CHAPTER I

INTRODUCTION

1.1 Background of the Study

In the business world, one of the primary goals of a company is to maximize its firm value. Firm value is a crucial aspect as it reflects shareholder wealth and represents the market's view of the company's future prospects. Therefore, understanding the factors that affect firm value is essential for management and stakeholders.

Firm value is an important element in financial analysis and investment. It draws attention due to its vital role in assessing both the quality of a company's management and its potential as an investment. A high firm value can provide significant benefits, such as easy access to additional capital, increased attractiveness to investors, and opportunities for strategic acquisitions. With a solid reputation and optimal performance, companies can optimize this value to support growth as well as strategic business decision-making. An indicator frequently used to evaluate a company's value is the Price to Book Value (PBV) ratio, which compares the market price of a company's shares to their book value. PBV illustrates the extent to which the stock price is trading higher or lower compared to the company's net assets and equity. However, the value of firm size is not necessarily in line with firm value, where the problem is what kind of influence the value of a company has on a company's value.

Different conclusions may emerge when conducting research. This is because different studies may use different data from different periods, and different methods in interpreting the data. Clearly, research on firm value is no less protected from this phenomenon, because there are many conclusions about whether firm size affects firm value. Many have proven or rather theorized that firm size has a negative impact on firm value (Latif et al., 2023), (Mahardikari, 2021), (Rachmawati & Suzan, 2024), (Meifari, 2023), (Laksmiwati, 2024), (Alifian & Susilo, 2024), (Melianis Yuli Purmalita & Fauzan, 2024), (ka Septiarni, Anny Widiasmara, 2021), (Hardika Mas Himawan, 2020), all came to the same conclusion, namely that company size has a negative effect and does not affect the value of the company, meaning that the larger the size of the company, the lower the value of the company. Which means that companies with larger sizes, in some cases, may have a lower market value than smaller companies. Conversely, (Wahyuningrum & Sunarto, 2023), (Firlana Akbar dan Irham Fahmi, 2020), (Jove Vernando dan Teguh Erawati, 2020), and (Asmaul Husna dan Ibnu Satria, 2019) It was concluded that the greater the size of a company, the higher its value. This outcome can be attributed to various factors indicating a positive correlation between company size and its market valuation or financial performance.

The phenomenon that drives this research can be seen from the data as of March 31, 2024. PT Smartfren Telecom Tbk has total assets of 44,379,941 billion, while PT Petrindo Jaya Kreasi Tbk has total assets of only 1,143,140 thousand. Despite PT Smartfren having much larger total assets, its stock price is only Rp50, compared to PT Petrindo’s stock price of Rp4,950.This shows that firm size does not always align with firm value. Therefore, this research aims to analyze whether firm size influences firm value.

With this foundation, this study purpose is to take a closer look at how firm size affects firm value, focusing on companies listed on the stock exchange. The study aims to examine the relationship between a company's size and its overall value, providing insights into how these two factors influence each other. By doing so, this study hopes to offer practical insights that can help businesses manage their size more effectively to boost their value. The findings are expected to provide useful guidance for company leaders and decision-makers while also adding to the understanding of this topic in the field of corporate finance.

1.2 Problem Limitation

Based on the description of the problems in the background, the problem formulation in this study is “Does Firm Size Affect Firm Value?”

1.3 Objective of the Research

Based on the formulation of existing problems, the purpose of the study is to obtain empirical answers related to the effect of firm size on firm value.

1.4 Benefit of The Research

This research is expected to provide benefits for the following parties:

1.4.1 Academic Benefits

The findings of this study are anticipated to offer valuable insights and information about the factors affecting firm value. Moreover, this research is expected to serve as a reference and basis for discussion in future studies on similar topics, addressing the limitations of this study to enable the development of more comprehensive research in the future.

1.4.2 Practical Benefits

1. For Company Management: This research can provide management with an understanding of the impact of firm size on firm value. This understanding can serve as a foundation for making strategic decisions, such as planning expansion, managing assets, or modifying the capital structure to enhance the company's value in the eyes of shareholders and investors.
2. For Investors: The findings of this study offer valuable insights for investors in evaluating companies based on their size and its influence on firm value. Investors can utilize these findings to assess the potential risks and benefits of investing in companies of a certain size.
3. For Regulators and Policy Makers: This research can also provide insight for regulators in formulating policies or regulations that encourage companies to optimize firm value, especially regarding performance transparency and information disclosure.
4. For Financial Consultants and Analysts: The findings of this study can be a reference for financial consultants and market analysts in evaluating company health based on size and its effect on firm value.

1.5 Problem Limitation

Restrictions in this study are needed to narrow the range of variables so that the explanation and understanding are specific. The problem restrictions to maintain the focus of this research are:

1. This research utilizes secondary data obtained from SNP and the financial statements of companies listed on the Indonesia Stock Exchange for the 2019–2023 period.
2. The dependent variable that is the test material in this study is the Firm Value decision.
3. The research model is limited to examining only the independent variable in the form of Firm Size proxied by Ln (Total Asset). In addition, there are control variables, namely Leverage, Profitability, Liquidity and Activity Ratio.