

# The Influence of Company Performance on Company Value (K-Pop Entertainment Company Registered on KOSPI.KRX South Korea 2018-2022)

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A well-managed company is a company that maximizes the value of its company, which is aimed at achieving maximum profits for shareholders. This research aims to determine and analyze the influence of company size, profitability, and financial leverage on the value of companies listed on the South Korean Stock Exchange KOSPI 2018-2022. The population consists of 8 South Korean K-Pop entertainment companies registered on KOSPI 2018-2022. The sampling technique used was purposive sampling with a total sample of 8 companies and a 5-year observation period. So that 40 data were processed. The analysis technique is multiple linear regression. The results obtained show that partially company size has no significant effect on company value, profitability has a significant positive effect on company value, and financial leverage has a significant negative effect on company value. Meanwhile, simultaneously company size, profitability, and financial leverage influence company value.

*Keywords:* company size, profitability, financial leverage, company value

## Background Research

Business competition is currently increasingly fierce, especially in the arts and entertainment fields. So, business people in each country must have other alternatives so as not to be too dependent on human resources. As a company operating in the entertainment services sector, South Korea cannot be separated from the intense competition in the world of entertainment in several agencies, both large and small, in South Korea. These agencies certainly want to increase the artist ratings and the agency's profits. South Korean entertainment service agencies have the goal of achieving maximum profits, improving the welfare of shareholders, and maximizing company value. For companies that have gone public, the company value is reflected in the company's share price on the capital market.

A company that has good management is expected to have a PBV (Price to Book Value) equal to 1 or above one ( $\geq 1$ ) of the book value (overvalued), and if the PBV number is below 1 then it can be ascertained that the market price of the shares is higher/lower than its book value (undervalued), a low PBV indicates a decline in the

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quality and fundamental performance of the issuer concerned. Currently, the phenomenon that is occurring in entertainment service companies is that the company value as proxied by the Price to Book Value (PBV) is experiencing a decline as seen in Table 1:

Table 1

*South Korean K-Pop Entertainment Company Phenomenon*

No	Company name	Year	PBV (Price to Book Value)
1	Stone Entertainment	2018	1.00
		2019	1.85
		2020	1.73
		2021	0.43
		2022	0.23
2	YG Entertainment	2018	1.91
		2019	1.17
		2020	1.93
		2021	2.11
		2022	1.54
3	SM Entertainment	2018	1.54
		2019	1.42
		2020	1.12
		2021	2.20
		2022	2.05
4	CUBE Entertainment	2018	4.18
		2019	1.32
		2020	9.11
		2021	1.58
		2022	1.25

Source: <https://g.co/finance/KOSPI:KRX> (processed, 2024).

The phenomenon in Table 1 states that several entertainment agencies in South Korea experienced decreases and increases in PBV values. For example, what happened to the Stone Entertainment company from 2018 to 2020 was an increase from 1.00 to 1.85 then fell again to 1.73, in 2021 to 2022 it decreased from 0.43 to 0.23. For the YG Entertainment company, the PBV value from 2018 to 2019 decreased from 1.91 to 1.17 but in 2019 and 2020 it increased from 1.93 to 2.11 and in 2022 it decreased again to 1.54.

Based on the phenomenon above, the author is interested in conducting research with the title “The Influence of Company Performance is Proxied by Company Size, Profitability, and Financial Leverage on Company Value (Case Study of South Korean K-Pop Entertainment Registered on KOSPI in 2018-2022)”.

### Formulation of the Problem

1. Does company size affect company value?
2. Does profitability affect company value?
3. Does financial leverage affect company value?
4. Do company size, profitability, and financial leverage simultaneously influence company value?

## **Study of Literature**

### **Agency Theory**

According to Jensen, and Meckling (1976) in (Sofia Prima Dewi, 2021) agency theory explains the relationship between shareowners and management, where the owner acts as a principal who delegates authority and responsibility to management in making decisions. Agency theory is the granting of authority by the principal (company owner/shareholder) to the agent to carry out company operations following the agreed contract, if both parties have the same interest in increasing the value of the company then the agent will act following the principal's interests (Monica, & Setyarini, 2022).

### **Signaling Theory**

Signaling theory was first introduced by Spence in his research entitled Job Market Signaling Spence (Spence, 1973) stated that signals or signals provide a signal, and the sender (owner of the information) tries to provide relevant pieces of information that can be utilized by the recipient (Sofia Prima Dewi, 2021). Signal theory is intended to provide an overview of the information provided by the company to understand a general picture of the company's condition in the past, future, and present.

Signals received by shareholders can be identified through the movement of the company's share price in question. An increase in share prices within a company will certainly give a positive signal that is good for the company, still, conversely, if the share price decreases, the company will give a bad, negative signal.

### **Company Size**

Company size reflects the company's total assets, the larger the company size, the greater the assets that can be used as collateral to obtain loans and capital, which in turn increases the company's performance and value (Rohmatulloh, 2023).

The calculation of company size according to Oktaviyana et al. (2023) is as follows:

$$\text{Company Size} = \text{Natural log } x \text{ (Total assets)}$$

### **Profitability**

Profitability measured by Return on Assets (ROA) can provide an overview of the company's ability to gain profits by using the total assets owned by the company so that shareholders get more effective information about the company in managing their company (Agustin Ekadjaja, 2021).

According to Seto et al. (2023), Return on Assets (ROA) is a ratio used to measure how much net profit is obtained from managing all the assets owned by the company. This ratio can be calculated using the following formula:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

### **Leverage Financial**

Financial leverage is the company's ability to generate good returns using assets from borrowed funds. The lower the debt-to-asset ratio (DAR), the smaller the risk the company will face (Elviza et al., 2023).

According to Ningsih, and Wuryani (2021), the formula for finding the debt-to-assets ratio (DAR) can be used as follows:

$$\text{DAR} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

### The Value of the Company

Company value is investors' perception of the company's level of success which is closely related to the company's share price. A good company value will be seen more by potential investors, because a company with a high value can increase investors' interest in injecting funds into the company (Syahzuni, & Edwani, 2023).

The Price to Book Value (PBV) formula according to Christina Devi, and Riduwan (2023) is as follows:

$$PBV = \frac{\text{Share Price}}{\text{Share Book Value}}$$

Meanwhile, the stock book value formula can be calculated using the following formula:

$$\text{Book Value} = \frac{\text{Equity}}{\text{Number of Shares}}$$

### Research Framework

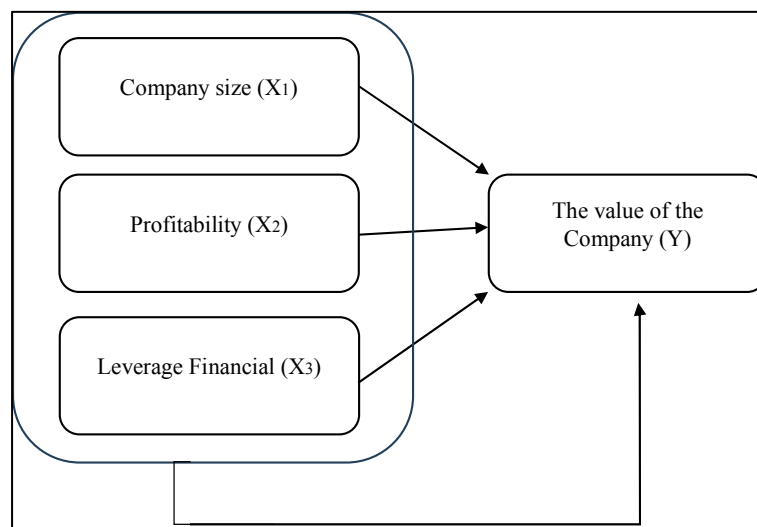


Figure 1. Research framework.

### Hypothesis

The hypothesis in this research is as follows:

1. H<sub>1</sub>: Company size does not have a positive and significant effect on company value.
2. H<sub>2</sub>: Profitability has a positive and significant effect on company value.
3. H<sub>3</sub>: Financial Leverage has a negative and significant effect on company value.
4. H<sub>4</sub>: Company size, profitability, and financial leverage simultaneously influence company value.

### Research Methods

**Research subject.** K-Pop Entertainment Companies listed on the Korean Stock Exchange KOSPI for the 2018-2022 period are listed on the official website: <https://g.co/finance/KOSPI:KRX>.

**Population and sample.** The population used in this research is entertainment companies listed on the Korea Stock Exchange KOSPI for the 2018-2022 period, consisting of 9 companies. By using the Non-Probability Sampling method sampling technique, with the criteria in Table 2, 8 company samples were obtained with an observation period of 5 years, so 40 observation data were obtained.

Table 2

*List of Research Sample Criteria*

No	Criteria	Amount
1	Entertainment company listed on the South Korean Stock Exchange KOSPI for the 2018-2022 period	9
2	Entertainment company IPO on the South Korea KOSPI in the 2018-2022 Period	(1)
	<b>Total company sample</b>	<b>8</b>
	<b>Observation year 2018-2022</b>	<b>5</b>
	<b>Amount of observation data</b>	<b>40</b>

Source: <https://g.co/finance/KOSPI:KRX> (processed, 2024).

**Data Analysis Technique**

Multiple linear regression analysis techniques are used to test the influence of two or more independent variables on the dependent variable. According to Sugiyono (2019, p. 230), the formula for multiple regression with two or more independent variables is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + \varepsilon$$

Information:

Y = company value

a = constant, Y value if variable X is zero

X<sub>1</sub> = company size

X<sub>2</sub> = profitability

X<sub>3</sub> = financial leverage

b<sub>1</sub>, b<sub>2</sub>, b<sub>3</sub> = multiple regression coefficients between each variable

ε = standard error

According to Sugiyono (2019, p. 214) the coefficient of determination is the ability of variable 231) is as follows:

$$Kd = r^2 \times 100\%$$

Information:

Kd = coefficient of determination

r<sup>2</sup> = correlation coefficient

**Results and Discussion****Research Result****Descriptive statistics**

The intended research object is K-pop entertainment companies in South Korea registered with KOSPI in the 2018-2022 period. The research sample used through the sampling research method was 40 samples. Research data from 40 samples can be observed in Table 3 below:

Table 3  
*Descriptive Statistics*

	N	Minimum	Maximum	Mean	Std. Deviation
Company size	40	8.98	14.19	11.5793	1.62426
Profitability	40	-0.05	0.21	0.0383	0.05987
Leverage financial	40	0.04	6.68	1.0745	1.45569
The value of the company	40	0.23	9.03	2.6688	2.12500
Valid N (listwise)	40				

Source: SPSS 22 output results (processed, 2024).

Table 4  
*Summary of Classical Assumption Test*

Types of testing	Company size	Profitability	Leverage financial
<b>Multicollinearity test</b>			
Tolerance value	0.957	0.927	0.963
VIF	1.045	1.078	1.039
<b>Autocorrelation test</b>			
Autocorrelation test result			0.660

Source: SPSS 22 Output results (processed, 2024).

**Heteroscedasticity Test**

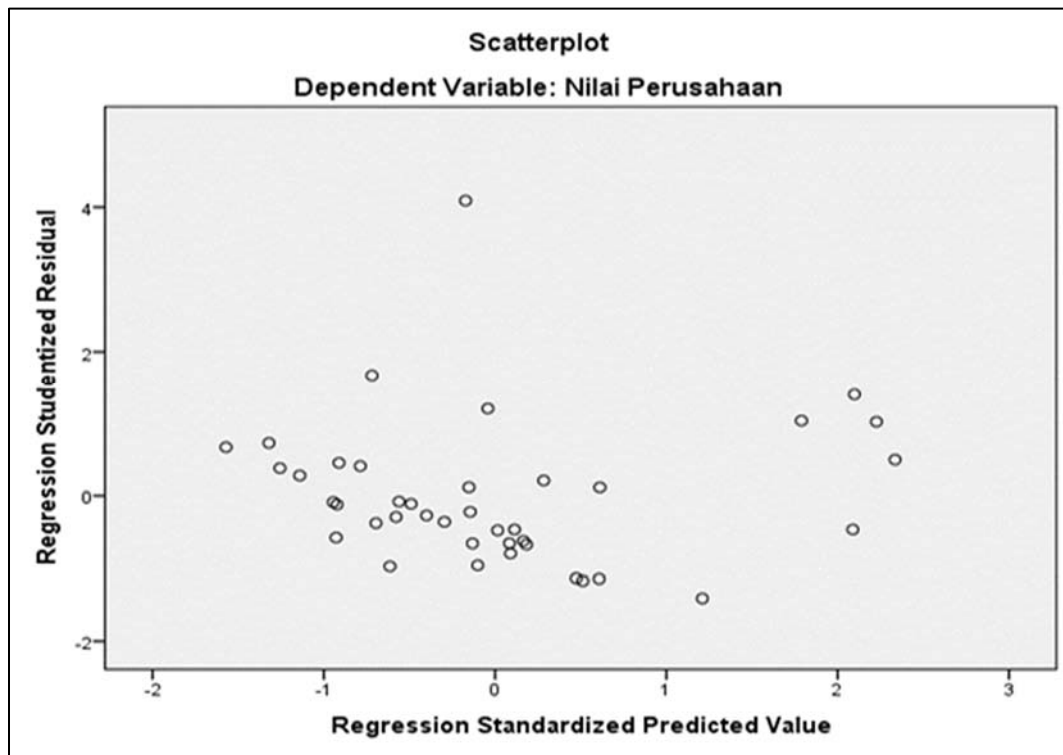


Figure 2. Heteroscedasticity test result.

Source: SPSS 22 Output results (processed, 2024).

Based on Figure 2, it is known that there is no clear pattern or the data in the image can be said to be spread out and does not accumulate at one point. Therefore, it can be concluded that there is no heteroscedasticity in the data.

### Multicollinearity Test

This test was carried out to see multicollinearity in the independent variables as seen from the tolerance and VIF values. Table 4 shows all known independent variables that the tolerance value for the company size variable is 0.957, the profitability variable is 0.927, and the financial leverage variable is 0.963. The tolerance values of these three variables have met the tolerance limit, namely  $> 0.10$ . Furthermore, the VIF value for the company size variable is 1.045, for the profitability variable it is 1.078, and for the financial leverage variable, it is 1.039. The VIF values of these three variables have met the VIF limit, namely  $< 0.10$ . Based on these results, it can be concluded that the data in this study did not occur in multicollinearity.

### Autocorrelation Test

The autocorrelation test was carried out to test whether, in the linear regression model, there was a correlation between confounding errors in period  $t$  and confounding errors in period  $t-1$  (previously). The autocorrelation test was carried out by comparing the Durbin-Watson (DW) value with the  $dU$  value. If the Durbin-Watson value is in the range  $dU < dW < 4 - dU$  then the research data is free from autocorrelation. Based on the Durbin-Watson table for a significance level of  $\alpha = 5\%$ , the number of observations = 40, and the number of independent variables is 3 variables, the value of  $dU = 1.7209$  is obtained. The following is a calculation of the Durbin-Watson Value explained as follows:

$$\begin{aligned} dU < dw < 4 - dU \\ 1.7209 < 1.955 < 4 - 1.7209 \\ 1.7209 < 1.955 < 2.2791 \end{aligned}$$

From the results of these calculations, it can be concluded that in this study there was no positive or negative autocorrelation, with the decision not being rejected, which means this assessment was free from symptoms of autocorrelation.

### Classic Assumption Test

Table 5

*Summary of Classical Assumption Tests*

Types of testing	Company size	Profitability	Leverage financial	
<b>t-test</b>				
t-test result	-0.077	4.931	-2.874	1.320
Sig. result t-test	0.939	0.000	0.007	0.195
<b>f-test</b>				
f-test result				9.664
Sig. result f-test				0.000

Source: SPSS 22 Output result (processed, 2024).

### Partial Test (t-Statistic Test)

The company size variable ( $X_1$ ) in Table 5 shows the calculated t result of -0.077 and the t table value of 2.028, which means that  $t_{\text{count}} < t_{\text{table}}$ , this shows that  $H_0$  is rejected and  $H_a$  is accepted. With a significance result of 0.939 which is greater than 0.05, it can be concluded that the company size variable does not affect company value.

The profitability variable ( $X_2$ ) in Table 5 shows a calculated t result of 4.931 and a t table value of 2.028, which means that  $t_{\text{count}} > t_{\text{table}}$ , this shows that  $H_0$  is rejected and  $H_a$  is accepted. With a significance result of

0.000 which is smaller than 0.05, it can be concluded that the profitability variable has a positive and significant effect on company value.

The financial leverage variable ( $X_3$ ) in Table 5 shows the calculated t result of -2.874 and the t table value of 2.028, which means that  $t_{\text{count}} > t_{\text{table}}$ , this shows that  $H_0$  is rejected and  $H_a$  is accepted. With a significance result of 0.007 which is greater than 0.05, it can be concluded that the financial leverage variable has a significant negative effect on company value.

#### **Simultaneous Test (f-Statistic Test)**

Based on Table 5, it can be seen that the f test is 9.664 with a significance level of 0.000 which is smaller than 0.05 and the calculated f is 9.664 where the calculated f is smaller than the f table which is 2.8686. Because the significance value is smaller than 0.05, the regression model used is appropriate, so it can be said that the independent variable simultaneously influences the dependent variable.

### **Discussion**

#### **H<sub>1</sub>: Effect of Company Size on Company Value**

The company size variable ( $X_1$ ) in Table 3 shows a calculated t result of 0.077 and a t table value of 2.028, which means that  $t_{\text{count}} < t_{\text{table}}$ , shows that  $H_0$  is accepted and  $H_a$  is rejected. With a significance result of 0.939, greater than 0.05, it can be concluded that the company size variable does not have a significant effect on company value. The results of this research are in line with research conducted by Komalasari, and Yulazri (2023) with research results showing that company size does not affect company value.

#### **H<sub>2</sub>: Effect of Profitability on Company Value**

The research results show that profitability has a positive and significant effect on company value. This is indicated by a significance level of 0.000 which is smaller than the confidence level of 0.05 so that the  $H_a$  hypothesis is accepted. These results are in line with research conducted by Agustin Ekadjaja (2021) which states that profitability has a significant positive effect on company value.

#### **H<sub>3</sub>: The Effect of Financial Leverage on Company Value**

The research results show that financial leverage has a negative and significant effect on company value. This is indicated by a significance level of 0.007 which is smaller than the confidence level of 0.05 so that the  $H_a$  hypothesis is accepted. These results are in line with research conducted by Monica, and Setyarini (2022) which states that financial leverage has a significant negative effect on company value.

#### **H<sub>4</sub>: Influence of Company Size, Profitability, and Financial Leverage on Company Value**

The research results show that the variables of company size, profitability, and financial leverage simultaneously influence company value. This is shown by the f test results of 9,664 with a significance level of 0.000 which is smaller than 0.05 and the calculated f is 9,664 where the calculated f is smaller than the table f which is 2.8686. Because the significance value is smaller than 0.05, the  $H_a$  hypothesis is accepted. These results are in line with research conducted by Santoso, and Junaeni (2022) which states that profitability, leverage, company size, liquidity, and company growth influence company value.

### **Conclusion**

The research conclusion shows that partially company size has no significant effect on company value, profitability has a significant positive effect on company value, and financial leverage has a significant negative effect on company value. Meanwhile, simultaneously company size, profitability, and financial leverage



influence company value.

### Suggestion

Based on the conclusions of the research results presented, the suggestions given are that this research is focused on K-Pop entertainment service industry companies in South Korea, for further research it is recommended to take an agency which of course has reported its complete financial report on the KOSPI Stock Exchange, and research This shows that company size does not affect company value, which is measured using Ln Total Assets, therefore it is recommended that future research be able to use other indicators to support the influence of company size on company value.

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