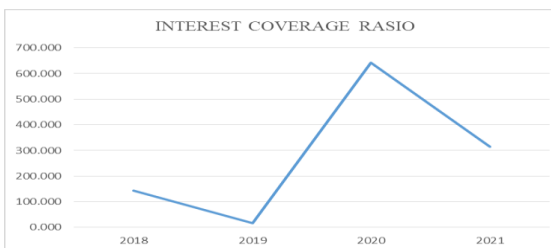


Figure 5. Movement Coverage Ratio 2018 – 2021

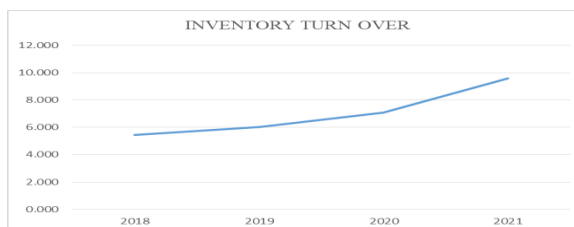


Figure 6. Activity Ratio Movement 2018 – 2021

B. Result Data Analysis

Table 2. Normality Test Results

Equality	Test Statistics	Asymp. Sig. (2-tailed)	Information
Equation 1	0.134	0.090	Normal Distribution
Equation 2	0.090	0.200	Normal Distribution

Source: Processing with SPSS in 2023

Table 3. Results of the Multicollinearity Test

	Tolerance Value	VIF	Information
LTDter	0.796	1.256	Free of Multicollinearity
QR	0.443	2,257	Free of Multicollinearity
ICR	0.427	2,344	Free of Multicollinearity
IT	0.826	1,211	Free of Multicollinearity

Source: Processing with SPSS in 2023

Table 4. Heteroscedasticity Test Results

	Significance	Information
LTDter	0.816	Free of Heteroscedasticity
QR	0.732	Free of Heteroscedasticity
ICR	0.794	Free of heteroscedasticity
IT	0.288	Free of heteroscedasticity

Source: Processing with SPSS in 2023

Table 5. Autocorrelation Test Results

Equality	Durbin-Watson	Information
1	2,633	Autocorrelation symptoms occur
2	1.510	Free of Autocorrelation

Source: Processing with SPSS in 2023

To treat data with autocorrelation symptoms, a Run Test was carried out

Table 6. Run Test Results

Variable	Z value	Asymp. Sig. (2-tailed)	Information
Equation 1	1.006	0.315	Free of Autocorrelation

Source: Processing with SPSS in 2023

The regression equation that emerged from the results of the analysis is shown below:

Equation (1)
 $1.576 - 0.060LTDter - 0.005QR - 0.009ICR - 0.118IT + 6.876NPM = MBR$

Equation (2)
 $-0.047 + 0.004 LTDter + 0.007QR + 0.002ICR + 0.010IT = NPM$

When the situation in question:

- MBR = the value of the company
- LTDter = Capital Structure
- QR = Liquidity Ratio
- ICR = Coverage Ratio
- IT = Activity Ratio
- NPM = Financial Performance

Table 7. Hypothesis Testing 1

Variable	t count	Sig	Information
LTDter	-0.208	0.837	No effect
QR	-0.012	0.990	No effect
ICR	-0.649	0.521	No effect
IT	-1.435	0.161	No effect
NPM	2,515	0.017	Influential

Source: Processing with SPSS in 2023

- (1) Effect capital structure on company value
 Results t-test (partial), obtained a t count -0.208 with a significance level of 0.837 meaning t count (-0.208) > t table (-2.030) sig (0.837) > (0.05) that capital structure has no impact on a company's value.
- (2) Effect liquidity ratio to company value
 Results t-test (partial), obtained a t count -0.012 with a significance level of 0.990 meaning t count (-0.012) > t table (-2.030) sig (0.990) > (0.05) signifies that the firm value is unaffected by the liquidity ratio.
- (3) Effect coverage ratio to company value
 Results t-test (partial), obtained a t count -0.649 with a significance level of 0.521 meaning t count (-0.649) > t table (-2.030) sig (0.521) > (0.05) implies that coverage ratio has no impact on business value.
- (4) Effect activity ratio to company value
 Results t-test (partial), obtained a t count -1.435 with a significance level of 0.161 meaning t count (-1.435) > t table (-2.030) sig (0.161) > (0.05) signifies that the activity ratio has no impact on company value.
- (5) Effect of financial performance on company value
 Results t-test (partial), obtained a t count of 2.515 with a significance level of 0.017 meaning t count 2.515 > t table (2.030) sig (0.017) < (0.05) means financial performance influences firm value.

Table 8. Hypothesis Testing Results 2

Variable	t count	Sig	Information
LTDter	0.205	0.839	No effect
QR	0.279	0.782	No effect
ICR	2,766	0.009	Influential
IT	1,964	0.058	No effect

Source: Processing with SPSS in 2023

- (1) Effect of capital structure on financial performance
 Results t-test (partial), obtained t count 0.205 with significance level 0.839 meaning t count (0.205) < t table (2.030) sig (0.839) > (0.05) means that performance finance is unaffected by capital structure.
- (2) Effect liquidity ratio on financial performance
 Results of the t-test (partial), obtained tcount 0.279 with a significance level of 0.782 meaning tcount (0.279) < t table (2.030) sig (0.782) > (0.05) signifies that performance financing has no impact on liquidity ratio.
- (3) Effect coverage ratio on financial performance.
 Results t-test (partial), obtained t count 2.766 with significance level 0.009 meaning t count (2.279) > ttable (2.030) sig (0.009) < α (0.05) translates to coverage ratio having an impact on financial performance.
- (4) Effect activity ratio on financial performance
 Results t-test (partial), obtained t count 1.964 with significance level 0.058 meaning t count (1.964) < t table (2.030) sig (0.058) > (0.05) means that the activity ratio has no impact on financial performance.

Table 9. Hypothesis Testing Results 3

Direct Influence	Indirect Influence	Information
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LTDtER – MBR	-0.208	0.195	No effect
QR – MBR	-0.012	0.259	No effect
ICR-MBR	-0.649	1,494	No effect
IT – MBR	-1.435	1,496	No effect

Source: Processing with SPSS in 2023

- (1) Results mediation test capital structure on firm value through financial performance t count 0.195 < t table (2.030), means financial performance unable mediate between capital structure and firm value.
- (2) Results mediation test liquidity ratio to firm value through financial performance t count 0.259 < t table (2.030), means financial performance unable to mediate between liquidity ratio and firm value.
- (3) Results mediation test coverage ratio to firm value through financial performance have t count 1.494 < t table (2.030), which means financial performance unable to mediate between coverage ratio and firm value.
- (4) Results mediation test capital structure the worth of a company through financial performance t count 1.496 < t table (2.030), suggests that the relationship between activity ratios and business value cannot be mediated by financial performance

C. Discussion

First Hypothesis Testing

- 1) Effect Capital Structure on Firm Value
According to research findings, capital structure has little impact on firm value. This means whatever capital structure owned company is not able to affect value company. Analysis study supports the theory capital structure presented by Modigliani and Miller. According to the theory MM approach capital structure does not affect company value, because determines firm value only through financial performance.
- 2) Effect Liquidity Ratio on Firm Value
Results study show liquidity ratio has no effect firm value. According to theory, the liquidity ratio and firm value are positively correlated., when liquidity ratio increases and high, firm value also increases and vice versa. Research results contradict theory because liquidity ratio uses a quick ratio (*QR*), which ratio does not consider or ignore supply.
- 3) Effect Coverage Ratio on Firm Value
Results study show coverage ratio has no effect on firm value. This means high or low coverage ratios have no effect firm value. Coverage ratio a proxy debt ratio. When debt unable to affect value company, in accordance opinion Modigliani-Miller debt not able affect value company. Underlying reason according MM is because market is considered perfect, the Market considered a *price taker*, and no taxes apply, so that whatever ratio between interest and net income before taxes expenses, the value company not affected.
- 4) Effect Activity Ratio on Firm Value
Results showed activity ratio had no effect on firm value. This means high or low activity ratio is not able affect changes in price per share company. Activity ratio uses a proxy inventory turnover. Low and high inventory turnover (ITO) several opinions still decrease profitability. Therefore activity ratio can affect firm

value.

- 5) Effect of Financial Performance on Firm Value
Study findings indicate that financial performance has an impact on firm value. Both relationship is positive, when financial performance increases, company value also increases and is high, and vice versa when financial performance decreases, the value company decreases and is low. This accordance with the opinion of Modigliani-Miller theory profit is a signal for the market so this affects company value, the only thing that can affect company value is profit earned.

Second Hypothesis Testing

- 1) Effect of Capital Structure on Financial Performance
Research results show capital structure does not influence financial performance. This means the capital structure of automotive companies does not optimally affect financial performance. Average movement capital structure during the research period tends to increase, while average movement financial performance fluctuates and increases in 2021. The increase in average movement capital structure during research period is due average amount debt automotive companies decreasing while average equity tends increase. Average movement financial performance during research period tended fluctuate, especially the lowest average sales and profits were in 2020, the year the Covid pandemic began to hit Indonesia.
- 2) Effect Liquidity Ratio on Financial Performance
Research results show liquidity ratio does no influence financial performance. This means high or low liquidity ratios do not influence changes in financial performance. Procurement of current assets will incur accompanying costs, for example procurement receivables will result in collection costs when receivables are not paid by the debtor, just as with securities, administration fees will be incurred when investing securities, but investing current assets also produces returns, so the same time expenses and returns. Some argue that when liquidity is high, it is not always profitable for the company because idle funds could be invested in several profitable projects for the company.
- 3) Effect Coverage Ratio on Financial Performance
According to research findings, the coverage ratio affects financial performance. The coverage ratio and financial performance have a positive relationship, which means that when the coverage ratio is high, financial performance is also high, and when it is low, financial performance declines. If this ratio is high, investors and lenders will feel secure in the company's ability to meet all of its fixed burden (leverage) requirements, indicating low financial risk. The market therefore feels that the financial environment is sound and strong, which suggests that financial performance is solid and improving. When creditors or investors decide to increase the amount of money they are investing, they pay close attention to the company's capacity to deliver on both sides' expectations for returns.
- 4) Effect Activity Ratio on Financial Performance
Research findings indicate that activity ratio has little bearing on financial performance. signifies that a company's financial performance is unaffected by high

or low activity ratios. Purchasing inventory will have an impact on the price of procurement and storage. Therefore, as inventory grows, profit will also increase. When sales are supported and increased by high inventory, profits will undoubtedly rise; yet, when costs are high, profits will inevitably fall. Inventory is a component of current assets (liquidity), and too much liquidity can lower a company's profitability. Compared to receivables, securities, and cash, inventory is a component of current assets that carries a higher risk, because it takes a while for this inventory to be turned into cash during the operational cycle. Sales grow, but other costs grow as well.

Third Hypothesis Testing

- 1) **Financial Performance Able to Mediate Between Capital Structure and Company Value**
According to research findings, there is no relationship between capital structure and firm value that financial performance can mediate. The capital structure does not affect financial performance or business value, even though financial performance has an impact on it. Financial performance, however, cannot mediate between capital structure and company value since the profit made from the income statement is accrual in nature, not actual profit, thus high or low performance does not concern the market, especially investors.
- 2) **Financial Performance Able to Mediate Between Liquidity Ratios and Company Value**
Results study show financial performance is not capable of mediating variables between liquidity ratios and firm value. The liquidity ratio cannot affect both financial performance and company value for the same reason that it cannot affect financial performance alone. Liquidity ratio and profitability negative relationship, when liquidity is low, profitability increases and when liquidity is high, it is certain profitability decreases.
- 3) **Financial Performance Able to Mediate Between Coverage Ratio and Firm Value**
The study's findings indicate that the relationship between coverage ratio and business value cannot be mediated by financial performance. As stated previously, the coverage ratio can influence financial performance, and financial performance can influence firm value, but the financial performance of the company does not act as a mediator between the two. Underlying reason type company studied, all investors and potential investors have a perception that automotive companies will always be needed for a country's economic growth. The reason a company's share price fluctuates and not solely due company's financial performance, but the existence automotive company which will still needed in any country.
- 4) **Financial Performance Able to Mediate Between Activity Ratio and Company Value**
Results showed financial performance was not able to mediate variables between activity ratios and firm value. The reason why the prior theory could not affect both financial performance and company value was the activity ratio. Financial performance, however, is unable to operate as a mediator between activity ratios and business value. Because of government regulations

and transportation company activities, the worth of the company.

CONCLUSION

Based results, several conclusions can be made regarding answering the formulation problem, as follows: (1) results first hypothesis test explain only financial performance can affect the value of manufacturing companies automotive sector in Indonesia; (2) results testing the second hypothesis test explain only coverage ratio can affect financial performance automotive sector companies in Indonesia; (3) third hypothesis test showed financial performance not able mediate relationship between capital structure, liquidity, coverage, activity and company value automotive sector in Indonesia. The urgency period consists of two periods before and during the pandemic Covid-19. Limitations of just researching capital structure, liquidity, coverage, activity ratios, and financial performance are predicted firm value.

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