

The Role of Profitability as a Mediation to Increasing the Influence of Institutional Ownership on Company Value

Harry Cahyono¹, Sri Hermuningsih², and Riskin Hidayat³

¹Master of Management, ^{2,3}Sarjanawiyata Tamansiswa University, Yogyakarta, Indonesia

*Corresponding author: harrycahyono3113@gmail.com

ABSTRACT

This study aims to examine the influence of institutional ownership on the value of the company and to analyze the role of profitability as a mediating variable in those relationship. This research was conducted on energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2018-2023 period, using secondary data obtained from the company's annual financial statements. Using the Partial Least Squares (PLS) analysis method with WarpPLS 7.0 software, this study found that institutional ownership has a positive and significant effect on company value as measured by the Price to Book Value (PBV) ratio. The results of the analysis showed a regression coefficient of 0.413 with a p-value of 0.000, which means that institutional ownership can directly increase the value of the company. In addition, profitability as measured by Return on Assets (ROA) also has a positive and significant influence on the company's value, with a coefficient of 0.489 and a p-value of 0.000, indicating that companies with high profitability have a higher market value. The study also found that profitability can mediate the influence of institutional ownership on company value, with a mediation coefficient of 0.105 and a p-value of 0.053, which is significant at the level of 10%. These findings suggest that higher institutional ownership increases managerial oversight, which in turn increases operational efficiency and profitability, as well as contributes to increased company value. Overall, the results of this study support the Agency Theory which states that institutional ownership can reduce agency conflicts and improve the efficiency of company management. Moreover, these findings are in line with Signaling Theory which emphasizes the importance of profitability as a positive signal for the market. This research contributes to the corporate governance literature, especially regarding the importance of the role of institutional ownership in increasing company value through profitability as a mediator.

Keywords: Institutional Ownership, Profitability, Corporate Value, Corporate Governance, Price to Book Value, Return on Assets.

1. INTRODUCTION

The rapid development of the business world in this era of globalization requires companies to manage their businesses professionally and adaptively to win the competition. In this case, the company must have a competitive advantage that is reflected in the company's value in the market. The concept of corporate value has attracted the attention of many researchers because of its ability to explain organizational reliability as well as the long-term growth of the company (Sarker & Hossain, 2023). The company has the main goal of maximizing the wealth achieved through increasing profits, which will then increase the company's value (Hermuningsih et al., 2022). The company's high value is reflected in the increasing share price (Hidayat & Akhmadi, 2023), which in turn improves the welfare of shareholders (Afifah & Suwarno, 2024) and (Rusilawati et al., 2024).

A company's value is often measured using price to book value (PBV), which describes the comparison between the stock market value and the company's book value (Winnie &

Sufiyati, 2024). Undervalued stocks occur when the stock price is below their book value, while overvalued stocks occur when the stock price exceeds the book value (Aziz & Hidayat, 2023).

In the context of corporate governance, institutional ownership is one of the important elements because it can reduce agency conflicts between managers and shareholders (Jensen & Meckling, 1976). Institutional ownership is often seen as a force that can influence a company's management in decision-making, as well as improve the company's performance and value. Institutional ownership, which includes institutions such as investment banks, insurance companies, and mutual funds, has advantages in terms of capital, information, and specialization that can increase control over the company and, in turn, increase the value of the company (Hidayat et al., 2020).

Although many studies show the positive influence of institutional ownership on a company's value, this influence can vary. Some studies have found that institutional ownership has a significant and positive influence on company value (Afifah & Suwarno, 2024), while other studies show different results, namely negative influences (Hidayat et al., 2020).

Profitability, as a result of managerial performance, also plays an important role in increasing the value of a company. Based on signal theory, profitability can be seen as a signal given by a company to investors regarding its future prospects. Previous research has shown that profitability can mediate the influence of institutional ownership on a company's value. Afifah & Suwarno (2024); Erdiyaningsih et al. (2021); Kurniawan & Asyik (2020); Putri & Trisnaningsih (2021); Barokah (2023); Fatton (2020); Rafsanjani et al. (2024); and Putri et al. (2024), found evidence that profitability plays a role as a mediator in the relationship, while other research Hidayat et al. (2020); Kenny (2022); Mayrenza & Suryanto (2022); Umam & Halimah (2021); and Imaduddin et al. (2023), showing that profitability is not able to mediate the influence of institutional ownership on company value.

Based on the background that has been explained, this study aims to examine the effect of institutional ownership on firm value with profitability as a mediating variable.

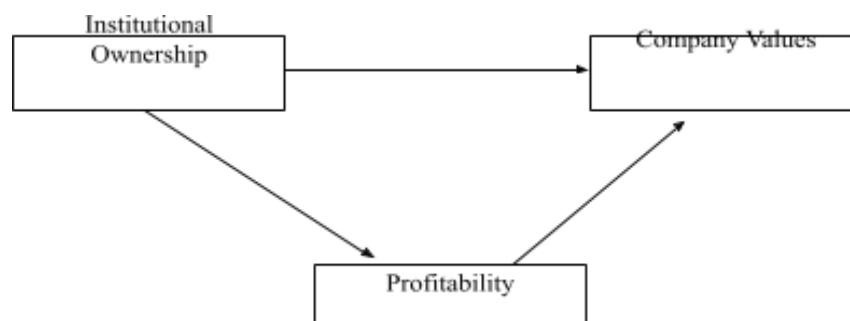


Figure 1. Conceptual Framework of The Study

2. THEORETICAL FOUNDATION

2.1. Agency Theory

Agency Theory describes the relationship between funders (principals) and decision-makers (agents) in companies (Affes & Jarboui, 2023). This theory posits that delegating authority to a company manager (agent) to act in the interests of the principal can lead to conflict, known as agency issues. This conflict arises due to the separation between management and ownership tasks, where both have different interests, which can lower the value of the company (Samuel et al., 2023).

2.2. Signaling Theory

Signaling Theory describes how the actions of a company's managers provide investors with information about the company's future prospects. This theory states that the information issued by the company, such as profits, serves as a signal for investors to make investment decisions. High profits are a positive signal, while losses are a negative signal (Samuel et al., 2023). In this context, good corporate management through the implementation of good corporate governance will increase the company's value (Nugroho et al., 2021).

2.3. Institutional Ownership

Good corporate governance refers to a system that directs and controls the company, ensuring that management acts in the best interests of stakeholders (Sari & Karlinda, 2022). One of the goals of corporate governance is to maximize shareholder value in a sustainable manner while ensuring fairness for all parties involved (Vig & Datta, 2024). Proxy used to measure corporate governance in this study are institutional ownership.

Institutional ownership refers to shares owned by institutions such as banks, insurance companies, and other investment institutions. Institutional investors have advantages in terms of capital, information, and specialization, and are more active in corporate decision-making and supervision of the development of the invested company (J. Chen et al., 2022). Therefore, institutional ownership can influence management and increase the value of a company (He et al., 2022).

2.4. Company Values

A company's value is an investor's perception of a company's growth prospects, which is reflected in the stock price. The company's high value indicates the company's success in improving the welfare of shareholders (Hermuningsih et al., 2022). This study measures the value of a company using the price to book value (PBV) ratio, which relates the stock price to the company's book value.

2.5. Profitability

Profitability measures a company's ability to generate profits over a period of time, which reflects a company's performance in managing its assets to generate revenue (Winnie & Sufiyati, 2024). Profitability, measured by return on assets (ROA), plays an important role in attracting investors' attention because it provides positive signals about the

company's future prospects (Samuel et al., 2023). In this study, profitability was measured using ROA, which describes how effectively a company uses its assets to generate net profit (Hermuningsih et al., 2022).

3. HYPOTHESIS

3.1. The Influence of Institutional Ownership on Company Value

Institutional ownership, which refers to the ownership of a company's shares by investment banks, insurance companies, pension funds, and mutual funds (Hidayat et al., 2020), has been shown to have a significant influence on the value of the company. Compared to individual investors, institutional investors have many advantages such as capital, information and specialization. Institutional investors can improve the quality of corporate governance, increase supervision, reduce agency costs in agency theory, and increase market participant confidence (Wang, 2022), (J. Chen et al., 2022). Stronger ownership of institutional owners results in stronger control over the company's value (Hermuningsih et al., 2020).

Afifah & Suwarno (2024) examined 68 companies in the banking sector on the Indonesia Stock Exchange (IDX) during the 2019-2021 period. The study found that there is a positive and significant influence of institutional ownership on company value. The same results were also revealed by Erdiyaningsih et al. (2021) who researched 60 companies in the mining sector listed on the Indonesia Stock Exchange in 2014 – 2018. Based on these evidences, in this study a hypothesis is formulated:

H1: Institutional ownership has a positive effect on the value of the company

3.2. The Role of Profitability in Mediating the Influence of Institutional Ownership on Company Value

The role of profitability in mediating the influence of institutional ownership on company value is revealed in research conducted by Fatoni (2020) using data from 16 samples of state-owned companies in 2016-2018 on the IDX and Kurniawan & Asyik (2020) which used 80 companies in the high-profile sector listed on the IDX during 2015-2018. Profitability is the ability of a company to create profits within a certain period. The greater the institutional ownership, the stronger the control carried out by external parties over the company so that the agency costs that occur within the company are decreasing and the value of the company is also increasing. The increasing number of stock demand causes the company's value to also increase. Based on the theory and strengthened by the various results of the research, the hypotheses proposed in this study are:

H2: Profitability is able to mediate the influence of institutional ownership on the value of the company.

3.3. The Effect of Profitability on Company Value

Profitability is the result of the performance of management as a company administrator. Based on signal theory, profitability is a signal of information provided by a

company's management to shareholders about how the company's future prospects are. So profitability can affect the value of the company.

Many research results state that profitability has a positive and significant influence on company value, including (Aziz & Hidayat, 2023); (Hermuningsih et al., 2022); (Mayrenza & Suryanto, 2022); (Mutiarra et al., 2022); (Putri et al., 2024); (Rusilawati et al., 2024); (Winnie & Sufiyati, 2024); and (Yulianti et al., 2022). So based on the theory that is strengthened by the results of previous research, the hypothesis proposed in this study is:

H3: Profitability has a significant effect on the company's value

4. METHODS

4.1. Subjects and Objects of Research

The subjects in this study are energy sector companies listed on the Indonesia Stock Exchange (IDX). The object of this research is in the form of secondary data taken from the financial statements of these companies during the 2018-2023 period.

4.2. Population and Sample

The population of this study is energy sector companies listed on the IDX. The samples in this study were selected using purposive sampling techniques, with the following criteria, such as

- a. Energy sector companies listed on the Indonesia Stock Exchange from 2018 to 2023.
- b. Companies that publish complete finance reports from 2018 to 2023.
- c. Companies that are not delisted during the period
- d. Companies have variable data: institutional ownership, profitability (ROA), and company value (PBV).
- e. Companies that made a profit (positive ROA) during 2018-2023.

4.3. Operational Variables and Definitions

The variables used in this study consisted of independent, dependent, mediation variables. The independent variables used in this study consisted of institutional. Company value as a dependent variable and profitability as a mediating variable.

The operational definition of the variable is described as follows.

4.3.1. Variable Dependent

Company value acts as a dependent variable in this study. Company value is the perception that investors have of a company's growth prospects, usually reflected in an organization's stock price (Sarker & Hossain, 2023). According to Brigham & Houston (2019), the value of a company can be proxied by the price to book value (PBV) measured using the formula:

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

4.3.2. Independent Variable

Institutional, managerial, and foreign ownership acted as independent variables in this study. These independent variables are described as follows.

Institutional Ownership (IO)

Institutional ownership is the ownership of company shares owned by institutions or institutions such as investment companies, banks, insurance, and other institutions (Afifah & Suwarno, 2024). According to Ross et al. (2019), institutional ownership can be measured using the formula:

$$IO = \frac{\text{Number of Shares Owned by Institutions}}{\text{Number of Shares Outstanding}}$$

4.3.3. Mediation Variables

Profitability is the value of a company's income over a certain period of time (Winnie & Sufiyati, 2024). Profitability in this study acts as a mediating variable and is proxied by return on asset (ROA). According to (Brigham & Houston, 2019), net income divided by total assets gives us the value of ROA.

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

4.4. Types and Methods of Data Collection

The type of data used in this study is secondary data, which is taken from the company's financial statements and annual reports available through the official website of the Indonesia Stock Exchange (www.idx.id). The data collection method is carried out by a documentation study, namely by collecting data that has been published by companies registered in the energy sector in the 2018-2023 period.

4.5. Data Analysis Techniques

The data analysis technique used in this study is Partial Least Squares (PLS) with WarpPLS 7.0 software. PLS is used to analyze the relationships between variables in structural models involving independent, mediation, and dependent variables, as well as allow for the use of data that is not normally distributed (Hair & Alamer, 2022). This technique is particularly suitable because it can be used on small sample numbers and complex models.

4.6. Descriptive Analysis

Descriptive analysis is used to describe the characteristics of the data, including mean values, standard deviation, maximum, minimum, and data distribution (Syafina, 2019). This aims to provide an overview of the data that has been collected.

4.7. Hypothesis Test

Hypothesis testing was used to test the relationship between the variables in this research model. Path Coefficients are used to measure the strength of relationships between variables, while P-Values are used to test the statistical significance of relationships between variables. Hair et al. (2022) As a standard, the significance level used is 5%, which means the p-value must be smaller than 0.05 to be considered significant.

5. ANALYSIS AND DISCUSSION

5.1. Characteristics of Research Data

The samples used in this study were selected using purposive sampling techniques, so it is expected to represent the purpose of this study. The criteria for sample selection are as follows.

Table 1. List of Research Sampling Criteria

Information	Sum
Total energy sector issuers listed on the Indonesia Stock Exchange (IDX) in 2023	87
Number of issuers that submitted consecutive financial statements from the period 2018-2013	57
Sampling is based on criteria (<i>Purposive Sampling</i>):	
1. Issuers whose shares are not owned at all by institutions in 2018-2023	(37)
2. Companies that do not make a profit	(10)
Total companies used in the study	10
Total sample in the study over 6 years	60

Source: data processed by researchers (2025)

5.2. Descriptive Analysis

Descriptive statistics is a branch of statistics that functions to describe and analyze data in a concise manner without making further generalizations or inferences. In this context, descriptive statistics are used to present information regarding the characteristics of the data that has been collected, such as mean values, medians, modes, and standard deviations. This allows researchers to provide a clear picture of the data being studied, thus facilitating the understanding of the phenomenon being analyzed (Rahmadani & Bakri, 2024; Kusumastuti et al., 2023; and Safitri et al., 2021).

Table 2. Descriptive Statistical Results

Variable	N	Descriptive Statistics			
		Minimum	Maximum	Mean	Standard Deviation
IO	60	0,7600	0,9990	0,9020	0,0767
ROA	60	0,0001	0,6163	0,1328	0,1431

PBV	6	0,1952	10,3542	1,5116	1,5309
	0				
Valid	N	6			
(listwise)		0			

Source: processing results using SPSS version 26

5.2.1. Institutional Ownership (IO)

Institutional ownership in energy sector companies listed on the Indonesia Stock Exchange shows a fairly high average with a mean value of 0.9020. This indicates that most companies in this sector have a large proportion of shareholding by institutions such as investment firms, banks, and insurance companies. The minimum institutional ownership value is 0.7600, which indicates that there are companies that have relatively low institutional holdings, although it is still above 75%. Meanwhile, the maximum value of 0.9990 indicates the existence of a company whose shares are almost entirely owned by institutions. With a standard deviation of 0.0767, the variation in institutional ownership between companies is not very large, which indicates a fairly high level of consistency in institutional ownership in the energy sector.

5.2.2. Profitability (ROA)

Profitability measured by return on assets (ROA) shows considerable variation among energy sector companies. The mean value of ROA of 0.1328 shows that overall, companies in this sector have sufficient ability to generate profits of around 13.28% of the total assets owned. The minimum ROA of 0.0001 indicates that there are some companies that are very minimal in generating profits compared to the assets they own. In contrast, the maximum value of the ROA reaches 0.6163, which indicates that some companies are capable of achieving very high levels of profitability. With a standard deviation of 0.1431, there is considerable variation in profitability between companies in this sector, which shows that there is a significant difference in financial performance between companies in the energy sector.

5.2.3. Company Value (PBV)

Company value measured by price to book value (PBV) shows that the average energy sector company has a higher stock market price compared to its book value, with a mean PBV of 1.5116. A minimum PBV value of 0.1952 indicates a company with a stock market price that is much lower than its book value, which may indicate that the stock is undervalued by the market. On the other hand, a very high maximum PBV value of 10.3542 indicates that there are companies that have a much higher market valuation compared to their book value. The standard deviation of PBV of 1.5309 reflects large fluctuations in stock market valuations between companies, with some companies experiencing significant stock price spikes compared to the average, while others show sharp declines.

5.3. Hypothesis Test

5.3.1. Direct Effect Test

Table 3. Results of the Direct Effect Test Between Variable

Path	Coefficient	P-Value	Conclusion
IO-> PBV	0.413	0.000***	Accepted
ROA-> PBV	0.489	0.000***	Accepted

Note: *significant at 10%, **significant at 5%, ***significant at 1%

Source: WarpPLS 7 results, processed by researchers (2025)

Institutional Ownership (IO) to Company Value (PBV)

Based on the panel data regression test using WarpPLS 7.0, a coefficient with a value of 0.413 and a p-value of 0.000 was obtained; which means that the p-value < 0.01 (1%) indicates that institutional ownership (IO) has a positive and significant effect on the company's value (PBV). This means that the higher the IO, the higher the PBV. Therefore, the H1 hypothesis is declared accepted.

Return on Assets (ROA) to Company Value (PBV)

Based on the panel data regression test using WarpPLS 7.0, a coefficient value of 0.489 and a p-value of 0.000 were obtained; which is smaller than the significance level of 0.01 (1%), which means that profitability (ROA) has a significant and positive influence on the company's value (PBV). This shows that the greater the company's ability to generate profits from its assets, the greater the company's value. The H2 hypothesis is accepted, very significant at the level of 1%.

5.3.2. Indirect Effects Test

Table 4. Indirect Effects Test Results (Mediation)

Path	Coefficient	P-Value	Conclusion
IO $\square$ ROA $\square$ PBV	0,105	0,053*	Accepted

Note: *signifikan pada 10%, **signifikan pada 5%, ***signifikan pada 1%

Sumber: hasil WarpPLS 7, diolah peneliti (2025)

Institutional Ownership (IO) of Company-Value (PBV) through Profitability (ROA)

A test of the indirect effect of Institutional Ownership on the company value through profitability showed a coefficient value of 0.105 with a p-value of 0.053 (less than 0.1), which is significant at the level of 10%. This means that profitability is able to mediate the influence of institutional ownership on the company value. In other words, institutional ownership not only has a direct impact on the company's value, but also has an indirect impact through increased profitability. The H3 hypothesis is accepted.

6. DISCUSSION

6.1. Institutional Ownership (IO) of Company Value (PBV)

Institutional ownership refers to the ownership of a company's shares by an institution such as a pension fund or insurance company. Company value is measured using the Price to Book Value (PBV) ratio, which shows the market's perception of the company's performance. In this study, institutional ownership (IO) was found to have a positive and significant influence on PBV, which means that higher institutional ownership of companies tends to have a higher market value.

These findings suggest that institutional investors can reduce agency conflicts and improve corporate governance. This strengthens the confidence of other investors, thus having an impact on increasing the stock price and ultimately the value of the company. Institutional ownership gives a positive signal to the market because it provides a positive sentiment of stability and good governance.

In line with Agency Theory, these findings state that the presence of institutional owners in ownership structures can reduce agency conflicts between managers and shareholders (Jensen & Meckling, 1976). Institutions such as pension funds, insurance companies, and mutual funds have adequate resources, information, and expertise, so they tend to exercise more effective oversight of managerial behavior (S. Chen & Shen, 2022; Wang, 2022). With increased supervision, the risk of decision distortion by management can be suppressed, and the efficiency of company management can be improved, which ultimately has a positive impact on the company's value (Hermuningsih et al., 2020). This research supports the findings of Afifah & Suwarno (2024) and Kurniawan & Asyik (2020), which also found the positive influence of institutional ownership on company value.

Energy sector companies can strengthen relationships with institutional investors to improve managerial oversight and improve corporate governance. Enlarging institutional ownership can strengthen market confidence and increase the attractiveness of the company, which will ultimately increase the overall value of the company.

6.2. Return on Assets (ROA) to Company Value (PBV)

How efficient a company generates profits from the total assets it owns can be measured using the Return on Assets (ROA) ratio (Kayakus et al., 2023). ROA describes a company's ability to leverage its assets to generate profits. Price to Book Value (PBV), a ratio that measures a company's value, reflects the market's perception of a company's value based on a comparison between the company's stock price and book value (Dharma et al., 2022). A higher PBV usually indicates that the market appreciates the company's prospects (Mariani et al., 2023).

The positive and significant influence of the ROA variable on firm value (PBV) is shown in this study. A logical explanation for this finding comes from the fact that investors are more interested in companies that have a high ability to generate profits from their assets. The higher the ROA value, the more efficient the company is in using its assets to generate profits, which can increase positive perceptions in the market. This causes investors to be more likely to assess companies with high ROA as more valuable companies, which leads to increased stock prices and firm value (Fadhilah et al., 2020).

Based on a theoretical point of view, this finding is in line with the Signaling Theory, where a company's profit and loss is news in the capital market that becomes a signal for

investors. Profit serves as a positive signal that attracts investors, while losses are negative signals (Samuel et al., 2023). Positive signals will of course be able to increase the value of the company. The results of this study are in line with the findings of previous studies that show that profitability (ROA) has a positive effect on company value. As found by Mayrenza & Suryanto (2022) and Kurniawan & Asyik (2020), ROA has a positive and significant influence on company value because it shows the company's ability to generate optimal profits. These findings also support research by Iman et al. (2021) which show that profitability has a positive influence on company value, reinforcing the argument that companies with high ROA will be more appreciated by the market.

For companies, especially those operating in capital-intensive sectors, the results of this study indicate that focusing on improving operational efficiency and good asset management can increase ROA. Companies that can increase ROA will be able to increase their attractiveness to investors and increase the company's market value. Therefore, companies must prioritize strategies that can optimize the use of assets, such as improving operational management and investing in more efficient technology.

6.3. Institutional Ownership (IO) to Company Value (PBV) through Profitability (ROA)

This study found that profitability (ROA) significantly mediates the effect of institutional ownership (ROI) on firm value (PBV). These results indicate that while institutional ownership can have a direct impact on firm value, its effect is stronger when accompanied by increased profitability (ROA). Increased institutional ownership encourages companies to efficiently utilize existing assets, ultimately resulting in increased profits and firm value performance. This finding aligns with agency theory, which states that institutional ownership can mitigate agency problems between managers and shareholders (Jensen & Meckling, 1976). Institutional investors can enhance management oversight, encourage more efficient governance, and focus on achieving optimal profits. This research supports the findings of Fatoni (2020) and Kurniawan & Asyik (2020), which show that institutional ownership has a positive effect on profitability and firm value. These findings reinforce the understanding that the increasing influence of institutional ownership on firm value can occur both directly and indirectly through increased profitability.

For companies, this study demonstrates the importance of strengthening relationships with institutional investors to drive operational efficiency and profitability. Energy companies, for example, can adopt policies that attract more institutional investors, which will lead to more effective corporate oversight and encourage improved performance. With increased profitability, companies will not only improve their operational performance but also increase their market value, thereby attracting more investors. Furthermore, companies need to ensure that existing institutional ownership structures support better governance and increased transparency, which will positively impact profitability and ultimately increase company value.

7. CONCLUSION

Based on the research results, it can be concluded that institutional ownership has a positive and significant effect on firm value, both directly and indirectly through the

mediating role of profitability. Profitability, as measured by ROA, also has a positive and significant effect on firm value.

This research supports Signaling Theory, whereby a company's profits serve as a positive signal to the market and investors. Companies with high profitability (ROA) tend to have higher market value, which leads to increased firm value (PBV). The indirect effect test indicates that profitability (ROA) can mediate the effect of institutional ownership on firm value. These findings suggest that companies with higher institutional ownership tend to be more efficient in managing their assets, resulting in higher profitability and ultimately increasing firm value. Therefore, strengthening institutional ownership emerges as an important strategy for increasing firm value and long-term sustainability.

This study has several limitations, including the use of samples that are limited only to energy sector companies listed on the Indonesia Stock Exchange during the 2018-2023 period. This may limit the generalization of the findings of this study to other sectors or longer periods. In addition, this study only measures institutional ownership as independent variable and profitability variable by using return on assets (ROA) as performance indicators, while there are many other factors that can affect the company's value, such as macroeconomic factors, government policies, or other external factors. This research contributes to the development of theories regarding the influence of institutional ownership on company profitability and company value. For further research, it is recommended to expand the scope of the sample to include sectors other than energy, as well as extend the study period to look at longer trends and identify changes in the relationships between variables over time. Research can also include other variables such as dividend policy, capital structure, or external factors that can enrich understanding of the factors that affect a company's value. In addition, further research can use other profitability indicators, such as Return on Equity (ROE) or Earnings Before Interest and Taxes (EBIT), to provide a more comprehensive explanation of a company's financial performance. For practitioners and company managers, the findings of this study provide insight into the importance of institutional ownership in increasing profitability and company value. Companies should strengthen relationships with institutional investors who can provide better oversight of management and increase transparency in the management of the company. Greater institutional ownership tends to lead improved more efficient management of the company, which in turn increases the company's profitability and value. In addition, companies need to maintain or increase profitability by managing assets efficiently, so that they can increase the company's attractiveness in the eyes of investors and encourage an increase in the company's market value.

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