Financial Ratio Aspects and Audit Quality in Predicting Firm's Value in Pharmaceutical Sub-Sector Firms

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ABSTRACT: Investors in determining the company to invest their capital, the decision to invest can be influenced by the firm's value because the firm's value is an indicator of financial performance for the company. This study examines financial ratio aspects consisting of liquidity, solvency, profitability, and audit quality to predict of firm's value in the Pharmaceutical sub-sector in the Indonesian Stock Exchange (IDX) for the period 2015-2021. This study takes a quantitative methods approach with one or more variables accor the quantify scale, i.e. ration. Data gathering techniques utilized are documentation stages of financial statements. The final sample consists of nine firms in the pharmaceutical sub-sector. The regression analysis method is utilized panel data with Chow and Hausman's test approaches. The findings were that not one of the financial ratio aspects had a significant effect on the firm's value. However, 52.38 percent of the pharmaceutical sub-sector companies sampled were audited from the PAF Big-4 category.

KEYWORDS: liquidity, solvency, profitability, audit quality, firm's value

I. INTRODUCTION

Along with the development of the era or era like today, many companies have sprung up, both small and large. Every company always tries to get better conditions in doing business. Companies are encouraged to find and use available opportunities following the company's strategy so that they can achieve goals. The company has less-term or more-term objectives in its operational activities. The less-term or more-term objective is to maximize the firm's profiling-term aim resources; the more-term objective is to work up the company's value and prosper the shareholders. In other words, according to David J. Teece (2018) to preserve the survival of a firm and compete in a superior and competitive manner, can be expressed as the accumulated pay of someone to get or expropriate a company entity principled book or market value (Sarwani & Husain, 2021). Therefore, the company must maximize the firm's value because of the peak of the firm's performance, and the top level of investor belief to invest in those businesses.

Investors in determining the corporation to invest their capital, the decision to invest can be influenced by the firm's value because the firm's value is an indicator of financial performance for the company. The increasing firm's value can describe the welfare. Investors can apply the firm's value as a fundamental for knowing the firm's performance in the future term (Nicodano & Regis, 2019). One way that can be applied to quantify firm's value is Tobin's Q proxy, an indicator quantifying corporation performance variables from an investment sight that has been tested in assorted top management conditions as an assessment measure market. The following are the Tobin's Q scores of Pharmaceutical Sub-Sector Firms:

Tabel 1. Pharmaceutical List's Company Values Listed on the Indonesia Stock Exchange with Tobin's Q for 2015-2021

Issuer Code	2015	2016	2017	2018	2019	2020	2021
DVLA	1,3506	1,7285	1,6575	1,5779	1,6634	3,0129	2,9621
INAF	0,9530	11,0814	12,6083	14,6226	2,5835	1,6533	1,5176
KAEF	3,0379	1,9086	3,0379	1,9086	0,9744	5,5903	3,8113
KLBF	4,7190	4,8455	4,9314	4,0836	3,9229	3,2646	3,1209
MERK	5,7570	4,7692	2,1148	1,7578	0,9914	1,9213	1,9443
PEHA	4,8192	2,8562	2,3268	1,8405	1,0388	1,3564	1,1018
PYFA	0,9150	1,0090	0,9315	0,9049	0,9016	2,5928	1,0486
SCPI	1,0023	0,9068	0,8133	0,7567	0,6384	0,5446	0,2838
SIDO	3,0213	2,7169	2,6733	3,8440	5,4815	6,3012	6,5175

Source: www.idx.co.id (2022)

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Based on Table 1 above, there are 9 pharmaceutical sub-sector firms that successively reported their financial reports during the 2015-2021 study periods. The majority of the firm's value (Tobin's Q proxy) fluctuated during the period observed. Potential investors who will saving in stocks can pay concern to the firm's financial performance by analyzing financial ratios. Analyzing financial ratios is a way that can be done to determine the firm's financial circumstances. Firm value can be affected by several factors as well as liquidity, solvency, and also profitability.

Liquidity is the power of a business to fulfill its financial debts in the less-term or which must be paid immediately (Lubis, Sinaga, & Sasongko, 2017). Kasmir (2019, hal. 134), states that the current ratio is a proportion to gauge a firm's capability to pay less-term debts that are due soon when accumulated as a whole. This ratio can be made in the form of several times in the form of a percentage. The liquidity ratio reflects the firms's capability to settle its less-term debts or how immediately the corporation transforms its assets into cash (Sukamulja, 2022). Liquidity in the company is very essensial because it relates to converting assets into components of cash and cash equivalents. According to Hery (2017) states that investors are very interested in the liquidity, notably in terms of dividend distribution. A high level of liquidity will indicate the corporation is in good condition and vice versa so that it can increase declare for shares and of course, will increase share prices. Liquidity can be measured by looking at the impact caused by the firm's capability to be unable to pay its less-term obligation other words; it refers to a firm's power to fulfill (Fahmi, 2017, hal. 121). High liquidity can affect investors in investing in the company so that the assertion for shares in the company will raise and the price may go up. So if the liquidity ratio of a large size of company, the stock price will increase. With a raise in stock prices, the firm's value will increase. The prior of study (Andriani & Rudianto, 2019) stated that liquidity has a positive affect towards firm value Research conducted in the Mining Sector in 2014-2017 shows that liquidity has no influence on company value in mining companies from IDX (Dewi & Agustin, 2019). The results of the study (Dewi & Ekadjaja, 2020), liquidity hurts company value.

Leverage according to (2019), is a defraying policy related to a business decision to take business finance. The debt-to equity ratio (DER) is a ratio used to quantify a firm's power of finance total debt using its capital. In addition, leverage is utilized to gauge a firm's cvapability to shell out all of its debts, both less-term and more term if the corporation is dissolved (Pierre Lemieux, Director, BDC, 2022). Research conducted on Property and Real Estate companies registered in Indonesia Stock Exchange shows that the DER ratio has a significant influence on company value (Khasana & Triyonowati, 2019). Other research conducted (Suwardika & Mustanda, 2017) on property firms registered in IDX in 2013-2015 shows that leverage has a positive direction towards firm value. Meanwhile, the study results of (Sarwani & Husain, 2021) state that the firm's value is not significantly affected by the measurement of the DER ratio in firms in the automotive and component sub-sectors.

According to V Wiratna Sujarweni (2017), states that the profitability ratio is the ratio utilized to gauge a firm's capability to get advantages, its relationship to sales, assets and profits, and own stock. High profitability can describe the firm's power to gather high profits for shareholders. Kasmir (2019, hal. 196) adds that the profitability is a ratio for estimating a firm's power to obtain a benefits. Research conducted on Property and Real Estate firms in IDX in 2015-2017 shows that return on equity (ROE) has a significant affect on company value, this inasmuch as the contribution of increasing firm profits can increase the company's attractiveness to investors to invest their capital because the rate of return will increase large (Khasana & Triyonowati, 2019). Other research conducted on automotive and component sub-sector firms in 2013-2019 views that profitability implies firm value by proxy for ROA (Sarwani & Husain, 2021). Meanwhile, research conducted in the Property, Real Estate, and Construction sectors registered in IDX of 2016-2019 shows that profitability does not affect company (Muharramah & Hakim, 2021).

Audit quality appraises are predicated on the audit opinion from the Big-4 category of public accounting firms in this research, which the correct the inferred on raising stakeholders' belief in the firm's performance. This situation can lessen ever conflict of interest among the agency (role management) and the principal in the agency context. Research conducted on non-financial companies from 74 from 2014 to 2019 for which the external audit index was constructed from the new Companies Act of India 2013, where external audit quality found had a significant positive affect towards financial performance as measured by Tobin's Q of firm's (Al-ahdal & Hashim, 2022). Prior studies from automotive and component sub-sector companies in 2013-2019 show that audit quality affects a firm's value by proxy for Big Four and another (Sarwani & Husain, 2021).

The Pharmaceutical Industry was chosen as the subject studied, from when Indonesia joined the ASEAN Economic Community (MEA) in 2015 until the COVID-19 pandemic in 2021, which was confirmed by news releases from ANTARA News, as in F. Tirto Kusnadi, during the XVI National Conference (Munas) at GPFI in Nusa Dua, Badung Regency, Bali, stated that the national pharmaceutical industry recorded growth of 10.81 percent since the COVID-19 pandemic of 2021 with a total score of 90-95 trillion IDR by sales indicators, this is due to the excellent cooperation between pharmaceutical business actors and the Government. Based on the background above, this study replicates the previous results, which use liquidity, solvency, and profitability as research objects to see their affect on firm's value which is the study aim where the prior results are still inconsistent. The difference in the research is changing the research subject, i.e., adding an audit quality factor, and replacing it with one of the consumer goods industry sectors, the Pharmaceutical Sub-Sector Firms using the 2015-2021 period.

II. THEORITICAL FRAMEWORK

Signalling theory is used to explain how a corporation gives signals to its stakeholders' of financial information. This encouragement takes place because there is an information asymmetry among the corporation and outsiders. This information is a situation where one stakeholders has further information than the another stakeholders. By minimizing information, a corporation may raise its firm value; in the shape of reliable financial information that will lessen uncertainty about the business's prospects the next time (Brigham & Houston, 2019). One of the measurements of financial ratios based on previous research is related to firm value. This criterion is a simple comparison for investors to establish good or bad company performance as a signal in this signaling theory (Sarwani & Husain, 2021).

Factors that predispose the firm's value based on Eugene F. Brigham and Joel F. Houston (2019, hal. 126), include: (1) Liquid assets are company assets that are sold in a live market so that they can simply disburse for company cash at market value, this causes investors to be desired in purchasing shares so that the share price will follow. Thus the firm's value also raises. (2) Profitability, which measures a company's ability to create benefits formed elements of profit or economic value on assets, net sales, and personal capital. (3) Leverage is used to quantify how effectively the company manages the business debts which illustrates the profit potential and risks to debt.

Firm value is an assured circumstance that has been reached by a corporation as a description of public belief in the business following a business activity for going periods, the beginning of business was held until nowadays (Hery, 2017, hal. 5). Indicators for measuring company value according to Eugene F. Brigham and Joel F. Houston (2019, hal. 110, 81): (1) price-to earnings ratio (PER) is a ratio that describes how much money is spent by investors to pay for each profit made reported (hal. 110) , the use of this ratio can provide views to investors about the comparison of stock prices with the profits obtained by shareholders. (2) price to book value (PBV) is the ratio that shows whether the price of shares traded in the capital market is overrated (above) or underrated (below) the book value of the business's shares (hal. 81) the use of this ratio becomes the investor's response of companies that will be considered good if the company experiences growth. (3) Market Book Assets Ratio is the market's expectation of value and investment opportunities and company growth which is obtained by proportion the market value of assets with the book value of assets. (4) Tobin's Q is the market value of a business registered on the financial market with the entity asset succession value whose valuation is carried out by comparing the total market capitalization with total debt to total assets.

Liquidity is beneficial for showing that the business has fulfilled all of its short-term obligations or debts (Hartono, 2018, hal. 9). The types of liquidity ratios that companies can use according to (Kasmir, 2019, hal. 134) namely: (1) The current Ratio is a ratio to quantify a business's power to accomplish less-term obligations or debts that are due soon since appear the bill. (2) Quick Ratio is the ratio that indicates the business's power to comply or pay current debt obligations (short-term debt) with assets outside compute into of the inventory. (3) Cash Ratio is a ratio used to quantify how much cash is fitted to pay debts. To assess liquidity using the current ratio method, the following formula can be used:

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Debt}$$

(Kasmir, 2019, hal. 135)

The leverage ratio is used to quantify the breadth to which a business's assets are financed with debt (Hery, 2017, hal. 162). The types of leverage ratios that companies can use according to (Kasmir, 2019, hal. 157), namely: (1) Debt-to Assets Ratio is the debt ratio used to quantify the ratio by total debt divide total assets. In other words, how much of the business's assets are financed by obligations or how much of the firm's debt implies to asset management. (2) Debt-to Equity Ratio is the ratio utilized to judge debt to equity which is obtained by opposing overall debt, put in as current debt divided all equity. (3) The Long Term Debt-to Equity Ratio is the ratio of more-term obligations to equity aimed at measuring how much of each currency personal capital is utilized as assurance for more-term debt obtained opposing more-term with equity firms available. (4) Times Interest Earned.

According to J. Fred Weston (Kasmir, 2019, hal. 162) is a ratio to find the time number interest is added and gauges the degree to which income can lessen without considering the business because of notable pay interest on its savings. (4) Fixed Charge Coverage is a ratio of the type of times interest is earned, the discrepancy lies in when a business acquires more-term obligations or leases assets based on a lease contract. To assess leverage, you can use the following formula:

$$Debt - to\ Equity\ Ratio = \frac{Total\ Debt}{Equity}$$

(Kasmir, 2019, hal. 158)

Profitability is the business power to gain benefits (profit) in a exactly time (Hery, 2017, hal. 7). The kinds of profitability ratios are as follows: (1) Profit Margin on Sales, according to (Kasmir, 2019, hal. 201-202) one of the ratios utilized to quantify the profit margin on sales includes two profit margins, the gross profit margin shows profit relative to the business, utilizing net sales cost after goods sold and profit margin net is a quantity of net profit after interest dividend tax comparison to sales. This ratio exhibits the business's net income from sales. (2) Return on Investment (ROI), is steted the ratio that shows the yield (return) on the total assets used in the corporation. (Kasmir, 2019, hal. 203). The smaller (lower) this ratio, the less good, and vice versa. This means that this ratio is used to measure the effectiveness of the company's overall operations. (3) Return On Equity (ROE) is the ratio for quantifing net profit after tax with initial capital

from stockholders. (Kasmir, 2019, hal. 206). The higher this ratio, means that the stockholder of the company is getting stronger, and vice versa. To assess profitability, you can use the following formula:

$$Return\ On\ Assets = \frac{Earnings\ after\ Interest\ and\ Tax}{Total\ Assets}$$

(Kasmir, 2019, hal. 202)

Audit quality is also believed to reduce agency problems between shareholder welfare and management, information asymmetry, and crucial misstatement of internationally diversiform companies (Alsmairat, Yusoff, Mohd Fairuz, Md Salleh, & Basnan, 2018). Furthermore, many subsidiary companies and a complex company operating system will make an auditor take longer than a company without subsidiaries, this is due to the auditor having to obtain strong evidence to obtain the integrity of financial statements (IAASB, 2015, hal. 12).

Audit quality also means a process that starts from planning before carrying out an inspection to ensure that generally accepted auditing standards are followed in every audit (IAPI, 2017). An external auditor can work as the owner of a Public Accounting Firm (PAF) or as a member of it. Some auditors are called external or independent because they are not part of the employees of the entity being audited (Hery, 2017). PAF's with the Big Four category focus on industries in the fields of technology, facilities, and personal and organizational control systems that will improve audit quality. Therefore, the PAF of the Big Four category has many experts who can streamline the audit process, unlike the case with PAF's other than the Big Four category (Habib, 2015). There are 2 sizes of Public Accounting Firms in Indonesia, namely the Big 4 PAF and the Local PAF. The Big 4 PAF's are Public Accounting Firms affiliated with the world's 4 major PAF's, namely, Pricewater Cooper (PWC), Ernst and Young (E&Y), The Deloitte Touche Tohmatsu, and Klynvel Peat Marwick Goerdeler (KPMG).

Based on the background, previous research and literature review described, this research proposes the following research model:
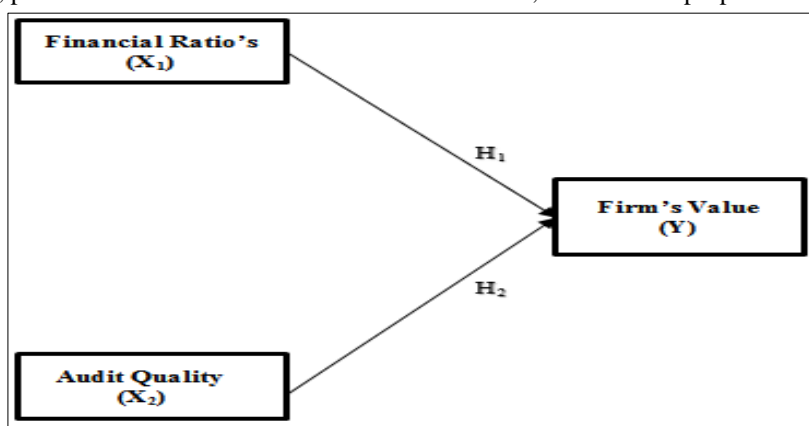

Figure 1. Research Model

In the aftermath, the alternative hypothesis stated is:

H_{1a} : *A firm's value is a positive consequence from financial ratios, i.n., liquidity*

H_{1b} : *A firm's value is a positive consequence from financial ratios, i.n., solvency*

H_{1c} : *A firm's value is a positive consequence from financial ratios, i.n., profitability*

H_2 : *A firm's value is a positive consequence from audit quality*

III. RESEARCH METHODS

This study takes a quantitative methods approach with one variable or more variables accor the quantify scale, i.e. 'Ratio'. Data Data gathering techniques utilized are documentation stages of financial statement. Data was acquired from indirect observation, with secondary data in financial statements from recording, collecting, and finding pharmaceutical sub-sector firms in Indonesia during the 2015-2021 period.

Table 1. Sample Selection Phase

Sample Assessment	Sample Amount
The population included from pharmaceuticals firm's registered in IDX period of 2015-2021	10
(-/-) Must published financial statements since period of observation	(1)
Final Sample	**9**
Period of Observation	7
Total Observation	**63**

Source: Author's Calculation

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Table 2. Research Sample List

Issuer Code	Pharmaceuticals Firms's in Indonesia
DVLA	Darya-Varia Laboratoria Tbk, Corp.
INAF	Indofarma (Persero) Tbk, Corp.
KAEF	Kimia Farma (Persero) Tbk, Corp.
KLBF	Kalbe Farma Tbk, Corp.
MERK	Merck Tbk, Corp.
PEHA	Phapros Tbk, Corp.
PYFA	Pyridam Farma Tbk, Corp.
SCPI	Schering Plough Indonesia Tbk, Corp.
SIDO	Sido Muncul Tbk, Corp.

Source: www.idx.co.id (2022)

Table 3. Operationalization of Variables

Sample Assessment	Measurement
Firm's Value (TOBINS'Q)	$Tobin's\ Q = \dfrac{Market\ Capitalization + Debt}{Total\ Assets}$
Liquidity (CR)	$CR = \dfrac{Current\ Assets}{Current\ Debts}$
Solvency (DER)	$DER = \dfrac{Total\ Debts}{Total\ Equity}$
Profitability (ROA)	$ROA = \dfrac{Net\ Income}{Total\ Assets} x100\%$
Audit Quality (AQ)	$"Big - 4"\ or\ "Non\ Big - 4"\ Category$

Source: Author's Calculation

The regression analysis method utilized a data panel, to choose one of the three-panel regression yield methods They make use of a common-effect model, fixed-effect model, or random-effect model which Chow and Hausman's test approaches. Data cultivated with Eviews 7.2 Version is utilized to assess in performing the implementation yields of panel data regression from output processing.

IV. RESULTS AND DISCUSSION

A. Results

This section is the initial stage which explains the distribution of data in descriptive statistical tests, the results of which are presented as follows:

Table 4. Descriptive Statistics

	TOBINS' Q	CR	DER	ROA	AQ
Mean	3.036840	2.943111	1.296492	0.099614	0.523810
Median	2.114800	2.710000	0.677000	0.086000	1.000000
Maximum	14.62260	9.300000	5.980000	0.921000	1.000000
Minimum	0.283800	0.900000	0.080000	-0.090000	0.000000
Std. Dev.	2.738902	1.792499	1.263616	0.127860	0.503444
Skewness	2.298376	1.372587	1.689801	4.282589	-0.095346
Kurtosis	9.177250	5.352227	5.953405	28.28182	1.009091
Jarque-Bera	155.6324	34.30601	52.87882	1870.398	10.50022
Probability	0.000000	0.000000	0.000000	0.000000	0.005247
Sum	191.3209	185.4160	81.67900	6.275700	33.00000
Sum Sq. Dev.	465.0984	199.2092	98.99696	1.013580	15.71429
Observations	63	63	63	63	63
Cross Sections	7	7	7	7	7

Source: Author's from output program (2023)

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The Firm's Value variable has a minimum and maximum score distribution of 0.283800 and 14.62260 respectively with Tobin's measurements. The average Tobin's value for the companies studied during 2015-2021 was 3.036840 with a standard deviation of 2.738902. It can be understood that the variation in data in the sample of companies studied was relatively large. Likewise with the Financial Ratio Aspect (X), the variation in data in the sample of pharmaceutical sub-sector firms in Indonesia is also relatively large. Meanwhile, 52.38 percent of the firms sampled in this study were audited by PAF in the "Big-4" category. The next section is the stage for determining method selection in panel data regression which is summarized below:

Table 5. Panel Data Regression Estimation

Estimation Methods	Testing Criteria	Results / Conclusion
Chow-Test	common effect >< fixed effect	*probability cross section F < 0,05,* "fixed effect"
Hausman's-Test	fixed effect >< random effect	*probability cross section random < 0,05,* "fixed effect"
Lagrange Multiplier	common effect >< random effect	-

Source: Author's Elaborate from Ouput (2023)

The Yield from data panel estimation decided to fixed-effect model (T-Test) and simultaneous (F-Test); utilized Pooled EGLS (Cross-section weights) below:

Table 6. Pooled EGLS Methods

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.360203	0.928255	2.542624	0.0141
CR	-0.044221	0.138298	-0.319750	0.7505
DER	-0.195019	0.111183	-1.754032	0.0856
ROA	0.771181	2.012697	0.383158	0.7032
AQ	1.876261	1.215461	1.543661	0.1290

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.731549	Mean dependent var	5.633548
Adjusted R-squared	0.667121	S.D. dependent var	4.614552
S.E. of regression	2.241161	Sum squared resid	251.1402
F-statistic	11.35450	Durbin-Watson stat	1.138788
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.403452	Mean dependent var	3.036840
Sum squared resid	277.4533	Durbin-Watson stat	1.316455

Source: Ouput Program (2023)

The estimation for proving the alternate hypothesis based on the fixed-effect model is viewed in the:

Table 7. Fixed-Effect Model Summarizes

Adjusted R^2-Score	Probability (F-Stats)	Probability (t-Stats)		
0.667121	0.0000	CR	0.7505	Insignificant
		DER	0.0856	Insignificant
		ROA	0.7032	Insignificant
		AQ	0.1290	Insignificant

Source: Author's Elaborate from Ouput (2023)

B. Discussion

Summary of data panel regression yields against the fixed-effect panel, the discussion viz.: (1) A firm's value is insignificantly impacted by Liquidity, with probability score is insignificant as 0.7505. This means that the size of the current ratio does not have an impact on increasing firm's value in Pharmaceutical sub-sector. This research does not prove several previous findings such as those (Andriani & Rudianto, 2019) with the positive influence of liquidity on company value. It even results (Dewi & Agustin, 2019) which state that liquidity is detrimental to company value. Meanwhile in research (Dewi & Ekadjaja, 2020), these findings support the results, that liquidity does not affect company value. (2) A firm's value is insignificantly impacted by Solvency, with probability score is insignificant as 0.0856. This means that the size of the debt-to equity ratio does not have an impact on increasing firm's value in Pharmaceutical sub-sector. This research does not prove several previous findings such as those (Khasana & Triyonowati, 2019) with the positive influence of DER on company value. It even results (Suwardika & Mustanda, 2017) which state that leverage is detrimental to company value. Meanwhile in research (Sarwani & Husain, 2021), these findings support the results, that solvency does not affect company value. (3) A firm's value is insignificantly impacted by financial ratios, which probability score is insignificant as 0.7032. This means that the size of the return on assets does not have an impact on increasing firm's value in Pharmaceutical sub-sector. This research does not prove several previous findings such as those (Khasana & Triyonowati, 2019) with the positive influence of profitability on company value. It even results (Sarwani & Husain, 2021) which state that profitability is detrimental to company value. Meanwhile in research (Muharramah & Hakim, 2021), these findings support the results, that profiability does not affect company value.

The firm's value is insignificantly consequenced by audit quality, with probability score is insignificant as 0.1290. This means that the assesment of the audit quality does not have an impact on increasing firm's value in Pharmaceutical sub-sector. This research does not prove several previous findings such as those (Al-ahdal & Hashim, 2022) with the positive influence of audit quality on company value. It even results (Sarwani & Husain, 2021) which state that audit quality is detrimental to firm's value.

CONCLUSION

This study examines financial ratio aspects consisting of liquidity, solvency, and profitability and also audit quality to predict of firm's value in the Pharmaceutical sub-sector registered in the IDX period of 2015-2021 with the inference that not one from financial ratio aspects had a significant affect to the firm's value. However, 52.38 percent of the pharmaceutical sub-sector companies sampled were audited from the PAF Big-4 category.Research weaknesses should be identified again with the relatively small sample size so that future research should add population members in other manufacturing industry sectors. Parties who provide funding sources to companies must not compromise the audit quality of both Big-4 and non-Big-4 KAPs that have validated their accountants' reports so they must be wary of assessing company size with other proxies because this is indicated by the insignificant findings in this empirical study. The future research agenda should add measurements or other proxy measurements in financial ratios and replace other audit quality measurements such as the size of the audit fee.

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