

THE FACTORS THAT AFFECTING FIRM VALUE OF BASIC MATERIALS COMPANIES

Natalia^{1*}, Henryanto Wijaya¹

¹ Faculty of Economic and Business, Universitas Tarumanagara, Jakarta, Indonesia
Email: natalia.125200067@stu.untar.ac.id

*Corresponding Author

Submitted: 01-11-2024, Revised: 23-12-2024, Accepted: 10-02-2025

ABSTRACT

The research was carried out to empirically test the influence of leverage, managerial ownership, institutional ownership, efficiency, and firm size on the firm value of the basic materials companies listed on the Indonesia Stock Exchange in 2020-2022. The research design applied was descriptive statistics, and the sample selection technique used was the purposive sampling method. The number of samples used was 33 samples from 11 companies using multiple linear regression analysis techniques. The data in the research were processed through the EViews 12 program. This research obtained results where leverage and efficiency had an insignificant positive effect on firm value, managerial ownership had an insignificant negative effect on firm value, institutional ownership had a significant positive effect on firm value, and company size had a significant negative effect on firm value.

Keywords: Firm Value, Leverage, Managerial and Institutional Ownership, Efficiency, Firm Size.

1. INTRODUCTION

Company value is an indicator that really determines the good and bad condition of the company through a considered assessment of the share price and the amount of equity in a company (Soejono *et al.*, 2020). Achieving maximum company value is one form of company orientation in the long term. The involvement of investors is certainly a very essential factor in influencing the development of company value. In general, investors tend to be interested and interested in investing in companies with promising value (Wijaya *et al.*, 2023).

Determining the share price to be offered to the public, especially investors, will be determined through a series of complex and comprehensive considerations, one of which is through specific observations of current market conditions as well as price competition between competitors in similar business fields. Companies have the opportunity to offer higher selling prices when market conditions demand is soaring. Accountable calculations should be presented by the company consistently as a representation of the internal responsibility of business operations in order to increase company value as a long-term orientation.

Success in facing continuously fluctuating economic flows is an added value for the basic materials business sector. Various types of companies operating in the basic materials sector produce products of various types. The existence of the industrial sector is an element that plays an important and essential role in most domestic industrial sectors. Several types of business activities are carried out producing a number of products with massive levels of daily use (Sandria, 2022). International transactions in the form of export activities are also carried out by the companies operating in the basic materials sector. The basic materials

sector consistently occupies the top five of existing sectors. This indirectly states that the basic materials sector has succeeded in achieving good company value (Puspadini, 2023).

The diverse production results mean that this type of basic materials business can fulfill a series of requests from consumers for various background needs. The value of each company can certainly be built optimally through several factors which are also classified as instruments in running a business, including funding from external parties, share ownership by managerial and institutional parties, the level of the company's ability to reap profits from the large sales value, and the amount of assets or assets managed in an entity.

2. RESEARCH METHOD

Agency Theory

According to (Jensen & Meckling, 1976) state that an agency relationship is an arrangement of consensus or agreement relating to the ranks of business leaders or principals with managerial ranks or agents. Each party involved here has their own portion. The agent has the responsibility to fulfill the principal's expectations for optimal company performance, while the principal plays a supervisory role over every movement and action carried out by the agent in relation to the company's performance. Conflicts that are unavoidable have the potential to often occur between agents and principals if problem-solving is not accompanied by open information and good cooperation.

Signaling Theory

According to (Spence, 1973) the signal that appears becomes a distinctive style for the entity in presenting financial data to other or external parties, such as through the company's financial condition. Well-controlled company value is an indicator that the company provides signals that can be assessed favorably by external parties. If a good assessment is obtained from investors, then opportunities open up for the company which can be utilized to increase the selling price of shares and automatically increase the value of the company concerned (Harlan & Wijaya, 2022).

Firm Value

Company value is indicated through the circulation of company shares sold in market coverage. Company value can be influenced by various aspects including business competition cycles, the value of currencies that are prone to fluctuating, as well as elements of government policy (Wildan & Yulianti, 2021). Company internals also have more responsibility in maximizing performance in order to increase company value. So the value of the company is the operational work aspect which is influenced by the sale value of shares and the participation of investors.

Leverage

Funding obtained from external parties or referred to as debt is an alternative decision used by most companies with the aim of maximizing the profits obtained. This external funding must be calculated clearly and implemented optimally in order to prevent the company from being trapped in debt (Marpaung, 2019). So external funding or leverage is a loan of funds obtained from external parties to stimulate optimal profit generation, and the amount must be conceptualized first.

Managerial Ownership

Share ownership by the manager is assessed by the proportion of ownership compared to the total shares outstanding. Managerial ownership is important because it has the potential to stimulate motivation among managers to work optimally in advancing company value (Amira & Siswanto, 2022). Managerial ownership is generally controlled by interested parties who are actively involved in decisions taken for the company, such as the board of commissioners and directors.

Institutional Ownership

Share ownership for institutions is a form of control or supervision that is considered effective in controlling company value. The corporate entity itself and several types of bodies such as insurance and banks are representatives of institutional parties (Dewi & Abundanti, 2019). In reality, what generally happens is that the proportion of institutional share ownership will be greater than the proportion of managerial share ownership.

Efficiency

A company can be said to have succeeded in achieving efficiency in sales activities if it obtains profits that are comparable to the value invested in sales (Munawar, 2019). If in each sales period the company is able to gain profits stably and steadily, then it can be said that the company produces a good level of efficiency.

Firm Size

Company size consists of large, medium and small categories which are assessed based on the total amount of assets owned by an entity. Entity size plays an important role in the increase in entity value (Adiputra *et al.*, 2020). Information regarding company size can easily be found in the company's financial reports. Therefore, firm size is defined as the size of a company which is assessed by how much ownership or total assets an entity owns.

The Correlation Between Variables

Leverage and firm value

External funding is an aspect that can be translated into two sides according to signal theory. It is believed that a high level of leverage utilization will provide benefits that can be said to be a good influence. However, uncontrolled use of leverage risks bringing the company to the brink of disaster. This signal should be responded to carefully by investors. An increase in profits strengthens the company's value, but if it is inversely proportional, the company could be trapped in debt repayment (Ahmad & Muslim, 2022).

Managerial ownership and firm value

Managerial share ownership is in line with agency theory which explains the relationship between agents and principals. Managerial ownership is important in motivating managers' performance to achieve a long-term business orientation, namely increasing company value. The proportion of shares owned by managers plays a role in minimizing conflicts with principals (Ifada *et al.*, 2021).

Institutional ownership and firm value

The principal described in agency theory is realized by the proportion of institutional ownership as a function of monitoring management performance. Institutional ownership with a larger percentage can spur an increase in company value due to open communication and good cooperation with agents (Dewi & Abundanti, 2019).

Efficiency and firm value

According to the understanding of signal theory, a company with good efficiency will of course be assessed as a good signal by interested parties and indirectly has the opportunity to increase the value of the company. This belief is due to the perception that is formed that investors will show interest in entities that make profits rather than consecutive losses (Wildan & Yulianti, 2021).

Firm size and firm value

The size of an entity must be carefully considered in relation to whether it is a good or bad signal. A large amount of assets can be considered good if all or most of the assets are well managed and contribute benefits to the company's operations or are not left neglected. Investors tend to be interested in large companies because they are considered to have strong performance so they are able to develop their companies (Azizah & Widyawati, 2021).

Research Framework

The research framework model is interpreted below.

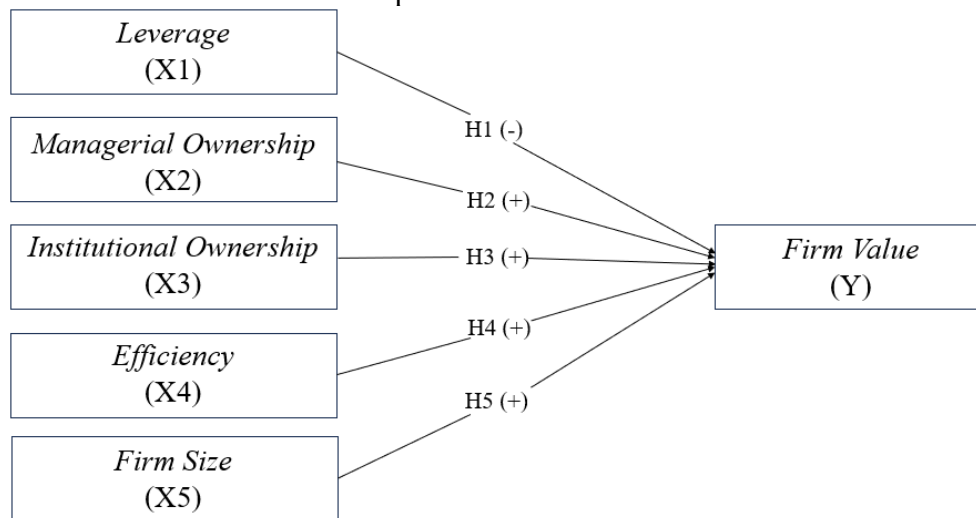


Figure 1. Research Framework

The following is the formulation of the research hypothesis:

Leverage levels that are not properly controlled give rise to a bad stigma from investors towards the company, which has the effect of reducing the value of the company.

H₁: Leverage has a negative and significant effect on firm value.

Managerial ownership can minimize agency conflicts and increase manager motivation to improve performance in meeting principal expectations, namely improving company value.

H₂: Managerial ownership has a positive and significant effect on firm value.

Institutional ownership maximizes the monitoring function of management performance. Control over management is carried out in order to achieve a long-term orientation of increasing company value.

H₃: Institutional ownership has a positive and significant effect on firm value.

Companies that are able to earn profits consistently will invite investors to participate in capital in companies that can increase the value of a company.

H₄: Efficiency has a positive and significant effect on firm value.

Investors find a good opportunity if the company has large assets because it is considered to have a mature financial management system.

H₅: Managerial ownership has a positive and significant effect on firm value.

Population and Sampling Techniques

The choice of method applied in the research is a quantitative method in obtaining secondary data from the Indonesian Stock Exchange website. The research design implemented was descriptive statistics. The research population used in this research are companies from the basic materials industry that are officially listed on the IDX from 2020 to 2022. The selection of samples using the technique included in the research is a purposive sampling method, where this technique is used as a basis for fulfilling a research objective. For this research, the use of samples is intended to test and explore the influence between variables.

The sample companies used in the research were determined using several criteria including: 1) Basic materials sector companies listed on the IDX throughout 2020-2022. 2) Companies in the basic materials sector that did not record Initial Public Offerings during the year under study. 3) Basic materials sector companies that publish annual financial reports every December 31. 4) Basic materials sector companies that provide financial reports using the rupiah currency in 2020-2022. 5) Basic materials sector companies that publish managerial ownership data for 2020-2022. 6) Basic materials sector companies that publish institutional ownership data for 2020-2022.

The dependent variable or dependent variable for research is firm value. Meanwhile, the independent variables studied are leverage, managerial ownership, institutional ownership, efficiency and firm size. The number of companies used as samples consisted of 11 companies with a total of 33 samples from 3 years. Selection of a suitable model for research starts from the Chow, Hausman, and Lagrange multiplier (LM) tests. The next series of stages carried out classical assumption steps starting from normality, heteroscedasticity, multicollinearity, to autocorrelation. In the analysis of the selected data model, descriptive statistical tests, simultaneous F, coefficient of determination, partial t, and multiple linear regression analysis were carried out. The following are details of the measurement proxies used by each variable in the research.

Operationalization of Variables and Measures

Table 1. Operationalization of Variables and Measures

No	Variabel	Pengukuran	Sumber	Skala
1	Firm Value (Y)	$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$	(Ahmad & Muslim, 2022)	Rasio
2	Leverage (X ₁)	$DER = \frac{\text{Total Liabilities}}{\text{Total Equities}}$	(Saputri & Bahri, 2021)	Rasio
3	Managerial Ownership (X ₂)	$MOWN = \frac{\text{Shares Owned by Management}}{\text{Total Shares}}$	(Fitria <i>et al.</i> , 2020)	Rasio
4	Institutional Ownership (X ₃)	$IOWN = \frac{\text{Shares Owned by Institution}}{\text{Total Shares}}$	(Dewi & Abundanti, 2019)	Rasio
5	Efficiency (X ₄)	$NPM = \frac{\text{Net Profit}}{\text{Sales}}$	(Munawar, 2019)	Rasio
6	Firm Size (X ₅)	$SIZE = \text{Lognatural (Total Assets)}$	(Adiputra & Hermawan, 2020)	Rasio

3. RESULTS AND DISCUSSIONS

Chow testing or also called the likelihood ratio is carried out to determine whether the common effect (CEM) or fixed effect (FEM). The results obtained from the Chow test where the prob-cross section chi-square value was in the range of 0.0020, namely < 0.05 according to the provisions. So the model chosen for the Chow test is FEM. Model selection continues with the Hausman test which compares between FEM or random effect (REM). The results were obtained from the Hausman test where the random cross-section number was 0.6833 or > 0.05 according to the provisions. So the model chosen from the Hausman test is REM. The final stage of model selection was carried out through the Lagrange multiplier (LM) test by comparing CEM with REM. Obtaining LM test results where the Breusch-Pagan cross-section value is 0.1955 or is > 0.05 according to the provisions. So the selected model for the LM test is CEM. The most suitable model to use based on the series of tests that have been carried out is CEM.

The results of descriptive statistical tests on the dependent variable firm value show a mean of 1.044558, a standard deviation of 0.898345, and a maximum of 4.379858. Meanwhile, the independent variable consisting of leverage (X1) shows a mean of 0.857101, a standard deviation of 0.460371, and a maximum of 1.606314. Managerial ownership (X2) shows a mean of 0.052112, a standard deviation of 0.037013, and a maximum of 0.126211. Institutional ownership (X3) shows a mean of 0.704887, a standard deviation of 0.110270, and a maximum of 0.894686. Efficiency (X4) shows a mean of 0.049528, a standard deviation of 0.033511, and a maximum of 0.115242. Firm size (X5) shows a mean of 26.18277, a standard deviation of 2.856202, and a maximum of 29.87677.

Classical assumption testing carried out on the research data model obtained results that met the requirements, namely 0.105321 or > 0.05 for normality testing, centered Variance Inflation Factor (VIF) value < 10 for all independent variables in the research for multicollinearity testing, value 0.4285 or > 0.05 for the heteroscedasticity test using the Autoregressive Conditional Heteroscedasticity (ARCH) type, and a value of 1.823822 or between -2 and +2 for the Durbin-Watson type autocorrelation test.

The direction of the relationship between each independent variable and the dependent variable is interpreted through the results of the multiple linear regression model with the equation below:

$$Y_{FV} = 0,797154 + 0,320888X_1 - 0,700492X_2 + 5,224178X_3 + 0,787997X_4 - 0.141796X_5 + e$$

The constant value of 0.797154 means that when the independent variables, namely leverage (X1), managerial ownership (X2), institutional ownership (X3), efficiency (X4), and firm size (X5) have a value of 0, then the dependent variable firm value (Y) has a value 0.797154. The positive value of the leverage coefficient illustrates that every one unit increase in leverage will be followed by an increase in firm value of 0.320888. The negative value of the managerial ownership coefficient illustrates that every one unit increase in managerial ownership will be followed by a decrease in firm value of -0.700492. The positive value of the institutional ownership coefficient illustrates that every one unit increase in institutional ownership will be followed by an increase in firm value of 5.224178. A positive value of the efficiency coefficient illustrates that every one unit increase in efficiency will be followed by an increase in firm value of 0.787997. The negative value of the firm size coefficient

illustrates that every one unit increase in firm size will be followed by a decrease in firm value of -0.141796.

The simultaneous F test was carried out to examine the accuracy of a multiple linear regression model so that the influence of the independent variables leverage, managerial ownership, institutional ownership, efficiency and firm size on firm value can be determined. The simultaneous test value F was obtained at 0.000019 which met the requirements, namely <0.05 . Therefore, it can be concluded that the independent variables used in research can simultaneously influence the dependent variable, and the research model can be used to explain the dependent variable.

The coefficient of determination test was carried out with the aim of examining how much the independent variable is able to influence and provide an explanation for the dependent variable in the research. The adjusted R-squared value obtained is 0.580241 or 58.02%. So it is concluded that the dependent variable firm value which can have an influence on the independent variables includes leverage, managerial ownership, institutional ownership, efficiency, and firm size, which is 58.02% and the remaining difference of 41.98% is accounted for by influences other than the series of variables. independent used in research.

Partial t testing or also called testing for variable significance is carried out to see whether an independent variable can influence the dependent variable significantly or not significantly. Each independent variable can be said to have a significant effect on the dependent variable if it obtains a probability value of less than or below 0.05. Following are the results of the partial t test or variable significance test.

Table 2. Partial t Test Results

Dependent Variable: FV		
Variable	Coefficient	Prob.
C	0.797154	0.5154
LEV	0.320888	0.5075
MOWN	-0.700492	0.8803
IOWN	5.224178	0.0000
EFF	0.787997	0.8872
FS	-0.141796	0.0080

Based on the results of variable significance testing, varying results were obtained between each variable. Leverage (X1) has a positive and insignificant effect on firm value, which means that H1 is rejected. This is because the prob value for leverage is $0.5075 > 0.05$. Managerial ownership (X2) has a negative and insignificant effect on firm value, which means H2 is rejected. This is because the prob value for managerial ownership is $0.8803 > 0.05$. Institutional ownership (X3) has a positive and significant influence on firm value, which means H3 is accepted. This is because the prob value for institutional ownership is $0.0000 < 0.05$. Efficiency (X4) has a positive and insignificant effect on firm value, which means H4 is rejected. This is because the prob value for efficiency is $0.8872 > 0.05$. Firm size (X5) has a negative and significant influence on firm value, which means H5 is rejected. This is because the prob value for firm size is $0.0080 > 0.05$.

4. CONCLUSIONS AND SUGGESTIONS

According to data processing research on various types of factors that have an influence on the value of companies in the basic materials sector listed on the IDX during 2020-2022,

results were obtained where leverage and efficiency influence firm value positively and not significantly, managerial ownership influences firm value negatively and not significantly, institutional ownership influences firm value positively and significantly, and firm size influences firm value negatively and significantly.

Through the results of this research, it was found that the influence of share ownership from institutions was one of the drivers of a significant increase in company value. This condition is realized when there is good communication and a successful monitoring system from the institution with the management or managers regarding performance in increasing company value. Supervision is conceptualized to prevent opportunities for fraud that may occur internally in the business with the aim of increasing company value. Then, external funding that is well controlled can have a good impact on company value, even though it is not significant.

In terms of managerial share ownership, it can be said to support the value of the company if the proportion can also be controlled and as far as possible does not exceed the size of institutional ownership. The company's ability to reap profits is certainly an added value in attracting investors in order to achieve effective company value. A large number of company assets will have a negative impact if they are left neglected and not operated. Companies should pay attention to and maximize share ownership in institutions that have been proven to have a significant impact on increasing company value.

The limitation contained in this research is that it only used 11 basic materials companies studied as research samples due to the fulfillment of a number of criteria in selecting samples determined by the research. The research also only used five types of independent variables.

Suggestions that can be put forward for future research are the use of more independent variables, where the selection of independent variables is related to company value, such as containing proxies for measuring share value and capital elements. Then it is also recommended to develop sample criteria in a more general or generalized manner so that more companies are sampled or can also add years or research periods.

REFERENCES

- Adiputra, I. G., & Hermawan, A. (2020). The Effect Of Corporate Social Responsibility, Firm Size, Dividend Policy And Liquidity On Firm Value: Evidence from manufacturing companies in Indonesia. *International Journal of Innovation, Creativity and Change*, 11(6), 325–338. <http://www.ijicc.net/>
- Adiputra, I. G., Wijaya, H., & Affandi, A. (2020). The Influence of Corporate Social Responsibility, Managerial Ownership, and Firm Size on Firm Performance: Evidence From Manufacturing Companies in Indonesia. *Advances in Economics, Business and Management Research*, 145(Icebm 2019), 106–111. <https://doi.org/10.2991/aebmr.k.200626.020>
- Ahmad, H., & Muslim, M. (2022). Several Factors Affecting Firm Value Manufacturing in Indonesia. *Jurnal Akuntansi*, 26(1), 127–143. <https://doi.org/10.24912/ja.v26i1.821>
- Amira, A., & Siswanto, S. (2022). Pengaruh Penerapan Akuntansi Lingkungan Terhadap Nilai Perusahaan Consumer Non-Cyclicals Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Pajak Dan Keuangan Negara (PKN)*, 4(1S), 200–210. <https://doi.org/10.31092/jpkn.v4i1s.1764>
- Azizah, D. G., & Widyawati, D. (2021). Pengaruh Kinerja Keuangan Dan Ukuran

- Perusahaan Terhadap Nilai Perusahaan Pada Perusahaan Food And Beverages Di BEI. *Jurnal Ilmu Dan Riset Akuntansi*, 10(1), 1–18.
- Dewi, L. S., & Abundanti, N. (2019). Pengaruh Profitabilitas, Likuiditas, Kepemilikan Institusional Dan Kepemilikan Manajerial Terhadap Nilai Perusahaan. *E-Jurnal Manajemen Universitas Udayana*, 8(10), 6099–6118. <https://doi.org/10.24843/ejmunud.2019.v08.i10.p12>
- Fitria, A., Erlina, & Rujiman. (2020). Determinant Factors of Firm Values in Manufacturing Companies Listed on Indonesia Stock Exchange (IDX) With Firm Size As Moderating Variable. *International Journal of Public Budgeting Accounting, and Finance*, 3(1), 1–11.
- Harlan, S., & Wijaya, H. (2022). Pengaruh ROA, ROE, EPS, & PBV terhadap Stock Price dan Stock Return. *Jurnal Ekonomi*, 27(03), 202–223. <https://doi.org/10.24912/je.v27i03.873>
- Ifada, L. M., Fuad, K., & Kartikasari, L. (2021). Managerial ownership and firm value: The role of corporate social responsibility. *Jurnal Akuntansi & Auditing Indonesia*, 25(2), 161–169. <https://doi.org/10.20885/jaai.vol25.iss2.art6>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/https://doi.org/10.1016/0304-405X(76)90026-X)
- Marpaung, E. I. (2019). Pengaruh Leverage, Likuiditas dan Ukuran Perusahaan Sebagai Variabel Moderasi Terhadap Kualitas Laba. *Journal of Accounting, Finance, Taxation, and Auditing (JAFTA)*, 1(1), 1–14. <https://doi.org/10.28932/jafta.v1i1.1524>
- Munawar, A. (2019). The Effect of Leverage, Dividend Policy, Effectiveness, Efficiency, and Firm Size on Firm Value in Plantation Companies Listed IDX. *International Journal of Science and Research (IJSR)*, 8(10 October 2019), 9. <https://doi.org/10.21275/ART20201693>
- Saputri, D. R., & Bahri, S. (2021). The Effect Of Leverage, Profitability, And Dividend Policy On Firm Value. *International Journal of Educational Research & Social Sciences*, 2(6), 1316–1324. <https://doi.org/10.51601/ijersc.v2i6.223>
- Soejono, F., Sunarni, T., Kusmawati, K., Samuel, S., & Angeliana, W. (2020). Pendampingan Usaha Pentingnya Laporan Keuangan dan Penggunaan Aplikasi Buku Kas untuk Laporan Keuangan Usaha. *Logista: Jurnal Ilmiah Pengabdian Kepada Masyarakat*, 04(02), 210–219. <https://doi.org/https://doi.org/10.25077/logista.4.2.210-219.2020>
- Spence, M. (1973). Job Market Signaling. *The Quarterly Journal of Economics*, 87(3), 355–374. <https://doi.org/https://doi.org/10.2307/1882010>
- Wijaya, H., Andy, Febrianty, L., & Morgan, C. E. B. (2023). The Influence Of Dividend Policy, Firm Size, Capital Structure, And CSR On Banking Companies' Value. *International Journal of Application on Economics and Business (IJAEB)*, 1(2), 442–450. <https://doi.org/https://doi.org/10.24912/ijaeb.v1.i2.442-450>
- Wildan, M., & Yulianti, N. W. (2021). Pengaruh Keputusan Keuangan, Strategi Diversifikasi, Efisiensi Operasional Dan Inovasi Terhadap Nilai Perusahaan. *Jurnal Akuntansi*, 16(1), 16–29. <https://doi.org/10.37058/jak.v1i1.2929>
- Puspadini, M. (2023). *Sektor Keuangan Kuasai 35% Pasar Modal RI, Teknologi Cuma 4%*. CNBC Indonesia. <https://www.cnbcindonesia.com/market/20230515101812-17-437306/sektor-keuangan-kuasai-35-pasar-modal-ri-teknologi-cuma-4>
- Sandria, F. (2022). *Emiten Lincah Caplok Sana-sini, Bukti RI Anti Krisis?* CNBC Indonesia. <https://www.cnbcindonesia.com/market/20221227012456-17-400320/emiten-lincah-caplok-sana-sini-bukti-ri-anti-krisis/2>