



Determinants of Financial Company Value Listed in Indonesia Stock Exchange

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Abstract. Financial institutions are at the forefront of economic growth. Investments in this sector are highly attractive. Investors consider the value of an enterprise in their investments. It is important to understand the determining factors of firm value to ensure that the enterprise remains appealing to investors. The aim of this study was to test the influence of concentrated ownership structure, board size, board committee size, audit quality, business age, and shareholder equity ratio on firm value in the financial sector in Indonesia. A total of 23 samples of financial companies were taken using secondary data and purposive sampling method on the Indonesia Stock Exchange for financial sector in Indonesia from 2018 - 2022. Data processing was carried out utilizing multiple regression and Eviews 9. The outcomes indicate that the concentrated ownership structure has both negatively and significantly affect on firm value. Audit quality, business age, and shareholder equity ratio, leverage, and firm size has both positively and significantly affect firm value. The implications of this studies indicate that managers must have a deep understanding of the factors that affect firm value and manage them effectively. For investors, it is hoped that this investigation can help determine healthy investment opportunities based on firm value.

Keywords: Firm Value, Ownership Structure, Board Size, Board Committee, Equity Ratio.

1 Introduction

The economic and business developments in Indonesia, particularly in the capital market, have demonstrated significant dynamics in recent years. Banking companies not only serve as financial service providers but also play a crucial role in contributing to national economic growth. According to [1], the banking industry is one of the dominant sectors in the stock market. [2] state that banks and other financial institutions are at the forefront in terms of contributing to economic growth through activities such as providing resources to the general public and extending financial loans to various companies for business development.

The above facts indicate that investing in the banking industry is quite attractive due to its significance in daily activities. The value of an enterprise becomes one of the indicators in investment decisions. [3] explain that the value of an enterprise is a crucial

figure or point to be considered by stakeholders because it reflects the financial condition of the enterprise itself. [4] elaborate that the firm value indicates its strength and ability to retain existing investors and attract new ones. The firm value is typically the primary focus in decision-making for investors when investing in a particular enterprise [5].

The banking industry is one of the rapidly growing sectors. [1] state that the growth of the banking industry has increased significantly, as evidenced by the number of registered banks in the banking sector. [1] further explain that banking can also experience a decline in the firm value, and in the event of a decrease in the firm value, it can erode or even eliminate the level of trust from investors and prospective investors in the firm stocks. Consequently, the enterprise may face difficulties in securing external funding, and in the long term, this can have implications for financial challenges and negatively cloud the Indonesian economy.

Studies on the factors that affect firm value in this sector is important and relevant for the reasons mentioned above. Several factors that can influence the firm value involve various external and internal factors, including enterprise management, macroeconomic conditions, capital structure, and another internal and external factors. Based on the mentioned phenomena and context, this research intends to assess the impact of concentrated ownership structure, board size, committee size, audit quality, business age, and shareholder equity ratio on company value. This study's innovation includes the incorporation of the business age and shareholder equity ratio variable by [6].

2 Literature Review

Based on the theoretical foundation related to factors such as concentrated ownership structure, board size, committee size, audit quality, business age, shareholder equity, leverage, asset tangibility, profitability, dividend yield, and firm size, they can sway the firm value. According to previous studies results that have shown diverse outcomes, such as the study conducted by [7] and [8], indicating that concentrated ownership structure both positively and significantly affect firm value, while in contrast, the studies by [9] shows both negative and significant effect. Research by [10] shows that the board size both positively and significantly affects firm value, in contrast, studies by [11] and [9] show both negative and significant effect. Studies by [12] show that board committee size both negatively and significantly affects firm value, in contrast, studies by [13] and [14] show both positive and significant effect. Studies conducted by [6] and [15] indicate business age both positively and significantly affects firm value, in contrast, the study by [16] show that there is a both negative and significant effect. Research conducted by [6] shows that shareholder equity both negatively and significantly affects firm value, while studies conducted by [17] and [18] show that there is a both positive and significant effect. Studies conducted by [19] and [20] indicates firm size both positively and significantly affects firm value, while studies by [21] suggest both negative and significant effect. Research conducted by [22] shows that leverage and profitability both positively and significantly affects firm value, while studies [11] show leverage both negatively and significantly affects firm value.

2.1 Hypothesis Development

Studies conducted by [7] show that concentrated ownership structure both positively and significantly affect firm value. This result is consistent with study by [8], which shows that concentrated ownership structure both positively and significantly affects firm value. However, studies conducted by [9] show that concentrated ownership structures both negatively and significantly affect firm value. Based on the analysis provided, a hypothesis can be formulated:

H1: Concentrated ownership structure has significant impact on firm value

The studies conducted by [10] indicate that board size both positively and significantly affect firm value. However, the study conducted by [11] shows that board size both negatively and significantly affects firm value. The size of the board of directors reflects the number of members within it. This finding is consistent with the study conducted by [9], which shows that board size both negatively and significantly affects firm value. Based on the analysis provided, a hypothesis can be formulated:

H2: Board size has significant impact on firm value

The outcome of the study by [12] indicates that board committee size both negatively and significantly affects firm value. However, the study by [13] explains that board committee size both positively and significantly affects firm value. This finding is consistent with the studies by [14], which shows that board committee size both positively and significantly affects firm value. Based on the analysis provided, a hypothesis can be formulated:

H3: Board committee size has significant impact on firm value

The outcome of the study conducted by [23] indicates that audit quality both positively and significantly affects firm value. However, the study by [19] suggests that audit quality both negatively and significantly affects firm value. This finding is consistent with the studies by [20], which also shows that audit quality both negatively and significantly impacts firm value. Based on the analysis provided, a hypothesis can be formulated:

H4: Audit quality has significant impact on firm value

The outcome of studies conducted by [6] shows that business age both positively and significantly impacts firm value. This outcome is consistent with studies by [15] which also show business age both positively and significantly impacts firm value. However, the study by [16] suggests that business age both negatively and significantly impacts firm value. Based on the analysis provided, a hypothesis can be formulated:

H5: Business age has significant impact on firm value

The outcome of the study conducted by [6] suggests that shareholder equity both negatively and significantly impacts firm value. However, the studies by [17] indicate that shareholder equity both positively and significantly impacts firm value. This finding is consistent with the study by [18], which also shows both positive and significant effects

between shareholder equity and firm value. Based on the analysis provided, a hypothesis can be formulated:

H6: Shareholder Equity has significant impact on firm value

The outcome of the studies conducted by [19] and [20] indicate that firm size both positively and significantly impact firm value. However, the study by [11] shows that leverage both negatively and significantly impact firm value. Additionally, the studies by [22] suggests that both leverage and profitability have a both positively and significantly affect firm value. In contrast, the study conducted by [21] suggests that firm size both negatively and significantly impact firm value. Based on the analysis provided, a hypothesis can be formulated:

H7: Control variable leverage, asset tangibility, profitability, dividend yield, and firm size has significant impact on firm value

3 Methods

In this study, purposive sampling is used as the research method, utilizing secondary data sourced from publications. The data for this research is derived from the Indonesia Stock Exchange website (<https://www.idx.co.id>) and the individual websites of sampled enterprises. The study's sample encompasses 115 financial reporting periods, involving 23 financial enterprises selected from a total population of 105 financial enterprises listed on the Indonesia Stock Exchange between 2018 and 2022. The testing of the regression model in this research involves specific stages, which are detailed as follows:

3.1 Goodness of Fit (R^2)

Based on the goodness of fit test results, the customized R-square value is obtained is 0.908471. It shows that independent variables, namely concentrated ownership structure, board size, committee size, audit quality, business age, and shareholder equity, as well as control variables such as leverage, asset tangibility, profitability, dividend yield, and firm size, can explain 90.8471% of the variation in firm value. The remaining 9.1529% suggests that firm value may be sway by other factors not inclusive in this model. Thus, there is a very strong relations between the independent variables (concentrated ownership structure, board size, committee size, audit quality, business age, and shareholder equity) and control variables (leverage, asset tangibility, profitability, dividend yield, and firm size) with firm value.

3.2 F-Test

The test results show that the F-statistic probability produces a value of $0.000000 < 0.05$. Therefore, the outcome of the analysis in this research show that collectively the independent variables are Concentrated Ownership Structure, Board Size, Committee Size, Audit Quality, Business Age, and Shareholder Equity, as well as control variables

such as Leverage, Asset Tangibility, Profitability, Dividend Yield, and Company Size, have a significant sway on Firm Value. Thus, the regression model was deemed appropriate to use in this study.

4 Result and Discussion

H₁: Concentrated ownership structure has significant affect on firm value

The Concentrated Ownership Structure (COS) has a probability value of $0.0339 < 0.05$ (alpha 5%), and the coefficient of -1.130702 indicates that the concentrated ownership structure both negatively and significantly impact firm value. Therefore, H₁ is accepted. This finding aligns with the studies by [9], which states that concentrated ownership structure has a negative clout on firm value.

H₂: Board size has significant affect on firm value

The Board Size (BSI) has a probability value of $0.9458 > 0.05$ (alpha 5%), indicating an insignificant sway of board size on firm value. Therefore, H₂ is rejected. The number of members in the board of directors is not one of the main determining factors for firm value. Investors in Indonesia do not consider the size of the board of directors when making investments but pay more attention to the business age.

H₃: Board committee size has significant affect on firm value

The Board Committee Size (BCS) has a probability value of $0.7364 > 0.05$ (alpha 5%), indicating an insignificant sway of board committee size on firm value. Therefore, H₃ is rejected. The outcome of this study indicate that the committee size is not one of the main determining factors for firm value. Investors in Indonesia do not pay much attention to and consider the existence of the committee size when investing in stocks but investors pay more attention to the business age.

H₄: Audit quality has significant affect on firm value

Audit Quality (AQU) has a probability value of $0.0344 < 0.05$ (alpha 5%), and the coefficient of 0.314873 indicates that audit quality has a both positively and significantly affect clout on firm value. Therefore, H₄ is accepted. The outcome of this study aligns with the studies by [23], which indicates that audit quality impact firm value positively.

H₅: Business age has significant affect on firm value

Business Age (BAG) has a probability value of $0.0340 < 0.05$ (alpha 5%), and the coefficient of 3.042069 indicates that business age has a both positively and significantly affect clout on firm value. Therefore, H₅ is accepted. The outcome of this study align with the studies by [6] and [15], stating that business age has a both positively and significantly affect clout on firm value.

H₆: Shareholder Equity has significant affect on firm value

Shareholder Equity (SER) has a probability value of $0.0003 < 0.05$ (alpha 5%), and the coefficient of 1.237313 indicates that shareholder equity has a both positively and significantly affect clout on firm value. Therefore, H_6 is accepted. The outcome of this study aligns with the studies by [17] and [18], stating that shareholder equity has a positive clout on firm value.

H7: Control variable leverage, asset tangibility, profitability, dividend yield, and firm size has significant affect on firm value

Leverage (LVG) has a probability value of $0.0146 < 0.05$ (alpha 5%) and a coefficient value of 0.336962 indicating that leverage has a both positively and significantly affect affect on firm value. The outcome of this studies are in line with studies by [22] stating that leverage has a both positively and significantly affect clout on firm value. Asset Tangibility (AST) has a probability value of $0.9254 > 0.05$ (alpha 5%), indicating insignificant sway of asset tangibility on firm value. Profitability (PRF) has a probability value of $0.1145 > 0.05$ (alpha 5%), indicating an insignificant sway. Dividend Yield (DVY) has a probability value of $0.3393 > 0.05$ (alpha 5%), indicating an insignificant sway. Firm Size (FSI) has a probability value of $0.0000 < 0.05$ (alpha 5%) and a coefficient value of 0.453475 indicating that company size has a both positively and significantly affect affect on firm value. The outcome of this studies are in line with studies by [19] and [20] states that company size both positively and significantly impact firm value. Table 1 presents an analysis of descriptive statistics, while Table 2 displays the results of regression t-tests.

Studies Regression Model

$$FV_{it} = -7.580430 - 1.130702COS - 0.001619BSI - 0.005850BCS + 0.31483AQU + 3.042069BAG + 1.237313SER + 0.336962LVG + 0.120981AST - 0.685442PRF + 0.076743DVY + 0.453475FSI$$

Table 1. Descriptive Statistic Analysis

Variable	Mean	Median	Maximum	Minimum	Std. Dev
FV	1.143239	0.863710	4.765320	0.059280	0.869445
COS	0.873067	0.992900	2.940640	0.037950	0.313361
BSI	6.580952	5.000000	13.000000	3.000000	3.263378
BCS	7.171429	6.000000	19.000000	2.000000	4.685200
AQU	0.495238	0.000000	1.000000	0.000000	0.502375
BAG	1.654666	1.707570	2.103800	1.301030	0.201412
SER	0.332882	0.246220	1.598190	0.093970	0.233886
LVG	0.670897	0.742440	1.038850	0.062010	0.209407
AST	0.034191	0.024730	0.262610	0.000740	0.040352
PRF	0.044675	0.025200	0.710200	0.003730	0.080633
DVY	0.453908	0.378060	2.233610	0.011900	0.347457
FSI	30.86130	31.01987	35.22819	26.29206	2.628408

Table 2. Regression T Test Result

Independent Variable	Dependent Variable		
	Firm Value		
	Coefficient	Probability	Conclusion
Konstanta	-7.580430	-	-
COS	-1.130702	0.0339	Significantly Negative
BSI	-0.001619	0.9458	Not Significant
BCS	-0.005850	0.7364	Not Significant
AQU	0.314873	0.0344	Significantly Positive
BAG	3.042069	0.0340	Significantly Positive
SER	1.237313	0.0003	Significantly Positive
LVG	0.336962	0.0146	Significantly Positive
AST	0.120981	0.9254	Not Significant
PRF	-0.685442	0.1145	Not Significant
DVY	0.076743	0.3393	Not Significant
FSI	0.453475	0.0000	Significantly Positive

5 Conclusion

The outcomes of this studies are expected to provide insights and understanding regarding factors such as concentrated ownership structure, audit quality, business age, shareholder equity, leverage, and firm size that sway firm value in greater depth. Managers are encouraged to pay attention to these variables and better manage firm value to attract investors. Concentrated ownership structure should be minimized to enhance firm value. Managers are advised to engage big 4 firms for external audits to improve firm value. Higher business age can also enhance firm value, so managers should consider the capital structure, including liabilities (leverage) and shareholder equity. A larger equity portion increases firm value, while higher liabilities also contribute to firm value. Managers must prioritize equity as capital because shareholder equity has a more significant clout on firm value. Company size should also be considered, as larger companies tend to have higher firm value.

It is also hoped that the findings of this studies will be useful for investors in choosing the right enterprise to invest in. The study aims to provide a better understanding for investors regarding firm value. Investors can take into account factors such as concentrated ownership structure, audit quality, business age, shareholder equity, leverage, and firm size, as these factors can sway firm value. It is advisable for investors to choose companies with a moderately sized concentrated ownership structure, engage big 4 firms for external audits, have a longer business age, high shareholder equity, higher leverage, and longer business age to make informed investment decisions.

Based on the findings of the conducted studies, some limitations were identified that should be considered by relevant parties. For instance, enterprise managers need to consider factors influencing firm value such as concentrated ownership structure, audit

quality, company age, shareholder equity, and leverage, as these factors can create optimum firm value. For future studies planning to conduct similar studies, it is recommended to explore other sectors and extend the study period. Additionally, incorporating additional variables, such as return on equity [5] and credit status [6], is suggested to identify other factors influencing firm value.

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