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The Relationship Between Financial Performance and Firm Value: Empirical Evidence on Real Estate Companies in Indonesia

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A B S T R A C T

This research investigates how financial performance influences firm value in Indonesian real estate companies listed on the Indonesia Stock Exchange between 2020 and 2023. Financial performance is assessed through liquidity, profitability, and solvency ratios, while firm value is measured using the Price to Book Value (PBV). The study applies a quantitative approach by analyzing secondary data from the financial reports of 25 firms over a four-year period, employing multiple linear regression. The findings reveal that profitability and solvency positively and significantly affect firm value, whereas liquidity shows no significant influence. These results suggest that investors place greater emphasis on profit-generating ability and capital structure stability compared to short-term debt-paying capacity when evaluating company value

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INTRODUCTION

The increasingly dynamic business environment, driven by globalization and rapid advances in technology, forces companies to manage resources more effectively in order to remain competitive. Firm value, commonly reflected in the market price of its shares, is widely recognized as an indicator of managerial success because it represents investor perceptions of future prospects. A higher firm value reflects stronger investor confidence and greater shareholder wealth, which makes value maximization a central objective of corporate management (Taswan & Soliha, 2002; Christiawan & Tarigan, 2007).

Among the internal determinants of firm value, financial performance plays a crucial role. It demonstrates how effectively management utilizes corporate assets to generate income and fulfill obligations (Rudianto, 2013). Liquidity captures the firm's capacity to settle short-term liabilities (Kasmir, 2016); profitability measures its ability to produce profits (Farid & Safitri, 2024); and solvency indicates whether the company can sustain both long- and short-term commitments (Hidayat, Yahya, Ayuningtyas, & Tikaromah, 2025). Companies with sound liquidity, profitability, and solvency ratios are often perceived as financially healthy, thereby improving investor confidence and positively influencing stock performance (Wahyuni & Hidayat, 2019; Pamungkas & Risman, 2025).

From the perspective of the Pecking Order Theory, firms generally prioritize internal financing over external sources. Organizations that rely on retained earnings are considered less risky, since they avoid additional debt burdens (Putra, 2017). A higher firm value signals positive market expectations regarding the company's growth and sustainability, making financial performance a vital consideration for investment decisions (Hermuningsih & Wardani, 2009; Hidayat et al., 2025).

The real estate industry is chosen as the research setting because of its essential role in meeting basic human needs and its significant contribution to Indonesia's economy (Setiawan & Mulyana, 2021). Intense competition in this sector requires firms to maintain financial efficiency and stability to remain attractive to investors. Previous studies highlight mixed results: while some confirm the influence of profitability, capital structure, and firm size on firm value (Farid & Safitri, 2024; Pratiwi & Susilo, 2020; Hidayat et al., 2025), others indicate that financial performance as a mediator remains underexplored (Pamungkas & Risman, 2025). This gap motivates further empirical research to clarify the relationship between financial performance and firm value in the Indonesian real estate sector.

Given this background, the objective of this study is to analyze the influence of liquidity, profitability, and solvency as financial performance indicators on the firm value of real estate companies listed on the Indonesia Stock Exchange during 2020–2023.

LITERATURE REVIEW

Financial Performance

Financial performance represents how well a company manages its financial resources to achieve business goals. Rudianto (2013) explains it as the result of managerial efforts in utilizing assets efficiently during a certain period. In capital markets, investors regard financial performance as a critical signal when assessing growth prospects (Pamungkas & Risman, 2025). The three most common indicators are liquidity, profitability, and solvency. Liquidity demonstrates the ability to fulfill short-term financial obligations (Kasmir, 2016), profitability measures the capacity to generate earnings from assets or equity (Farid & Safitri, 2024), and solvency reflects the ability to cover total liabilities in the long and short term (Hidayat, Yahya, Ayuningtyas, & Tikaromah, 2025).

Firm Value

Firm value is interpreted as the market's assessment of a company's success in utilizing resources, which is most often reflected in stock price movements. A high firm value suggests stronger investor trust in the company's prospects and greater shareholder welfare (Taswan & Soliha, 2002). One widely applied indicator is the Price to Book Value (PBV), defined as the ratio between market price per share and its book value (Hermuningsih & Wardani, 2009).

Previous Studies

Several empirical works confirm the role of financial performance in determining firm value. Farid and Safitri (2024) found that profitability and capital structure significantly improved the value of real estate firms on the IDX. Similarly, Hidayat et al. (2025) identified profitability and liquidity as the main drivers of firm value within the sector. Pamungkas and Risman (2025) further emphasized that sound financial performance strengthens market perception of corporate sustainability, thereby enhancing value. Collectively, these studies indicate a strong association between financial indicators and firm value, although results across different contexts remain inconsistent.

Research Hypothesis

Based on the reviewed theories and prior evidence, the following hypotheses are proposed:

1) H1: Liquidity has a significant positive effect on firm value.
2) H2: Profitability has a significant positive effect on firm value.
3) H3: Solvency has a significant positive effect on firm value.

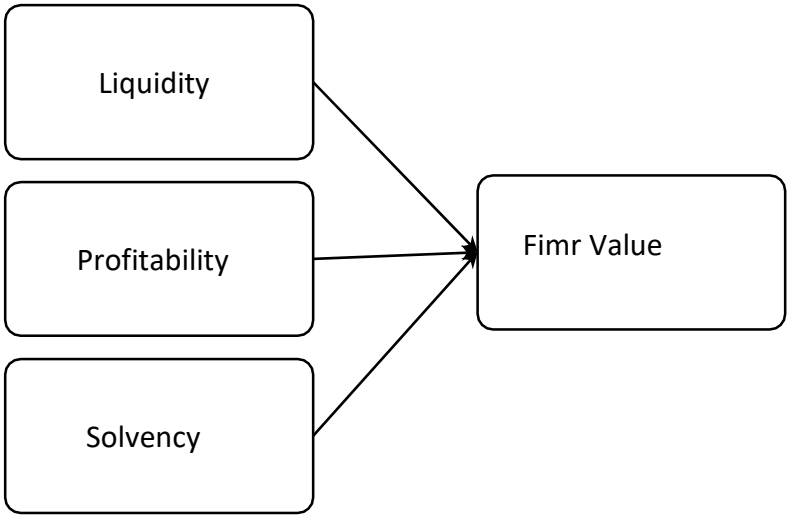

Figure 1. Conceptual Framework

METHODOLOGY

This research adopts a quantitative design to assess how financial performance influences firm value. The explanatory variables consist of liquidity, profitability, and solvency, while firm value is evaluated using the Price to Book Value (PBV) ratio. The analytical method employed is multiple linear regression, supported by classical assumption testing to ensure validity of the model.

The study population comprises 29 real estate firms consistently listed on the Indonesia Stock Exchange (IDX) during 2020–2023. Applying purposive sampling, all 29 companies were included, yielding 116 firm-year observations. Data are secondary, obtained from audited annual financial statements and official IDX publications (www.idx.co.id)

Measurement of Variables:

1. Liquidity (CR): Current assets ÷ Current liabilities.
2. Profitability (ROE): Net income ÷ Shareholders' equity.
3. Solvency (DER): Total liabilities ÷ Shareholders' equity.
4. Firm Value (PBV): Market price per share ÷ Book value per share.

Classical Assumption Tests:

1. Normality: Kolmogorov-Smirnov test used to verify normal distribution of residuals.
2. Autocorrelation: Durbin-Watson statistic applied to check independence of residuals.
3. Multicollinearity: Variance Inflation Factor (VIF) values examined to detect interdependence between predictors.
4. Heteroscedasticity: Glejser test used to identify variance inconsistency across residuals.

The Regression Model is Structured as Follows:

$$PBV=\alpha+\beta1CR+\beta2DER+\beta3ROE+\varepsilon.....(1)$$

where PBV = firm value, CR = liquidity, DER = solvency, ROE = profitability, α\alphaα = constant, β\betaβ = regression coefficients, and ε\varepsilonε = error term.

RESEARCH RESULT

Descriptive Statistical Analysis

Table 1 summarizes the descriptive statistics of all research variables.

Table 1. Descriptive Statistical Test

	N	Minimum	Maximum	Mean	Std Deviation
PBV	116	.15	7.53	1.6724	1.43329
CR	116	.39	8.80	2.3527	1.53282
DER	116	.04	1.93	0.7914	.44925
ROA	116	.00	.52	0.126	.0944
Valid N(listwise)	116				

Source: Data, Processed by SPSS 17

As shown in Table 1, the average PBV is 1.672, ranging from 0.15 to 7.73 with a standard deviation of 1.433. The Current Ratio (CR) averages 2.352, with values between 0.39 and 8.80. DER shows a mean of 0.791, varying from 0.04 to 1.93, while ROE has an average of 0.126, with a minimum of 0.00 and a maximum of 0.52. These results suggest that there is substantial variation in firm value and financial ratios among the sampled companies.

Classical Assumption Test

Several diagnostic tests were performed to confirm that the regression model satisfies classical assumptions.

Table 2. Normative Result Test

		Unstandardized Residual
N		116
Normal Parameters	Mean	.0000000
	Std. Deviaation	.2014594
Most Extreme Differences	Absolute	.085
	Positive	.065
	Negative	-.085
Kolmogorov-Smirnov Z		.552
Asymp. Sig. (2-tailed)		.948

Source: Data, Processed by SPSS 17

The Kolmogorov-Smirnov test shows a significance value of 0.948, greater than 0.05, indicating that the residuals are normally distributed.

Table 3. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.677[a]	.459	.411	.21016	2.093

Source: Data, Processed by SPSS 17

The Durbin-Watson statistic is 2.121, falling between the upper bound (1.757) and 4–dU (2.243). This result indicates that there is no autocorrelation in the regression model.

Table 4. Multicollinearity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.648	.153		4.236	.000		
	CR	.288	.123	.307	2.339	.025	.922	1.084
	DER	-.048	.064	-.098	-.742	.463	.918	1.090
	ROE	.682	.144	.614	4.721	.000	.941	1.063

Source: Data, Processed by SPSS 17

Tolerance values exceeding 0.10 and VIF values below 10 confirm that multicollinearity is not present in the independent variables.

Table 5. Heteroscedasticity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.317	.082		3.879	.000
	CR	-.034	.066	-.087	-.518	.608
	DER	.035	.034	.173	1.022	.314
	ROE	.124	.077	.268	1.605	.118

Source: Data, Processed by SPSS 17

All significance values in the Glejser test are greater than 0.05, which implies that the regression model is free from heteroscedasticity.

Multiple Linear Regression Analysis

Table 6 presents the regression estimation results.

Table 6. Multiple Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.648	.153		4.236	.000
	CR	.288	.123	.307	2.339	.025
	DER	-.048	.064	-.098	-.742	.463
	ROE	.682	.144	.614	4.721	.000

Source: Data, Processed by SPSS 17

The estimated regression equation is:

$$PBV=0.648+0.288CR-0.048DER+0.682ROE+\varepsilon \quad (2)$$

Liquidity (CR) positively and significantly affects PBV, solvency (DER) shows a negative but insignificant effect, and profitability (ROE) has the strongest and most significant effect on firm value.

Hypothesis Testing

Tables 7 and 8 report the F-test and t-test results.

Table 7. F-Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.272	3	.424	9.597	.000[a]
	Residual	1.502	34	.044		
	Total	2.773	37			

Source: Data, Processed by SPSS 17

The F-test shows a significance level of 0.000, which is below 0.05, indicating that liquidity, solvency, and profitability jointly influence firm value. The t-test results further show that liquidity (CR) has a significant positive effect ($p = 0.025$), solvency (DER) has no significant effect ($p = 0.463$), and profitability (ROE) has a strong positive effect ($p = 0.000$). Based on these results, H1 and H3 are supported, while H2 is rejected.

DISCUSSION

The Effect of the Current Ratio on Price-Book Value

The regression results indicate that liquidity has a significant positive influence on firm value.

Liquidity, represented by the Current Ratio (CR), shows a positive and significant coefficient. This suggests that companies with higher liquidity are more capable of meeting short-term obligations, which builds investor confidence and enhances firm value. The finding implies that sufficient working capital signals financial stability, making firms more attractive in the market. This result is consistent with the argument that liquidity improves a company's resilience in uncertain economic conditions (Wahyuni & Hidayat, 2019).

The Effect of the Total Debt-to-Equity Ratio on Price-Book Value

The analysis shows that solvency does not significantly affect firm value.

The Debt-to-Equity Ratio (DER) is negative but statistically insignificant. This means that the level of leverage does not substantially determine firm value within the sampled real estate companies. One possible explanation is that investors may view debt differently—while moderate debt can finance growth, excessive leverage may increase financial risk. As a result, DER may not provide a strong signal to the market. This finding contrasts with some previous studies

that identified solvency as a key driver of firm value, but it also aligns with research suggesting that leverage is not always a decisive factor in investment decisions (Pratiwi & Susilo, 2020).

The Effect of Return on Assets on Price/Book Value

Collectively, the results highlight the importance of profitability over other financial ratios in determining firm value.

Although liquidity and solvency contribute to financial performance, their impact on firm value is relatively weaker. Profitability emerges as the most influential factor, suggesting that investors prioritize returns over balance sheet structure when evaluating companies in the real estate sector. These findings are in line with the Pecking Order Theory, which posits that firms relying on internal funds and generating stable profits are considered more favorable by investors (Putra, 2017).

CONCLUSION AND RECOMMENDATIONS

This study was conducted to examine how financial performance affects firm value in real estate companies listed on the IDX during 2020–2023.

The empirical results show that liquidity (CR) has a positive and significant effect on firm value, although its contribution is relatively modest. Solvency (DER) does not show a significant influence, suggesting that leverage is not a decisive factor for market valuation in this sector. Profitability (ROE) emerges as the most influential determinant, demonstrating that higher returns on equity substantially increase firm value. Taken together, the findings emphasize that financial performance plays a critical role in shaping firm value, with profitability being the strongest driver.

From a managerial perspective, the implication is clear: company management should focus on enhancing profitability while maintaining sufficient liquidity and exercising prudent control over debt. This balance will help strengthen market confidence and increase shareholder value.

FURTHER RESEARCH

Although this study provides useful insights, it has several limitations that future research should address.

First, the study only includes three financial ratios; future research could incorporate additional variables such as firm size, dividend policy, sales growth, or corporate governance to obtain a more comprehensive understanding of factors influencing firm value. Second, this research focuses exclusively on the real estate sector. Comparative studies across other industries—such as banking, manufacturing, or infrastructure—would broaden the generalizability of the findings. Third, the observation period covers only four years; extending the time horizon or comparing pre- and post-crisis periods (e.g., COVID-19) may reveal dynamic changes in the relationships among variables.

Finally, future studies may consider employing advanced statistical techniques, such as panel data regression or structural equation modeling, to capture inter-firm and inter-temporal variations more accurately. These improvements would provide deeper insights into the determinants of firm

value and contribute to the advancement of financial management research in emerging markets.

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