

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Nowadays, the number of companies increases every year. Based on its ownership, there are many types of companies, such as private companies and public companies. In a public company, stocks are traded on the stock exchange. Before put their investment in a company, investors do a lot of research of the company's information, such as the company's background, is the company able to provide fair number of rate of return, dividend, and capital gain to the investors. These are done because investors tend to be more careful when investing in a company or even purchase stocks and to forecast whether they can get more profit instead of suffering loss.

Covid-19 pandemic causes major impact on global economy. Many countries in the world suffer economic crisis that resulted in negative growth or even suffering recession. The pandemic has made investors to be more careful and give a lot of thought before investing in a company. In conclusion, it is important for public companies not to disappoint investors. To not disappoint investors, the company must set goals and one of the most important goals for the public company is to maximize investors' profit.

According to Ratih (2021), one of the reasons that companies can grow and develop is because there are investors. However, it should be noted that not all investors are willing to invest their money in the company.

There are several things that investors look at before deciding to invest in a company. The firm value is one of the considerations of investors before deciding to provide funds to the company. If a company has high firm value, it will increase the shareholders' prosperity because firm value can be described through stock price of the company that is listed on the stock exchange. Firm value also reflects the company's current performance and able to describe the company's prospects in the future.

Due to the fluctuate stock price, investment in a company may provide either return or losing money for inventors. Firm value can be valued by stock price, which stock price tends to fluctuate. Other than that, investors also can lose money if they do not properly check the company's background, assets, and financial statements. The example of company that had increasing firm value is PT Indonesia Transport & Infrastructure Tbk. According to CNBC Indonesia, at 19 October 2021, there were 2 (two) companies that had just invested in this transportation company which caused the company to gain capital of Rp 35.90 billion, this investment resulted in the increase of stock price from Rp 50 become Rp 90, which the company hit the highest stock price throughout year 2021. The increase of stock price occurred in PT Indonesia Transport & Infrastructure Tbk will attract more investors to invest. Other than that, the company also became parent company of all MNC Group's coal companies. The underlying reason of this was because the price of coal in Indonesia increased. This action resulted in more stock price fluctuation and as at 17 February 2022

the company's stock price reached Rp 175. This will make the company to have more investors seeing the increase of stock price by 100% compared to last year.

Nevertheless, there was also company that had decreased in its firm value, it is PT Bukit Darmo Property Tbk which was the real estate developer. According to CNBC Indonesia, at 22 February 2021, the company must pay off loans to third parties. At the same time, the company also had financial difficulties because of Covid-19 and the company also borrowed Rp 150 billion from Solo wealthy entrepreneur. When this information was released, the company's stock price stays stagnant at Rp 50 and the stock price starts increase in 16 December 2021. When the company had financial difficulties, investors were not interested to invest in the company and many investors also withdraw share ownership from the company because it can make the investors to lose money, as a result it can decreased the company's firm value.

In investing to a company investors need to know the factors that can influence firm value so it can minimize the possibility of investors in doing wrong investment. In this research writer is going to write about factors that can influence firm value of the company, the factors are as follows:

### 1. Corporate Size

Corporate size can influence firm value because the bigger company are having more assets leading the perception by investors that the company could generate more profit.

### 2. Profitability

Profitability can be a factor to influence firm value because if the company is able to generate more profit means the company have met the investors' expectation. Thus, investors will keep investing in the company.

### 3. Leverage

Leverage can be a factor to influence firm value because shows the ability of a company to meet all financial obligations such as paying debt.

The company sector studied in this research paper is basic materials company that is listed on the Indonesia Stock Exchange. There are some companies in basic materials sector taken as example in this research paper to see the increase and decrease in firm value, which are PT Ekadharna International Tbk and PT Indocement Tunggul Prakarsa Tbk. Both companies will be shown in the table as below:

**Table 1.1 Phenomenal Table of Firm Value in Indonesia**

Companies	Year	Corporate Size (in times)	Profitability (ROA) (in times)	Leverage (DER) (in times)	Firm Value (PBV) (in times)
PT Ekadharna International Tbk	2018	27.4723	0.0878	0.1776	0.8530
	2019	27.5987	0.0799	0.1357	0.9055
	2020	27.7098	0.0887	0.1361	0.9538
PT Indocement Tunggal Prakarsa Tbk	2018	30.9556	0.0412	0.1967	2.9248
	2019	30.9527	0.0662	0.2005	3.0344
	2020	30.9395	0.0660	0.2331	2.4028

Source: Prepared by writer (2022)

From the table above, it can be presumed that the fluctuation of firm value because of the changes reflected in the companies' financial statement, which are the total assets, total liabilities, total equity, net profit, stock price, and number of outstanding shares.

Usually, when the corporate size is larger, it is more attractive to shareholders and investors. When that situation happens, it can trigger shareholders and investors to invest in the company, which can cause the firm value to increase. But in table 1.1, it shows that in year 2019 PT Indocement Tunggal Prakarsa Tbk had increasing firm value even though there was a decrease in corporate size. Corporate size declined due to the decrease in the company's total assets, which decreased by Rp 80,813,000,000 from year 2018. Company's total assets were able to decrease because the company's fixed assets were declining, which was caused by increasing amounts of depreciation, amortization, and depletion of the company's fixed assets, such as quarry, buildings, furniture, fixtures, and office equipment. Even though PT Indocement Tunggal Prakarsa Tbk suffered a decrease in corporate size, there was an increase in the company's

firm value. In year 2019, the stock of the company increased by Rp 575, which was considered as a large amount of increase in stock price. The increase in stock price was presumed due to the increase in the company's net profit, which caused the confidence of shareholders and investors to increase. When the confidence of shareholders and investors has increased, it caused the company's stock price to increase and resulted in an increase in firm value. The explanation above is inconsistent with Nurmindia et al., (2017), which stated that corporate size has no influence towards firm value. But according to Pratama and Wiksuana (2016) findings that partially corporate size had a significant positive relationship on firm value.

Profitability is one of the important factors for shareholders and investors before making an investment in a company. The greater profit generated by a company will make the stock of the company is more attractive to shareholders and investors, which later causes the firm value to rise. In contrary, table 1.1 above shows that in the year 2019 there was an increase in firm value of PT Ekadharma International Tbk even though there was a decrease in profitability. Although in year 2019, the company was able to have more profit by Rp 3,357,384,789, but the increase in net profit was not as significant as in year 2020, which was Rp 18,526,498,262. The increase in net income of the company is due to the high amount of operating expenses of the company which are selling, general, and administrative expenses that are being used to run a business. The increase in net profit was presumed to be the factors that caused the decrease in the company's

profitability. Although there is a decrease in profitability, there is an increase in firm value because the company had a tremendous increase in stock price, which was Rp 215. The increase in the company stock price was presumed by increase in the company's total assets and total equity. When a company has increased in total assets and total equity, most of the investors assume that the company is categorized as a company that has good performance. A good performance company can cause increase in company's stock price because it can make the investors and shareholders have the confidence to invest in the company and causing its firm value to increase. The explanation above is consistent with Pratama and Wiksuana (2016), which stated profitability has a significant influence towards firm value. But according to Wahyudi (2020), profitability has no significant influence towards firm value.

Regarding leverage, most investors expect to select a company with a lower leverage because it can lower the risk of unpaid debt by the company. If a company has a lower debt to equity ratio it can attract more investors to invest in the company, which would increase the firm value. But table 1.1 above indicates that in 2020, PT Ekadharma International Tbk had increasing firm value even though there was also an increase in leverage. The increase of leverage is due to increase in the company's total liabilities, which increased Rp 13,926,463,981 from year 2019. The huge growth in total liabilities is due to the increase in the company's non-current liabilities which was because the leased liabilities. Meanwhile, the increase in firm

value was caused by the increase in the company stock price, which increased Rp 190. The increase of company's stock price was presumed due to the increase of company's net profit of Rp 18,526,498,262. With the increase of company's net profit, it can attract more investors to make investment in the company which would make the firm value to increase. The explanation above is consistent with Pratama and Wiksuana (2016) and Jihadi et al., (2021), which stated that leverage provide significant influence partially towards firm value. But it is inconsistent with Nurmindia et al., (2017), which stated that leverage had no influence towards firm value.

It is important for investors to know about the factors that can influence firm value because it can minimize wrong decision in making investment by the investors. If the firm value of the company is low or decrease, it will cause the investors to get small capital gain or worse the investors will lose money in investing on a company.

To minimize the wrong decisions of investors, it is important for investors and future investors to find a company that has good fundamentals. If the company has a good fundamental, it means the company has good performance and is able to give return to the investors. In conclusion, the investors need to know the firm value and the factors that can influence the firm value, such as corporate size, profitability, and leverage of the company that the investors are interested to invest. By knowing the factors that can influence firm value, it will also minimize the investors and future investors in making wrong investment.



There are some previous researchers that stated inconsistent results regarding factors that can influence firm value. Pratama and Wiksuana (2016), mentioned that corporate size, leverage, and profitability partially had a significant positive relationship on firm value. Nurminda (2017), stated that profitability provided significant influence partially towards firm value, but leverage and corporate size did not influence firm value significantly. Natsir and Yusbardini (2020), stated that corporate size had positive and significant effect towards firm value, while profitability had positive and significant effect towards firm value. Wahyudi (2020) established that leverage had significant influence towards firm value and profitability had no significant influence towards firm value. Jihadi et al., (2021), established that leverage and profitability had significant effect towards firm value.

Based on background of study above, the writer will conduct the research entitled **“The Influence of Corporate Size, Profitability, and Leverage towards Firm Value in Basic Materials Company Listed on the Indonesia Stock Exchange”**

## **1.2 Problem Limitation**

There are some limitations in this study, which are:

1. The independent variables in this study are corporate size, profitability, and leverage
2. The indicator for profitability is return on assets (ROA)

3. The indicator for leverage is debt to equity ratio (DER)
4. The dependent variable in this study is firm value
5. Basic materials company that listed on the Indonesia Stock Exchange from 2016 to 2020 with specific criteria

### **1.3 Problem Formulation**

Based on the background of the research, then it can be drawn some of the problems that are to be formulated:

1. Does corporate size significantly influence the firm value in basic materials company partially?
2. Does profitability significantly influence the firm value in basic materials company partially?
3. Does leverage significantly influence the firm value in basic materials company partially?
4. Do corporate size, profitability, and leverage significantly influence the firm value in basic materials company simultaneously?

### **1.4 Objective of the Research**

Based on the description of problem formulation above, writer has some objective of the research as follow:

1. To identify the influence of corporate size towards firm value in basic materials company partially

2. To identify the influence of profitability towards firm value in basic materials company partially
3. To identify the influence of leverage towards firm value in basic materials company partially
4. To identify the influence of corporate size, profitability, and leverage towards firm value in basic materials company simultaneously

## **1.5 Benefit of the Research**

### **1.5.1 Theoretical Benefit**

Theoretically this study is expected to give benefits to the academics by giving information about the influence of corporate size, profitability, and leverage towards firm value. This study will also give information to future researchers that are going to conduct the same study.

### **1.5.2 Practical Benefit**

Practically this study is expected to give some information towards:

#### **1. Investors**

This research is expected to provide some knowledge for the investors to find out how the influence of corporate size, profitability, and leverage towards firm value. With having more knowledge on each factors that can influence the firm value it can help the investors to minimize the doing wrong investment.

## 2. Company

This research is expected to provide information for businessman or company to know how to deal with the factors that causes fluctuations of the firm value because if the company's firm value decrease too much it makes the company to have bad reputation in front of the investors and shareholders.

