



Profitability, Leverage, and Company Size: A Comparative Analysis of Manufacturing Firm Value in Indonesia and Malaysia During COVID-19

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Article Info:

Abstract

Keywords:

Profitability;
Leverage;
Company Size;
Tobin's Q;
Indonesia;
Malaysia;

Article History:

Received : 21-10-2024

Revised : 10-11-2024

Accepted : 08-12-2024

Article DOI :

<https://doi.org/10.70550/ecif.v1i3.71>

This study examines the influence of profitability (Return on Assets/ROA), leverage (Debt-to-Equity Ratio/DER), and company size (LNAssets) on company value (Tobin's Q) in Indonesia and Malaysia during the COVID-19 pandemic. The research aims to compare these relationships in both countries, considering differences in market maturity and investor behavior. Employing a quantitative approach, the study uses secondary data from 50 manufacturing companies in Indonesia and 42 in Malaysia, covering 2019–2021. Multiple linear regression was applied to analyze the data. The findings reveal that ROA positively impacts company value in both countries, with a more substantial effect observed in Indonesia due to its less mature market environment. DER also positively influences company value, as moderate leverage signals financial stability and growth potential. However, LNAssets negatively affect company value in Indonesia, reflecting agency conflicts and operational inefficiencies, while its effect in Malaysia is insignificant, indicating better governance and asset management. The results highlight that market dynamics and investor sophistication shape the effect of financial metrics on company value. This study offers practical implications for investors and policymakers. It provides insights into interpreting financial signals across different market contexts for investors. For policymakers, it underscores the importance of enhancing corporate governance in Indonesia to mitigate agency conflicts. The study's novelty lies in its comparative analysis of Indonesia and Malaysia, demonstrating how market maturity and governance structures influence the relationship between financial metrics and company value. These findings contribute to firm performance and valuation literature during economic disruptions.

How to cite : Utami, W., Nugroho, L., Chairunesia, W., & Mulyani, S. D. (2024). Profitability, Leverage, and Company Size: A Comparative Analysis of Manufacturing Firm Value in Indonesia and Malaysia During COVID-19. *Economics & Islamic Finance Journal (ECIF)*, 1(3), 165-185. <https://doi.org/10.70550/ecif.v1i3.71>



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INTRODUCTION

Extraordinary events: The COVID-19 pandemic in the country has reached the age of one year since the discovery of the first COVID-19 patient in Depok in March 2020. The official information and facts were conveyed by President Joko Widodo to the public through various media in Indonesia (Hidayah et al., 2022; Ihsanuddin & Erdianto, 2020). The COVID-19 virus significantly impacts the economy in Indonesia and throughout the world due to the rapid transmission process and has claimed many victims (Safitri et al., 2020; Shoss et al., 2021). Furthermore, the economic slowdown in the country during 2020 is indicated by several macroeconomic variables consisting of economic growth, exports of goods and services, and declining household consumption (Imani et al., 2023; Maria et al., 2022; L. Nugroho, Cetin, et al., 2023). The economic growth in Indonesia over the past two years has continued to decline. Even in 2020, economic growth contracted to minus 2.07% (BPS, 2021).

The slowdown in the economic rate occurs in Indonesia and other countries worldwide (Ibn-Mohammed et al., 2021; Laing, 2020). This is because the Covid-19 pandemic has occurred massively and globally (Dryhurst et al., 2020; Nicola et al., 2020). The global economy's declining pace impacts the growth rate of gross domestic income from the manufacturing industry. Therefore, according to the data submitted by the Central Statistics Agency (BPS, 2021), a slowdown also followed the decline in economic growth in the growth rate of gross domestic income (GDP) of the manufacturing industry in 2020, which also contracted to minus 2.93. Thus, the decline in economic growth is inseparable from the impact of the spread of the Coronavirus, which has begun to affect all aspects of life and economic activities, both in terms of production, distribution and consumption, investment, foreign trade (exports and imports) (Anshary et al., 2021; Hasan et al., 2022). One of the industrial sectors that has the most dominant influence on Indonesia's GDP is the manufacturing sector companies, which is why this research focuses on manufacturing sector companies, where the sector that contributes the most to GDP is 19.86% (BPS, 2020). Therefore, the existence of the manufacturing sector is vital for the government not to impact the economic crisis.

Furthermore, one of the indicators that the company can still gain public trust is based on company values commonly represented by Tobin's Q score. In addition, Tobin's Q score reflects the relationship between a company's market value and the book value of its assets (Wang, 2015). Thus, this method considers market and asset aspects in valuing a company, which can provide a complete picture of how the market assesses a company's growth potential and prospects.

Furthermore, the company's value can be influenced by various factors, including the effectiveness of using the company's productive assets to generate profits, which can be measured by ROA (Return on Assets). According to Muharramah & Hakim (2021) and Cahya & Riwoe (2018), ROA results from business activities or asset management that can generate profits. This shows the company's financial performance is better when the ROA is greater. With a greater return, investors will respond positively to the signal, causing an increase in company value (Raflis et al., 2023).

In addition, what can be a factor in influencing a company's value is leverage or debt to equity ratio (DER). In expanding, a company needs additional funds, one of which comes from loans (Rizqia Muharramah & Zulman Hakim, 2021). According to Ihwanudin et al. (2020), Purba et al. (2023), and Utami et al. (2022), there are advantages for companies to expand their business through loans, one of which is if a company gets a loan from a bank, the credibility of the company indirectly also increases. Thus,

expanding a business sourced from debt can also improve company performance and indirectly add to the company's value.

Another factor affecting a company's value is its size or the number of assets it owns. Large companies or companies with significant assets tend to have a more diverse business portfolio to reduce the risks faced. This diversification can help reduce potential losses from less profitable business units, so the size of the company's assets can increase the overall value of the company (Pervan & Višić, 2012).

Furthermore, the condition of the COVID-19 pandemic affects not only Indonesia but also the closest neighboring countries experiencing a similar situation, namely Malaysia. However, Indonesia and Malaysia have significant differences in the industrial sector, economic growth rate, level of infrastructure development, and other socio-economic characteristics, so there may be different influences related to company value in the manufacturing sector on variables that have the potential to influence it between Indonesia and Malaysia. Therefore, referring to these phenomena, the formulation of the problem in this study is as follows:

- Does profitability affect Company Value in Indonesia?
- Does Profitability affect Company Value in Malaysia?
- Does leverage affect the Company's Value in Indonesia?
- Does leverage affect Company Value in Malaysia?
- Does company size affect the Company Value in Indonesia?
- Does company size affect Company Value in Malaysia?
- Is there a difference in the effect of profitability, leverage, and company size on the company value between Indonesia and Malaysia?

Regarding the formulation of the problem, this study aims to determine the factors that can affect the value of companies in Indonesia and Malaysia during the COVID-19 pandemic based on profitability, leverage, and company size. The implication of this study is to provide information and references to investors and other stakeholders concerned about manufacturing companies in Indonesia and Malaysia. Furthermore, the novelty of this study is to compare factors that can affect the value of companies in Indonesia and Malaysia during the COVID-19 pandemic.

LITERATURE REVIEW

Agency Theory and Signal Theory

Jensen and Meckling define Agency theory as the relationship between *agents* (management) and principals (company owners) who are contractually bound (Chiputra et al., 2023; Harnovinsah et al., 2023; Setiyawati et al., 2023). The principal assigns an agent to serve the principal. Agency theory, or contracting theory in the literature, is derived from the firm's theory. Signaling theory explains how success or failure signals should be communicated to principals. Signaling theory suggests that companies will strive to show positive information signals to potential investors through disclosures in financial (Utami et al., 2020; Yasar et al., 2020).

Company Value

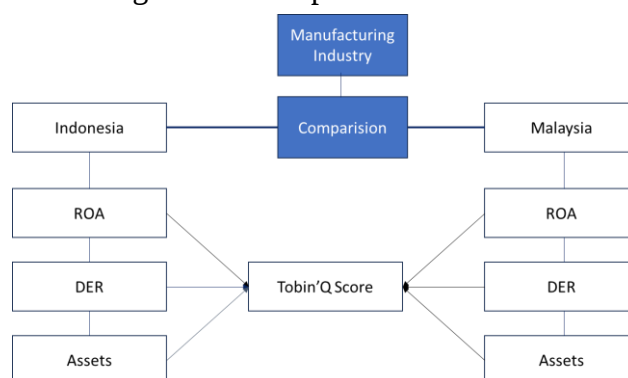
Company value is defined as the market value of shares because the value of a company can provide maximum shareholder prosperity if the company's stock price

increases (El Mir & Seboui, 2008; Stepani & Nugroho, 2023; Sukmawardini & Ardiansari, 2018). The higher the stock price, the higher the value of the company. Measuring company value, according to Kholis et al. (2018), Mahayati et al. (2021), and Dzahabiyya et al. (2020), can use three approaches, namely (i) Price Earnings Ratio, (ii) Price to Book Value and (iii) Tobin's Q. Tobin's Q approach is considered more comprehensive because it is the ratio of the market value of a company's stock to the book value of a corporate entity (Cao et al., 2019; Klock et al., 1996). The Tobin's ratio Q is a ratio that describes the company's value in the market. The company's market value should equal the cost of change in its assets. If the value of Tobin's Q is more than one company, the company's market value is greater than the listed company's assets. Thus, it can be assumed that the market will value companies with a high Tobin's Q value. Conversely, suppose the value of Tobin's Q is smaller than one. In that case, it means that the cost of changing assets is greater than the company's market value, so it can be interpreted that the company has a relatively low performance.

The Company's Business Continuity in the Manufacturing Sector

The theory used in this study is agency theory, where an entity has two interests: the interests of the owner or principal and the interests of the management that manages an entity. One of the missions of establishing a company is to improve the welfare of both owners and employees (Jamali et al., 2008; James, 1999). During the current COVID-19 pandemic, global economic players, including Indonesia, have experienced a decrease in income (Kiranti & Nugroho, 2022; Mightyn et al., 2022; Rani et al., 2023). This weakening global economic condition does not directly suppress domestic demand but reduces foreign income, decreasing domestic spending sourced from export earnings. In the Global Crisis of 2008-2009, declining domestic spending and weakening exports led to weaker trade transactions (Baldwin, 2009; Bems et al., 2013). Therefore, decreased demand and direct supply shocks can cause disruptions to international and domestic supply chains. Declining demand and supply will lead to reductions in staffing, especially in the manufacturing sector. The decline in production is caused by the wait-and-see behavior of companies and communities in the current uncertain conditions. However, if the uncertainty lasts for a long time, it will impact business bankruptcy (Bénassy-Quéré et al., 2020). Based on the background and literature review, the concept of this research can be described as follows:

Figure 1. Conceptual Research Framework



Source: From various data that has been processed.

Referring to Figure 1 of the research thinking shell above, the hypothesis development of this study is as follows:

- The Effect of ROA on Company Value: According to Muharramah & Hakim (2021) and Halimah & Komariah (2017), ROA results from business activities or asset management that can generate profits. Therefore, the better the company's management and can mitigate risks adequately and optimize production in manufacturing companies, the more profit the company will experience optimal growth (Nasfi, Ganika, et al., 2022; Zurriah, 2021). Increasing profits will impact ROA growth and the welfare of the company's shareholders. The excellent welfare of shareholders will have an impact on the reasonable value of the company. Moreover, Rafli et al. (2023) also consider that if the ROA is greater, the company's financial performance is better; with a more significant return, investors will respond positively to the signal, causing an increase in company value. Therefore, the hypothesis of this study is:
 1. H0₁: ROA has no effect on company value in Indonesia.
 2. Ha₁: ROA affects the value of companies in Indonesia.
 3. H0₂: ROA does not affect the value of the company in Malaysia
 4. Ha₂: ROA affects company value in Malaysia.
- The Effect of Leverage on Company Value: In expanding, a company requires additional funds, one of which comes from loans (Muharramah & Hakim, 2021). This is because the company's capital is minimal, and the use of debt in developing the business makes the company more professional. According to Nugroho & Malik (2020), Nugroho & Tamala (2018), and Nasfi, Solikin, et al. (2022), there are benefits for companies to expand their business through loans, which include (i) creditors also supervise and monitor business development; (ii) the company, in this case, the debtor will be more careful in using the borrowed funds; (iii) If the company obtains a loan from a bank, the credibility of the company also indirectly increases. Therefore, leverage can potentially increase the company's value if the use of debt for the company's business expansion can be adequately optimized. Thus, the hypothesis of this study is as follows:
 1. H0₃: Leverage does not affect the value of companies in Indonesia.
 2. Ha₃: Leverage affects the value of companies in Indonesia.
 3. H0₄: Leverage does not affect the value of companies in Malaysia.
 4. Ha₄: Leverage affects the value of companies in Malaysia.
- The effect of company size (assets) on Company Value: Companies that have more significant assets tend to have a chance of achieving higher economies of scale. What is meant by high economies of scale is that the larger the size of the company, the more efficient the production and operational costs. Thus, production costs become lower so companies can produce products or services at more competitive prices, increase market share, and increase the chances of making higher profits (Hughes & Mester, 2013; Poerwati et al., 2020; Satibi et al., 2018). Therefore, the size of the company that has an impact on efficiency in operating costs will increase investor perception of the company's potential profitability and can affect the increase in company value (L. Nugroho et al., 2021, 2022; Soboh et al., 2009; Yusufa et al., 2022). Therefore, the hypotheses of this study include the following:
 1. H0₅: Company size does not affect company value in Indonesia.
 2. Ha₅: Company size affects company value in Indonesia.
 3. H0₆: Company size does not affect company value in Malaysia.

4. Ha₆: Company size affects company value in Malaysia.

METHOD

The method used in this study is a quantitative method supported by secondary data. Quantitative methods aim to test and prove the development of hypotheses and theories related to company value used in this study (Napitupulu et al., 2020; Oktris et al., 2022). The samples used in this study consisted of manufacturing companies listed on the Indonesia and Malaysia stock exchanges from 2019 to 2021. The selection of the 2019 to 2021 research period was due to the Covid-19 pandemic at its peak or the high casualties caused by Covid-19. Furthermore, the sample criteria used in this study are manufacturing companies in Indonesia and Malaysia that successfully submitted complete financial statements from 2019 to 2021 and met the variables used in this study. Furthermore, the number of samples in Indonesia in the 2019-2021 period was obtained at 150 samples (50 manufacturing companies), and the number of samples in Malaysia in the 2019-2021 period was obtained at 126 samples (42 manufacturing companies).

$$Y_i = \alpha + \beta_1 ROA + \beta_2 DER + \beta_3 Assets + e \quad (1)$$

$$Y_m = \alpha + \beta_1 ROA + \beta_2 DER + \beta_3 Assets + e \quad (2)$$

The explanation of the symbols in the equation above is as follows:

Y_i: Company Value (Tobin's Q Score) in Indonesia

Y_m: Company Value (Tobin's Q Score) in Malaysia

ROA: Profitability (Return on Assets)

DER: Leverage (Debt to Equity)

Assets: Company Size

Operational Research Variables

- The variable research operations in this study, which include dependent variables and independent variables, Tobin's Q Score, according to previous studies conducted by Sudiyatno & Puspitasari (2010), Arnaz & Nugroho (2024) and Dzahabiyya et al. (2020), the formula of Tobin's Q Score: Company Market Value divided by Company Book Value.
- According to previous studies conducted by Nugroho et al. (2019), Nugroho & Mahroji (2024), and Hidayah et al. (2021), the ROA formula is the Company's return divided by the Company's assets.
- DER, according to previous studies conducted by M. A. Nugroho & Nugroho (2024), Manurung et al. (2022), and Wahyono et al. (2019), the formula of DER: Debt divided by Equity
- According to previous studies conducted by L. Nugroho, Gal, et al. (2023), and Riyadi et al. (2024), assets are the formula of company size: LN-Assets.

RESULTS AND DISCUSSION

Results

The results of data processing with the Stata version 17 statistical application and multiple linear regression statistical methods are as follows:

Table 1. Test the Hypothesis of Variables that affect Company Value in Indonesia in the 2019-2021 period

Source	SS	df	MS	Number of obs	=	150
Model	7.81083091	3	2.6036103	F(3, 146)	=	14.37
Residual	26.4533812	146	.181187543	Prob > F	=	0.0000
				R-squared	=	0.2280
				Adj R-squared	=	0.2121
Total	34.2642121	149	.229961155	Root MSE	=	.42566

TobinsQ	Coefficient	Std. err.	t	P> t	[95% conf. interval]	
ROA	1.934641	.3456113	5.60	0.000	1.251593	2.617688
DER	.1792614	.0708316	2.53	0.012	.0392737	.3192492
LNAssets	-.0700191	.0184419	-3.80	0.000	-.1064666	-.0335716
_cons	2.023138	.5323183	3.80	0.000	.9710932	3.075183

Source: From various data that has been processed

Table 2. Hypothesis Test of Variables that affect Company Value in Malaysia in the 2019-2021 period

Source	SS	df	MS	Number of obs	=	126
Model	3.93820192	3	1.31273397	F(3, 122)	=	17.85
Residual	8.97364904	122	.0735545	Prob > F	=	0.0000
				R-squared	=	0.3050
				Adj R-squared	=	0.2879
Total	12.911851	125	.103294808	Root MSE	=	.27121

TobinsQ	Coefficient	Std. err.	t	P> t	[95% conf. interval]	
ROA	.17338	.0271091	6.40	0.000	.1197148	.2270452
DER	.1694079	.0457405	3.70	0.000	.0788599	.2599559
LNAssets	-.0035159	.8878597	-0.00	0.997	-1.761123	1.754091
_cons	.2352225	1.272085	0.18	0.854	-2.282997	2.753442

Source: From various data that has been processed

Referring to the results of statistical data processing in Table 1 above, the equation of multiple linear regression is as follows:

$$2.02\text{Tobin's Q} = 1.93\text{ROA} + 0.18\text{DER} - 0.07\text{LNAssets} \quad (3)$$

Referring to the results of statistical data processing in Table 2 above, the equation of multiple linear regression is as follows:

$$0.23\text{Tobin's Q} = 0.17\text{ROA} + 0.17\text{DER} - 0.003\text{LNAssets} \quad (4)$$

In addition, in Table 1 and Table 2, the results of statistical tests in research to prove the hypothesis are as follows:

Table 3. Partial Hypothesis Test

Hypothesis	Sig.	Decision
ROA $\rightarrow$ Yi	0.000	Reject H0 ₁
ROA $\rightarrow$ Ym	0.000	Reject H0 ₂
DER $\rightarrow$ Yi	0.012	Reject H0 ₃
DER $\rightarrow$ Ym	0.000	Reject H0 ₄
LNAssets $\rightarrow$ Yi	0.000	Reject H0 ₅
LNAssets $\rightarrow$ Ym	0.097	Accept H0 ₆

Source: From various data that has been processed

Discussion

The Effect of ROA on Company Value

As outlined by Jensen and Meckling, Agency Theory defines the relationship between company principals (owners) and agents (management), where the latter is tasked with making decisions on behalf of the former. In this relationship, agents are expected to act in the best interests of the principals (Eisenhardt, 1989). However, conflicts of interest may arise, as agents may prioritize their objectives over those of the owners (Khandelwal et al., 2023). When a company's ROA improves, it reflects efficient asset utilization, translating into higher profitability (Panda & Leepsa, 2017). This indicates that the management utilizes company resources effectively, aligning its actions with shareholder interests. Consequently, when agents demonstrate effective asset management through high ROA, they reinforce trust with principals, positively impacting company value. A higher ROA thus mitigates agency problems by signaling that management actions align with the financial welfare of shareholders, thus increasing Tobin's Q ratio.

On the other hand, Signaling Theory emphasizes how companies convey information to reduce information asymmetry between insiders (management) and outsiders (investors). ROA is a crucial signal of a company's operational efficiency and profitability (Supeno, 2021). When companies achieve higher ROA, they send a positive signal to the market, implying strong operational performance and asset utilization (Clarke et al., 2011; Yovita & Amrania, 2018). This signal encourages investors to interpret the company as financially sound and capable of generating profit from its assets. Consequently, the company's market value increases, as reflected in Tobin's Q ratio. In this context, a strong ROA indicates that the company will likely sustain or enhance shareholder wealth, attracting more investors and driving up the market value relative to its book value.

Nevertheless, from a practical standpoint, a positive relationship between ROA and Tobin's Q ratio indicates that as profitability increases, so does the company's market valuation. Investors view higher ROA as a favorable performance metric, leading them to place a premium on the company's shares (Ratnaningtyas & Nurbaeti, 2023). This ultimately results in a Tobin's Q ratio greater than 1, signifying that the market values the company's assets above their book value, implying high investor confidence in management's ability to maintain profitability. Thus, high ROA acts as a bridge between agency alignment and positive signaling. Through Agency Theory, high ROA signals aligning management's goals with shareholders' wealth maximization, reducing agency costs. Simultaneously, Signaling Theory suggests that high ROA serves as a clear,

positive indicator to the market, enhancing the perceived value of the company in the eyes of investors and resulting in a higher Tobin's Q. Thus, a significant ROA not only strengthens company value but also solidifies investor confidence, underpinning sustainable growth in market valuation.

The Effect of DER on Company Value

In the context of Agency Theory, the relationship between principals (owners) and agents (management) is pivotal. When companies take on debt, this decision is closely monitored by creditors, which can mitigate agency problems by aligning management actions with shareholder interests (Dawar, 2014). High leverage, measured by DER, imposes an obligation on management to manage the borrowed funds responsibly and efficiently, as debt requires regular interest payments and servicing (Ahmed & Sulong, 2023). In this context, the DER acts as a control mechanism. Under creditors' watch, management must demonstrate fiscal responsibility and effective resource allocation to maintain solvency. When this leverage is used optimally, it reflects positively on the company's value as measured by Tobin's Q, which suggests that management is making decisions that benefit shareholders by potentially increasing returns. However, high leverage also increases financial risk. If the DER becomes excessive, it might suggest to shareholders that the company is overleveraging, potentially compromising the long-term stability of the firm. This complex balance between debt utilization and risk management influences company value through a risk-return trade-off, where efficient debt management can enhance company value as shareholders perceive it.

According to Signaling Theory, leverage also serves as a signal to the market. When companies strategically use debt, it can send a positive signal to investors, suggesting confidence in the company's growth potential and cash flow stability (Chen et al., 2023). A moderate DER indicates that the company is leveraging debt to fuel growth, implying that management expects future profits to be sufficient to cover debt obligations. This confidence can attract investors, increasing the company's market value and Tobin's Q ratio. A well-managed DER signals financial prudence, reinforcing investor perceptions that the company can meet its obligations without sacrificing growth potential (Liu et al., 2022). However, if the DER is too high, it can also send a negative signal because high leverage may indicate financial distress or an aggressive growth strategy that could jeopardize financial stability (Li & Wang, 2019). Investors may interpret this as a red flag, potentially reducing the market valuation and diminishing Tobin's Q ratio.

Ultimately, based on the research results, the impact of DER on Tobin's Q reflects agency alignment and market signaling. Effective debt management can positively influence Tobin's Q by demonstrating to investors that management uses debt to enhance shareholder value responsibly and align with previous researchers (Irawati & Marlina, 2022; Sadeghian et al., 2012). However, if leverage signals excessive risk, it may result in a decline in Tobin's Q as investors adjust their valuations based on perceived risk levels. Thus, DER affects company value by balancing agency costs and sending signals to the market. An optimal DER demonstrates responsible growth and efficient management, enhancing investor confidence and company value. Conversely, excessive leverage may reduce Tobin's Q by signaling financial instability and heightened risk, aligning the company's market valuation with its financial practices.

The Effect of Assets on Company Value

The statistical findings indicate that company size, represented by the logarithmic value of total assets (LNAssets), has a negative and significant effect on company value (Tobin's Q score) in Indonesia and a negative but insignificant effect in Malaysia. This discrepancy highlights the nuanced relationship between company size and market valuation in the context of the COVID-19 pandemic, which disrupted global economies and reshaped investor sentiment. The results suggest that larger asset bases may not necessarily translate into higher company valuations during periods of heightened economic uncertainty, as risks and inefficiencies associated with large-scale operations can outweigh perceived benefits (Nursetya & Hidayati, 2021).

Agency theory explains the negative relationship between assets and company value through the lens of the principal-agent dynamic. In larger companies with extensive assets, agency problems may become more pronounced. As the scale of operations grows, management (agents) may face difficulties efficiently utilizing the available resources, leading to suboptimal decision-making. This inefficiency can increase operational costs and reduce profitability, diminishing shareholder wealth. Moreover, during uncertain times like the pandemic, the risks associated with maintaining large-scale assets—such as increased maintenance costs, underutilization, or declining asset value—may exacerbate agency conflicts (Saito & Sakamoto, 2021). Investors, acting as principals, may perceive significant assets as liabilities during periods of economic instability, thereby valuing the company at a lower market value relative to its book value. This explains the lower Tobin's Q ratio for companies with significant asset holdings. Additionally, larger firms may face challenges adapting to rapidly changing market conditions. Management's inability to swiftly respond to external shocks further raises concerns among shareholders about the efficiency of resource allocation, reinforcing the negative relationship between assets and company value.

From a signaling theory standpoint, the size of a company's assets can send mixed signals to the market. Under normal economic conditions, significant assets often indicate a company's ability to achieve economies of scale, suggesting operational efficiency and growth potential. However, substantial assets may have conveyed a less favorable signal to investors during the pandemic. The pandemic heightened economic risks and uncertainties, altering the market's perception of large asset bases. Investors may interpret extensive asset holdings as a signal of increased exposure to operational and financial risks. For instance:

- **Liquidity Concerns:** Large illiquid assets may indicate potential cash flow constraints, particularly when external disruptions hinder revenue generation (Brown et al., 2010; Rusydi Fauzan et al., 2023).
- **Risk Aversion:** Investors during the pandemic prioritized companies that demonstrated financial agility and lean operations. Extensive asset holdings may have signaled rigidity and vulnerability to market volatility (Anita et al., 2023; Popescu & Xu, 2023).
- **Underutilization:** During periods of reduced demand, a significant proportion of assets may remain idle or depreciate, signaling inefficiency and potential losses to investors (Fauziyyah et al., 2021; Hofmann et al., 2022).

This shift in investor sentiment underscores the importance of context in interpreting asset size as a market signal. While significant assets might typically be viewed positively, the

pandemic's challenges transformed them into a potential liability, adversely impacting Tobin's Q ratio.

Differences in Factors Affecting Company Value in Indonesia and Malaysia

The statistical results indicate that profitability (ROA), leverage (DER), and company size (LNAssets) influence company value (Tobin's Q) differently in Indonesia and Malaysia. These differences can be attributed to market dynamics, economic conditions, and investor behavior between the two countries, especially during the COVID-19 pandemic. This discussion analyzes these differences through the lens of Agency Theory and Signaling Theory, providing a structured and logical interpretation.

- **Profitability (ROA) and Its Effect on Company Value**

ROA significantly and positively influences company value in Indonesia and Malaysia, as reflected in Tobin's Q ratio. However, the magnitude of the effect is higher in Indonesia ($\beta = 1.93$) than in Malaysia ($\beta = 0.17$). In Indonesia, where capital markets are less mature, and investor trust in management actions is relatively low, higher ROA strongly signals effective resource utilization by management. This mitigates agency conflicts by demonstrating alignment between management's actions and shareholder wealth maximization. Investors in Indonesia may perceive profitability as a critical indicator of a company's ability to generate returns, particularly during uncertain periods like the pandemic. The more substantial impact of ROA in Indonesia highlights the reliance of investors on profitability metrics to gauge management effectiveness. In Malaysia, the capital market is more established, and investor trust in corporate governance may be higher. As a result, while profitability remains a critical factor, its impact on company value is less pronounced. Malaysian investors likely consider a broader set of metrics, such as corporate governance practices and market resilience, reducing the sole reliance on ROA as a performance indicator. Moreover, ROA clearly signals operational efficiency and profitability in both markets. However, Indonesian companies may have a higher need to signal positive performance through profitability metrics due to less sophisticated investor bases. The strong ROA-Tobin's Q relationship in Indonesia suggests that investors respond more favorably to profitability signals, perceiving them as a proxy for long-term financial stability. In contrast, Malaysian investors operating in a more transparent and data-rich environment may weigh profitability alongside other signals, such as diversification strategies or market positioning.

- **Leverage (DER) and Its Effect on Company Value**

Leverage has a positive and significant effect on company value in Indonesia ($\beta = 0.18$) and Malaysia ($\beta = 0.17$), with the strength of the effect being comparable. Debt plays a dual role in mitigating agency conflicts. On the one hand, the obligation to service debt compels management to act in the best interests of shareholders by ensuring the efficient use of borrowed funds. On the other hand, excessive debt may increase financial distress, particularly during economic instability. In both countries, optimal leverage appears to be interpreted positively, as it aligns management's actions with shareholder interests under creditor scrutiny. The similarity in the DER coefficient suggests that investors in Indonesia and Malaysia view debt as a necessary tool for growth rather than a liability, provided it is managed prudently. However, the differing economic contexts during the pandemic likely moderated these effects. Indonesian firms facing higher economic volatility may have used leverage more cautiously to avoid financial distress. Nevertheless, Malaysian firms may have

leveraged their more stable economic environment to maintain growth strategies. In both countries, DER signals to the market about the company's growth strategy and financial stability. Moderate leverage indicates confidence in cash flow management and future profitability, which reassures investors. The positive perception of leverage in both markets reflects the ability of firms to use debt strategically as a growth enabler, signaling stability and financial discipline. However, any excessive reliance on debt would likely have sent negative signals, undermining investor confidence, especially during the uncertain conditions of the pandemic.

- **Company Size (LNAssets) and Its Effect on Company Value**

Company size, represented by the logarithmic value of total assets, has a negative and significant effect on company value in Indonesia ($\beta = -0.07$) but a negative and insignificant effect in Malaysia ($\beta = -0.003$). In Indonesia, larger firms face heightened agency problems due to the complexity of managing extensive assets. These inefficiencies become more pronounced during economic uncertainty, where the cost of maintaining large-scale operations outweighs perceived benefits. Investors in Indonesia, concerned about potential mismanagement and underutilization of assets, may discount the value of large companies, resulting in a lower Tobin's Q ratio. Malaysia's opposing but insignificant effect suggests that larger companies can better manage their assets and maintain investor confidence. This may be due to more robust corporate governance frameworks and more experienced management teams capable of mitigating agency conflicts. Malaysian investors, therefore, appear to perceive company size more neutrally, focusing instead on other factors like profitability and leverage. In Indonesia, significant assets may send negative signals to the market during periods of uncertainty. Investors may interpret extensive asset bases as rigid structures that limit operational flexibility and increase financial risk, particularly during the pandemic. This perception is reinforced by concerns over underutilization and declining asset values, which undermine investor confidence in the firm's ability to generate returns. Malaysia's less pronounced negative effect suggests that large companies are better positioned to signal operational stability and growth potential. Investors may view significant assets as a sign of resilience provided the company demonstrates effective asset utilization. This difference highlights how market maturity and investor confidence influence the interpretation of asset size as a market signal.

- **Comparative Implications and Determinants**

The determination test results (R^2) further highlight the differences in how profitability, leverage, and company size collectively affect company value:

1. Indonesia ($R^2 = 21.21\%$): The variables' explanatory power is relatively lower, indicating that investors in Indonesia may rely heavily on external signals and market sentiment. This aligns with the more substantial impact of ROA, as profitability is a readily interpretable signal in less mature markets.
2. Malaysia ($R^2 = 28.79\%$): The higher explanatory power suggests that Malaysian investors incorporate a broader range of factors, including corporate governance and macroeconomic conditions when assessing company value. This reflects the more nuanced and stable investment environment in Malaysia.

CONCLUSION

This study explores the impact of profitability (ROA), leverage (DER), and company size (LNAssets) on company value (Tobin's Q) in Indonesia and Malaysia, providing insights through Agency Theory and Signaling Theory. Moreover, the conclusions of the results and discussion are as follows:

- **The Effect of ROA on Company Value:** ROA positively influences company value in Indonesia and Malaysia, reflecting efficient asset utilization and profitability. From an Agency Theory perspective, high ROA demonstrates management's alignment with shareholder interests, reducing agency conflicts and increasing trust. Signaling Theory emphasizes that high ROA conveys operational efficiency, reassuring investors of the company's profitability and stability. In Indonesia, where markets are less mature, ROA has a more substantial impact as investors rely heavily on profitability metrics. Meanwhile, Malaysian investors consider ROA alongside other indicators, reflecting a more nuanced investment approach.
- **The Effect of DER on-Company Value:** Leverage, measured by DER, positively impacts company value in both countries. Agency Theory explains that debt imposes discipline on management, ensuring prudent decision-making under creditor scrutiny. Optimized leverage aligns management actions with shareholder wealth, enhancing company value. Signaling Theory highlights that moderate DER signals growth potential and financial stability, attracting investor confidence. However, excessive leverage could signal financial distress, undermining company value. Both markets exhibit similar responses to leverage, emphasizing its role as a tool for growth rather than a liability when managed effectively.
- **The Effect of Assets on Company Value:** Company size, represented by LNAssets, has a negative effect on company value in Indonesia but an insignificant effect in Malaysia. Agency Theory attributes the negative effect in Indonesia to heightened agency conflicts and inefficiencies in managing significant assets, particularly during economic uncertainty. Signaling Theory suggests that in Indonesia, significant assets may signal rigidity and operational inefficiency, reducing investor confidence. Conversely, Malaysian firms benefit from more robust governance and resource management, neutralizing the negative perception of significant assets.
- **Differences in Factors Affecting Company Value:** Key differences between Indonesia and Malaysia stem from market maturity, investor behavior, and governance structures. Due to less sophisticated markets and limited data transparency, Indonesian investors rely more on profitability signals like ROA. Malaysian investors operating in a more stable environment consider broader factors, including corporate governance and macroeconomic conditions. Both countries perceive Leverage positively, but Malaysia's more vital financial systems moderate its risks. Company size presents challenges in Indonesia, where inefficiencies and economic volatility amplify concerns, whereas, in Malaysia, robust governance mitigates these risks.

The findings reveal that financial metrics like ROA, DER, and LNAssets influence company value differently in Indonesia and Malaysia. Profitability and leverage consistently enhance value, while significant assets pose challenges in less mature markets. These variations underscore the importance of market context, governance, and investor sophistication in shaping the relationship between financial metrics and company value. By aligning management practices with shareholder interests and leveraging financial signals effectively, companies can enhance their market valuation and investor confidence across different economic environments.

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