Lead Journal of Economy and Administration **ISSN: 2961-8177**
Vol.4, No.1, 2025
pp. 1-11 https://doi.org/10.56403/lejea.v4i1.312

The Relationship Between Financial Ratios, Company Growth, and Shareholder Value in Financial Statement Reporting

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Article Information

Article History
Received, 27 June, 2025
Revised, 18 July, 2025
Accepted, 21 July, 2025
Published, 29 July, 2025

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ABSTRACT

This study examines the relationship between corporate expansion, crucial financial indicators, and the worth attributed to shareholders, specifically within companies listed on the Indonesia Stock Exchange. The financial metrics considered in this analysis are Return on Equity (ROE), the Debt to Equity Ratio (DER), and Earnings Per Share (EPS). A quantitative approach was adopted, involving the examination of financial statements spanning from 2018 to 2022. Multiple regression analysis was utilized to assess how independent variables affect shareholder value. The findings indicate that both ROE and company growth positively influence shareholder value, whereas a higher DER negatively impacts it. These results highlight the critical role of proficient management in optimizing equity utilization and managing debt to enhance company valuation. This study contributes to a deeper understanding of how financial ratios and growth interact to shape shareholder value. It offers recommendations for company leadership to prioritize boosting ROE and fostering sustainable growth while mitigating debt-related risks. Furthermore, it suggests that future studies could benefit from a broader sample and the inclusion of macroeconomic factors for more robust conclusions. Consequently, this research can inform sound investment choices and financial management approaches for businesses.

Keywords: Financial ratios; Return on Equity; Debt to Equity Ratio; Earnings Per Share; Company growth; Shareholder value.

1. INTRODUCTION

Manufacturing companies in Indonesia play a vital role in driving national economic growth. To carry out their operations, these companies require substantial capital. One of the most strategic funding sources available is the capital market, particularly the Indonesia Stock Exchange (IDX), which serves as a key platform for companies to raise capital by issuing and selling shares to investors. In order to attract

investor interest, companies must demonstrate their value, financial health, and strong future potential.

Firm value serves as a crucial indicator that reflects the level of trust and confidence investors and the public have in a company's performance and outlook based on its business journey from inception to the present. A high firm value, often represented by the PBV (Price to Book Value) ratio, suggests that the market views the company's prospects as favorable and capable of generating shareholder wealth. However, in recent years, Indonesia's manufacturing sector has been facing challenges, including inconsistent profitability. Several sub-sectors such as steel, iron, glass, and aluminum have even reported consecutive losses. This decline in profitability has led to falling stock prices and stunted growth in the manufacturing sector, as a result, the sector's contribution to the Gross Domestic Product of the nation has been reduced.

Several internal variables are believed to impact firm value, including profitability, company size, growth, and managerial ownership. Profitability, commonly measured by financial ratios like Return on Equity (ROE), is particularly important to investors as it reflects how effectively management uses company resources to generate earnings. Company size is another significant factor, with larger firms often enjoying more stable operations and easier access to capital. Company growth and the extent of managerial ownership are also thought to shape how investors perceive and value a firm.

A key issue in the existing literature is the inconsistency in previous research findings regarding the impact of these variables on firm value. While some studies have identified a positive relationship, others have reported negative or even no significant influence at all. This inconsistency highlights the need for further empirical research, with priority given to manufacturing companies listed on the IDX.

The study will analyze various elements potentially affecting the valuation of manufacturing firms traded on the Indonesia Stock Exchange (IDX). Initially, the study aims to assess the connection between a company's profitability and its overall market worth, seeking to determine if robust financial results are associated with elevated market appraisals. Next, this study will assess the role of company size in determining company value. This study will also investigate how company growth affects value, particularly in the context of sustainable development. Finally, this study will explore how management ownership, which refers to management ownership in a company, affects decision-making and company value. Providing theoretical insights and practical implications for financial management and investment strategies in the Indonesian capital market is the main objective of this study.

2. LITERATURE REVIEW

Company performance is often evaluated through financial ratios, which also play a critical role in shaping firm value. Profitability ratios, notably Return on Assets (ROA) and Return on Equity (ROE), are commonly associated with positive movements in company value, as they measure a firm's ability to convert assets and equity into profit, thereby fostering investor confidence (Nugroho, Supriyadi, & Chaerudin, 2023). Liquidity ratios, such as the Current Ratio (CR), are also important for measuring a corporation's ability to meet its current liabilities, although their impact on corporate value may vary depending on industry characteristics and prevailing market conditions (Putri, 2022).

A company's capital structure is significantly influenced by its solvency ratio, often quantified by the Debt to Equity Ratio (DER). While an optimal level of leverage can enhance firm value by enabling efficient use of debt financing, excessive debt can heighten financial risk and reduce market valuation (Sihombing, 2023). Activity ratios such as Total

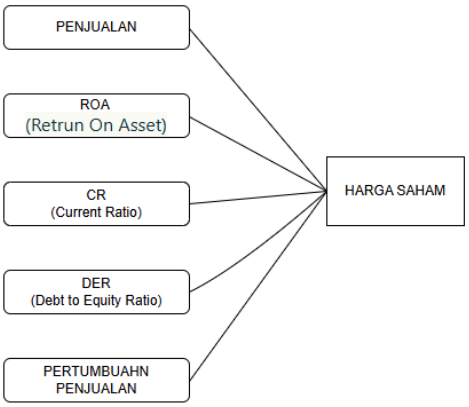
Asset Turnover (TATO) also positively influence company value by showing how successfully a company utilizes its assets to generate income (Economina, 2023). Overall, the combined analysis of profitability, liquidity, solvency, and activity ratios provides a comprehensive understanding of financial health, which significantly influences firm value (Stiyarini, 2014).

Company growth commonly assessed through increases in profit and total assets is a vital indicator of a firm's future prospects. Sustained positive growth tends to boost investor confidence, often leading to higher stock prices and enhanced shareholder value (Adyana & Suryantara, 2023). However, excessively rapid growth may result in substantial funding requirements, which can limit profit distribution and, in the short term, potentially diminish firm value (Fachry, 2022).

Several studies have shown that company growth significantly influences firm value when considered alongside financial ratios. However, when evaluated independently, the impact of growth may not always be statistically significant, as it often depends on specific industry dynamics and market conditions (Kukuh Wahyu Nugroho et al., 2023). Nonetheless, steady and positive growth generally serves as a strong signal to investors, indicating effective resource management and contributing to increased shareholder value (Journal of Accounting Science and Research, 2023).

Strong financial ratios and sustainable company growth are mutually reinforcing in enhancing shareholder value. Sound financial indicators such as high profitability and a well-balanced capital structure enable firms to pursue investments that support continued profit and asset expansion (Putri, 2022). In turn, positive growth contributes to improved financial performance and enhances investor perceptions of the firm's overall value (Nugroho et al., 2023).

Empirical studies have demonstrated that, collectively, financial ratios and company growth exert a significant influence on shareholder value, as reflected in stock prices and other market-based metrics (Fachry, 2022; Adyana & Suryantara, 2023). Transparent financial reporting plays a central role in this relationship, serving as a key source of information for investors to evaluate financial health and monitor growth. Ultimately, this transparency shapes investor confidence and helps determine the firm's market valuation (Stiyarini, 2014).



Picture 1. Framework of Thinking

3. RESEARCH METHOD

Secondary data derived from annual and quarterly financial statements of IDX-listed companies between 2021 and 2024 form the basis of this quantitative study. The dataset comprises core financial indicators—namely ROE, DER, and EPS—alongside

company growth figures and shareholder value metrics. The choice of a quantitative method is intended to systematically examine the relationships among variables using statistical tools, consistent with previous research by Jajang et al. (2021) and Suryani & Herianti (2023), who explored the relevance of financial ratios to corporate performance.

Data were collected through a thorough review of official documents, particularly audited financial reports accessible via the official websites of the companies and the IDX, as well as credible capital market publications. These sources are considered highly valid and reliable, aligning with the conclusions of Zakiyatul & Anisykurlillah (2016).

All companies listed on the IDX throughout the designated time period make up the study's population. A purposive sampling technique was applied to select companies that met predetermined criteria specifically, the availability of complete data for ROE, DER, EPS, and company growth during the observation period, and the absence of delisting events. According to Ardiyani & Utaminingsih (2015) and Suryani & Herianti (2023), this sampling technique is frequently employed in empirical research since it guarantees the selection of pertinent and trustworthy data.

The data collection process involved identifying eligible sample companies, downloading their financial reports from official sources, calculating the required financial ratios, and organizing the data into a format appropriate for statistical analysis. The purpose of this methodical approach was to guarantee the integrity and correctness of the data used in the research.

Data Analysis Techniques

Classical Assumptive Test

a. Normality Test

Normality test can be done using 2 methods, namely: (1) Kolmogorov Smirnov test, if the standardized residual value is normally distributed if the The value is higher than alpha. A regression model satisfies the normality assumption when the data distribution in a probability plot adheres to the diagonal line. However, noticeable deviations from this line suggest that the normality condition has not been met. Test for multicollinearity**.** As proposed by Ghozali (2013:106), multicollinearity can be evaluated using two key indicators (1) The presence of multicollinearity is suggested When the Variance Inflation Factor (VIF) is greater than 10 or the tolerance value is less than 0.10. (2) Conversely, multicollinearity is deemed non-existent if the Tolerance value is greater than 0.10 and the VIF is below 10. It is important to note the inverse correlation between the two: higher VIF values tend to correspond with lower Tolerance values.

b. Test for Autocorrelation

The relationship between the members of a dataset—whether it be a time series or cross-sectional dataset—is determined using the correlation test. According to Ghozali (2013:111), the criteria for identifying autocorrelation through the Durbin-Watson (D-W) Here are some statistics: (1) Positive autocorrelation is present when the D-W value is less than -2. (2) A D-W value ranging from -2 to 2 signifies not having autocorrelation. (3) A D-W value exceeding 2 suggests the presence of negative autocorrelation.

c. A Heteroscedasticity Test.

Heteroscedasticity is determined by looking for specific patterns on the graph, where the X axis shows the studentized residual (Y prediction - Y actual) and the Y axis shows the predicted Y. verifying the usefulness of the model.

- The Determination Coefficient (R2)

The determination coefficient (R2) is used to evaluate the effectiveness of the regression model in fitting the data and to quantify how much of the variability in the dependent variable can be explained by the independent factors. A higher R2 value indicates that the regression model provides a more precise evaluation and serves as a more dependable forecasting method. When the R2 value approaches one, it suggests that the model possesses considerable explanatory capability regarding how the independent and dependent variables are related. Using SPSS version 30, the R2 value for this research was determined and evaluated.

- F-test for viability of the model
  The F-test is utilized in multiple regression analyses to determine whether the dependent variable is significantly impacted by the independent variables taken together. (Ghozali, 2013:98). This testing approach operates at a significance threshold of $\alpha = 5\%$ (0.05) and can be interpreted as follows: (1) A p-value below 0.05 suggests that the model is statistically significant and appropriate for the analysis; (2) Conversely, a p-value above 0.05 indicates that the model is inadequate, implying that the independent variables do not sufficiently explain the variance in the dependent variable as a group.

d. Multiple Linear Regression Analysis

To evaluate how independent and dependent variables relate to one another, this study adopts multiple linear regression analysis. Specifically, it investigates how financial metrics such as DER, ROA, CR, TATO, and PER influence stock returns. Hypothesis evaluation is also a critical aspect of the analysis.

e. Test of Significance (t-test)
The separate (partial) impacts of each independent variable—ROA, DER, CR, TATO, and PER—on the dependent variable, stock return, are examined using the t-test. The criteria for hypothesis testing are as follows:

- An independent variable is deemed to have a minor or highly negative effect on the stock returns of food and beverage firms listed on the Indonesia Stock Exchange (IDX) if the p-value (indicated in the Sig. column) falls below the significance threshold of 0.050.
- Conversely, if the p-value exceeds 0.050, the independent variable is considered to have a significant positive effect on stock returns in the same industry.
  The Partial Coefficient of Determination (r^2) is utilized to assess the extent to which each independent variable (CR, DER, TATO, ROA, and PER) contributes to the variation in the dependent variable (stock return). To ascertain this, the partial correlation coefficient is squared, as advised by Sugiyono (2009:260). The independent variable with the highest r2 value is considered to have the biggest effect on the dependent variable.

4. RESULTS AND ANALYSIS

a) A test based on classical assumptions

Test of normality

To assess normality, this study utilized two approaches. The first method was the Kolmogorov-Smirnov (K–S) test, which determines that the data is normally distributed if the K-count is lower than the K-table value or if the significance value (Asymp. Sig.) surpasses the alpha level of 0.05. According to the test findings, the Asymp. Sig. value was 0.170, which is more than 0.05. This suggests that the remaining data satisfies the normality assumption. Secondly, the distribution of data points in the normal probability plot was analyzed graphically. The data is likely to be normally distributed if the points are

tightly clustered around the diagonal line and follow its course. The normality assumption may be supported by the variables employed in this research, as shown by both the statistical and graphical methods.

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			16
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		1038.97153760
Most Extreme Differences	Absolute		.181
	Positive		.119
	Negative		-.181
Test Statistic			.181
Asymp. Sig. (2-tailed)[c]			.170
Monte Carlo Sig. (2-tailed)[d]	Sig.		.168
	99% Confidence Interval	Lower Bound	.159
		Upper Bound	.178

Table 1. Normality test

Test for multicollinearity

According to the results of the multicollinearity test shown in Table 2, the Variance Inflation Factor (VIF) values for each independent variable concerning the dependent variable were examined. A VIF value below 10 or a tolerance value above 0.10 indicates no multicollinearity issue, multicollinearity is considered to be nonexistent according to specified standards. The formula VIF = 1/Tolerance is used to calculate that a VIF of 10 corresponds to a tolerance of 0.10.

The findings show that sales and sales growth have very low Tolerance values (0.020 and 0.019, respectively) and very high VIF values (51.125 and 53.484), which undoubtedly point to significant multicollinearity. The Debt to Equity Ratio (DER) and Current Ratio (CR) indicators, however, show VIF values that are nearing the critical threshold; DER is at 9.825 and CR is at 7.513, indicating a moderate to high level of multicollinearity. In the meantime, Return on Assets (ROA) shows Tolerance and VIF values that are still inside acceptable bounds, with a Tolerance of 0.529 and a VIF of 1.889, indicating that the variable has no notable multicollinearity.

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	Sales	.020	51.125
	ROA	.529	1.889
	CR	.133	7.513
	DER	.102	9.825
	Sales growth	.019	53.484

a. Dependent Variable: stock price

Table 2. Multicollinearity Test

Autocorrelation Test

This study's Durbin-Watson (DW) statistic of 2.885 raises the possibility of weak negative autocorrelation. The regression model should ideally have no autocorrelation if the DW value is near 2. The likelihood of a negative correlation between the residuals, or mistakes in the model's predictions, is increased, nevertheless, because the obtained number is getting close to 3. Even if the autocorrelation is weak, this finding should be taken into account when evaluating the trustworthiness of the model.

Model Summary[b]

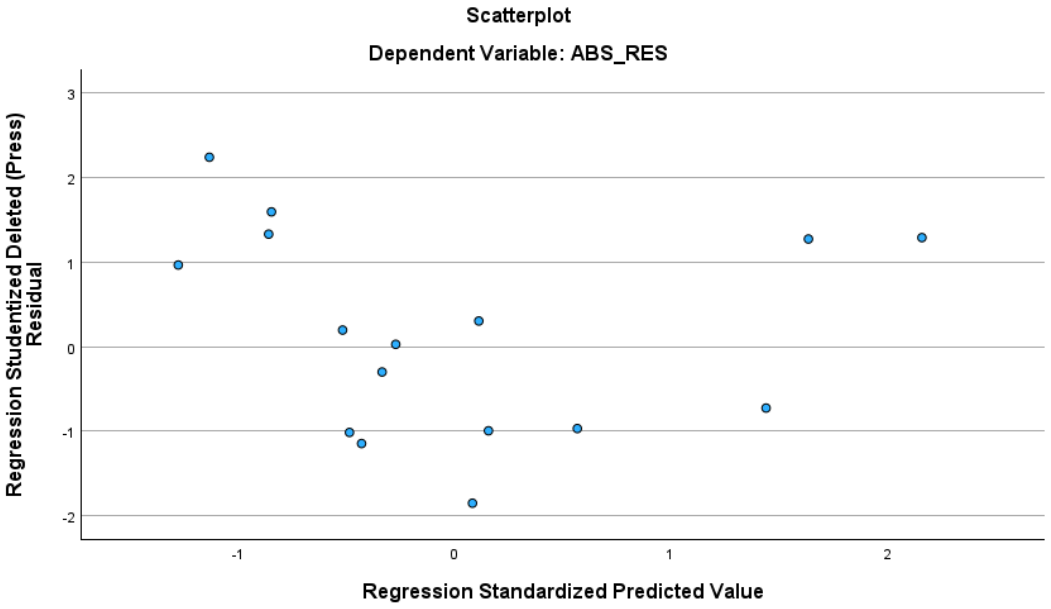
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.649[a]	.421	.132	1272.475062200773000	2.885

a. Predictors: (Constant), Sales Growth, ROA, CR, DER, Sales
b. Dependent Variable: Stock Price

Table. 3 Autocorrelation Test

Heteroscedasticity Test

The scatter plot from the heteroscedasticity test shows a random spread of points above and below the Y-axis at zero, indicating no clear pattern. This indicates that the regression model lacks heteroscedasticity. Because the data has been shown to be free of heteroscedasticity, the resulting multiple linear regression equation is deemed legitimate and suitable for usage in this study.



Picture 2. Heteroscedasticity Test

b. Model Feasibility Test

Determination Coefficient Analysis (R2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.649[a]	.421	.132	1272.47506220077 3000

a. Predictors: (Constant), Sales Growth, ROA, CR, DER, Sales

b. Dependent Variable: Stock Price

Table 3. Analysis of Determination Coefficient (R2)

The Model Summary indicates that the correlation coefficient (R) is 0.649, which signifies a moderately strong relationship between the independent variables sales growth, ROA, CR, DER, sales and stock prices. Additionally, the coefficient of determination (R^2) is 0.421, implying that 42.1% of the variations in stock prices can be accounted for by the model, leaving 57.9% attributable to unobserved factors beyond the study's parameters.

An Adjusted R Square value of 0.132, which considers both the sample size and the number of predictors, suggests that the model conservatively accounts for around 13.2% of the fluctuations in stock prices. This indicates that the model has little explanatory capability. Additionally, the model's standard error of 1272.48 reflects the average variance in its stock price projections. A lower standard error would indicate a more accurate predictive capacity, therefore this number implies that the model still has potential for improvement when it comes to forecasting stock prices.

F Test

The ANOVA table indicates, the calculated F-value stands at 1.456, with a significance level of 0.286. The F-test is conducted to investigate whether the independent variables, such as sales growth, ROA, CR, DER, and sales, significantly affect the dependent variable, stock price. Given this model, it may be argued that these independent variables, taken as a whole, have little impact on stock prices because the significance value exceeds the widely accepted cutoff of 0.05.

Tabel 4. Model Feasibility Test Results (F Test)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11788630.691	5	2357726.138	1.456	.286[b]
	Residual	16191927.839	10	1619192.784		
	Total	27980558.530	15			

a. Dependent Variable: Stock Price

b. Predictors: (Constant), Sales Growth, ROA, CR, DER, Sales

The significance value for this test result is 0.286, indicating that it is higher than 0.05. Therefore, it may be said that Ha is rejected and H0 is accepted, indicating because this model's independent variables don't substantially affect stock prices at the same time.

Multiple Linear Regression

The results of the multiple linear regression analysis indicate that the sales variable has a coefficient of 1.727E-11. However, since the p-value is considerably above the 0.05 level, with a significance value of 0.873, it implies that this variable does not have a

statistically substantial impact on stock values. The ROA, or return on assets, variable is found to be statistically insignificant in affecting stock prices at the 5% level of significance, with a coefficient of 21,362,140 and a significance value of 0.135.

The Current Ratio (CR) shows a coefficient of 1,225.649 and a significance value of 0.683, while the Debt to Equity Ratio (DER) has a coefficient of 5,103.685 and a significance value of 0.160 both of which are not statistically significant. Likewise, the sales growth variable, with a coefficient of 4.167E-11 and a significance value of 0.782, does not exhibit a meaningful impact on stock prices. These results suggest that none of the tested independent variables significantly influence stock prices within this regression model.

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-7312.391	6952.140	
	Sales	1.727E-11	.000	.283
	ROA	21362.140	13127.857	.538
	CR	1225.649	2916.272	.277
	DER	5103.685	3358.624	1.146
	Sales growth	4.167E-11	.000	.500

a. Dependent Variable: Stock Price

Tabel. 5 Multiple Linear Regression Analysis Results

T-test (Partial test)

Sales, ROA, CR, DER, and sales growth appear to have no significant partial impact on stock prices in this research sample, according to the t-test results.

Model		t	Sig.n	keterangan
1	(Constant)	-1.052	.318	Tidak berpengaruh
	Sales	.165	.873	Tidak berpengaruh
	ROA	1.627	.135	Tidak berpengaruh
	CR	.420	.683	Tidak berpengaruh
	DER	1.520	.160	Tidak berpengaruh
	Sales growth	.284	.782	Tidak berpengaruh

a. Price of stocks is a dependent variable.

Tabel 6. t-test results

c. Analysis

According to the study, among companies listed on the Indonesia Stock Exchange (IDX), financial ratios specifically Return on Equity (ROE) and corporate growth significantly increase shareholder value. On the other hand, shareholder value is negatively impacted by the Debt to Equity Ratio (DER). This implies that shareholders view a company as having more value as its capacity to make money off of its equity (as indicated by ROE) and growth rate rises. These results are consistent with well-established financial theories, which emphasize growth and profitability as crucial elements that investors take into account when assessing a company's potential and appeal.

A high ROE underscores the importance of management's effectiveness in utilizing capital to achieve maximum profitability. Companies with strong ROE are typically valued

more highly by investors, as they are seen as capable of delivering favorable returns on invested capital. Furthermore, consistent company growth sends a positive signal to the market, indicating promising future prospects, which in turn can boost investor interest and drive up share prices.

However, as evidenced by the inverse link between DER and shareholder value, an over-reliance on debt can increase financial risk. A capital structure dominated by debt increases interest obligations and the risk of default, which can erode investor confidence and negatively impact stock prices. Therefore, maintaining a balanced mix between equity and debt is essential for optimizing shareholder value.

Practical Implications for Management and Investors

Based on these findings, company management should prioritize improving ROE and fostering sustainable growth, while avoiding excessive debt accumulation. Recommended strategies include enhancing operational efficiency, optimizing the capital structure, and pursuing product innovation and market expansion to support profit and asset growth. Ensuring transparency in financial reporting is also crucial for building investor trust and enabling objective assessments of company performance.

For investors, these results provide a useful framework for conducting fundamental analysis before making investment decisions. It is advisable for investors to select companies with high ROE, consistent growth, and a sound capital structure (low DER) to reduce risk and maximize potential returns. Investors should also consider outside factors that could impact the performance of the company as a whole, such as industry trends and macroeconomic conditions.

This study is limited to IDX-listed companies during the 2021–2024 period and focuses only on variables such as ROE, DER, EPS, and company growth. For future research, it is recommended to broaden the sample by including companies from various sectors and extending the observation period. Incorporating macroeconomic factors like inflation, interest rates, and exchange rates could also offer a more comprehensive understanding of the determinants of shareholder value in Indonesia’s capital market.

5 .CONCLUSION

This research effectively achieved its initial aim: to investigate the connection between financial indicators, corporate development, and shareholder wealth among manufacturing enterprises listed from Indonesia on the Stock Exchange 2021 to 2024. The outcomes of the multiple linear regression analysis reveal that the combined effect of Return on Equity (ROE) and company growth positively affects shareholder value. Conversely, individual financial indicators such the Debt to Equity Ratio (DER), Current Ratio (CR), and Return on Assets (ROA), and sales growth did not show a significant impact on stock prices. Furthermore, a elevated debt to equity ratio (DER) tends to diminish shareholder value, underscoring the necessity of maintaining an optimal capital structure.

These findings are consistent with financial management theories that stress the significance of profitability and sustainable growth in increasing company value, while also warning against excessive debt. The study provides useful information for investors and management alike, even though the R2 value indicates that the model's capacity to explain the fluctuation in shareholder value is restricted. Company leaders are encouraged to enhance ROE and pursue growth while keeping financial risk under control, and investors should prioritize companies with effective capital management and strong growth prospects.

For future research, it is recommended to expand the sample to include companies from various sectors, lengthen the study period, and add macroeconomic factors such as inflation and interest rates. These steps are expected to enhance the model's explanatory and predictive capabilities, thereby deepening the understanding of how financial and external factors jointly shape shareholder value in Indonesia's capital market.

ACKNOWLEDGEMENTS

To everyone who helped the authors successfully complete this research, they extend their heartfelt gratitude. The university that the authors are affiliated with receives special credit for providing the resources and assistance required for the research. The Indonesia Stock Exchange and the businesses that made up the research sample are also thanked for supplying trustworthy and easily obtainable financial statement data.

The authors are also thankful for the valuable feedback and suggestions provided by the journal's reviewers and editors, which have significantly enhanced the quality of this article. It is the authors' hope that the findings of this study will make a meaningful contribution to the advancement of financial management knowledge and assist in informed investment decision-making in Indonesia.

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