INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY: APPLIED BUSINESS AND EDUCATION RESEARCH
2022, Vol. 3, No. 2, 162 – 169
http://dx.doi.org/10.11594/ijmaber.03.02.04

Research Article

Determinants of Firm Value in Indonesia: Financial Factors or Non Financial Factors?

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Article history:
Submission February 2022
Revised February 2022
Accepted February 2022

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ABSTRACT

Firm value plays an important role for public companies because it can affect investor perceptions. The company is always trying to improve the quality of the company to be able to compete in the capital market to attract investors. The success of the company can only be achieved through good company management, improving company performance, so that in the end it can increase company value. This study aims to examine the factors that affect firm value in Indonesia. The factors used in this study are corporate social responsibility, environmental disclosure, ownership concentration, and earnings quality. The research sample is manufacturing companies on The Indonesia Stock Exchange with a research period of 2017-2019. The research sample consists of 127 observations. Data were analyzed using linear regression. The results of this study show that corporate social responsibility, environmental disclosure, and ownership concentration affected firm value, while earnings quality did not affect a firm's value in Indonesia. This study implies that non-financial factors determine to firm's value more than financial factors.

Keywords: *firm value, corporate social responsibility, environmental disclosure, ownership concentration, and earnings quality*

Background

Firm value is closely related to the value of shares, if the stock value of an entity is high, the firm's value is also high (Zabetha, Tanjung, & Savitri, 2018). The value of the companies can be used as a reference for an investor in making investment decisions. The company will always strive to grow the company value. Public companies increase the firm value to get a good perception from investors. Investor perception is very important because it can affect the firm's value. Making investment decisions requires information about the company's stock valuation.

The increase or decrease in the company's stock price can be caused by external or internal factors. At the end of 2019 the manufacturing industry has not shown good performance, corrected by 9.33% year-to-date (investasi.kontan.co.id, 2019). Throughout

How to cite:
Pujiati, D. & Averina, M. (2022). Determinants of Firm Value in Indonesia: Financial Factors or Non Financial Factors?. *International Journal of Multidisciplinary: Applied Business and Education Research. 3* (1), 162 –169. doi: 10.11594/ijmaber.03.02.04

2019 the manufacturing industry experienced a decline, in the fourth quarter of 2019 it grew 3.66% lower than the fourth quarter of 2018 which grew 4.25%. The manufacturing industry only grew by 3.8% in 2019, while in 2018 it grew by 4.3% (cnbcindonesia.com, 2020).

This research is based on stakeholder theory where companies need support from stakeholders to ensure the sustainability of the firm's business in the future. One of the efforts made by the company is to carry out corporate social responsibility (CSR) which is expected to improve the relationship between the company and the community and the surrounding environment. If the company can gain stakeholder trust, stakeholder satisfaction will grow so that it will increase the firm value. Putri & Suprasto (2016) and Chang, Shim, & Yi (2019) explain that CSR is positively related to firm's value. However, Tarek (2019) shows that CSR does not have a relationship with the value of the companies.

The factor that is of concern to stakeholders is environmental disclosure. Companies are encouraged to disclose their contributions and responsibilities to the environment through environment disclosures. Although environmental disclosure is currently still voluntary, environmental information is expected to increase the value of the companies. Plumlee, Brown, Hayes, & ScottMarshall (2015), Fuadah, Dewi, & Arisman (2018), and Daromes & Kawilarang (2020) proves that good environmental disclosure can increase firm value, while Utami (2019) shows that environmental disclosures are not related to firm's value.

The factor which is also indicated to have a relationship with firm value is the concentration of ownership. The concentration of ownership describes shares ownership with power over activities carried out by the company for stakeholders. The positive impact of ownership concentration is that corporate governance increases due to the presence of some of the highest shareholders who assist in decision making, but it also has a negative impact, namely that the highest shareholder will dominate the decisions taken by the firm (Aviyanti & Isbanah, 2019). Sualehkhattak & Hussain (2017) and Aviyanti & Isbanah (2019) shows that the higher the concentration of ownership, the higher the firm value. While (Lozano, Martínez, & Pindado, 2016) states that changes in the number of concentrated ownership have nothing to do with the firm's value.

Value Company can also be related to earnings quality. Quality of earnings is important information that can be consumed by the public and becomes a reference for investors to assess the company. Based on agency theory, when there is an agency conflict, there is an opportunistic nature on the part of the management which results in low earnings quality, causing the value of the company to decrease. Dewi & Devie (2017) and Utomo & Dianawati (2017) explain that there is a relationship between earnings quality and firm value. In contrast, Lusi, Maulina, & Mustikowati (2019), and Saputro & Hermanto (2018) explain that earnings quality has not related to firm value.

Literature Review

Corporate Social Responsibility and Firm Value

CSR is an approach taken by companies to combine social care for their business operations and stakeholders based on the principles of volunteerism and partnership. CSR involves several partnership responsibilities between stakeholders consisting of the government, employees, customers, and the community around the firm's environment. If this social responsibility is more and more carried out by the company towards social and environmental matters, then public trust in the firm can increase (Siregar & Safitri, 2019). Stakeholder theory states that firms exist not only for personal interests but also for the benefit of stakeholders. The support from these stakeholders will affect the existence of a firm. Putri & Suprasto (2016) and Chang et al. (2019) explained that if the company has a good social responsibility, then the value of the company is also good.

H_1: Corporate social responsibility is positively related to the level of firm value.

Environmental Disclosure and Firm Value

Environmental disclosure is information related to the impact of past, current, and future environmental management activities as a result of the company's activities (Campbell, 2004). Environmental disclosure according to the Ministry of Environment is a term used by corporate bodies or organizations to disclose data on risks, impacts, policies, strategies, responsibilities, and environmental performance to interested parties to improve relations with agencies within the company (menlhk.go.id). Through environmental disclosure by the company, the public can find out the impact of company activities on the environment to avoid demands from the community, gain the trust of stakeholders, and sustainable. Plumlee et al. (2015) provide evidence that the quality of environmental disclosure affects the level of firm value. Other research states that environmental disclosure and firm value show a positive relationship (Fuadah et al., 2018) and (Daromes & Kawilarang, 2020).

H_2: The environmental disclosure is positively related to the level of firm value.

Ownership concentration and Firm Value

The concentration of ownership is the number of shares issued by the company owned by individuals or entities. The concentration of ownership describes how and who has total or most control over the ownership of the firm and wholly or largely controls the business activities of a company. The concentration of ownership can be seen from the percentage of share ownership owned by individuals or entities. The concentration of ownership is the percentage ownership of the company's outstanding shares by substantial shareholders.

The highest concentration of share ownership helps management make decisions so that corporate governance improves and has a positive impact on firm value. This is in accordance with the purpose of stakeholder theory, namely to assist company management in creating value and minimizing losses that arise for stakeholders. Sualehkhattak & Hussain (2017) and Aviyanti & Isbanah (2019) prove that the concentration of ownership related to firm value, the concentration of ownership held by shareholders encourages managers to improve company performance which in turn has a positive impact on firm value.

H_3: The concentration of ownership is positively related to the level of firm value.

Earning Quality and Firm Value

Earnings quality is one of the important information that can be consumed by the public and become a reference for investors to assess the firm. Earnings quality is a picture of investors regarding the ability of earnings in the company and the usefulness of reported earnings to predict future earnings (Bellovary, Giacomino, & Akers, 2005). High quality of earnings will make the company value also high according to investors. Investors will be more interested in investing their shares in companies that have high earnings quality. According to agency theory, low earnings quality can occur due to agency conflicts where this agency conflict occurs due to the opportunistic nature of the management which results in low earnings quality. The low quality of earnings can lead to mistakes in decision-making by investors and creditors so that the value of the companies becomes low. Research by Dewi & Devie (2017), and Utomo & Dianawati (2017) proves that there is a positive relationship between earnings quality and firm value.

H_4: Earnings quality is positively related to the level of firm value.

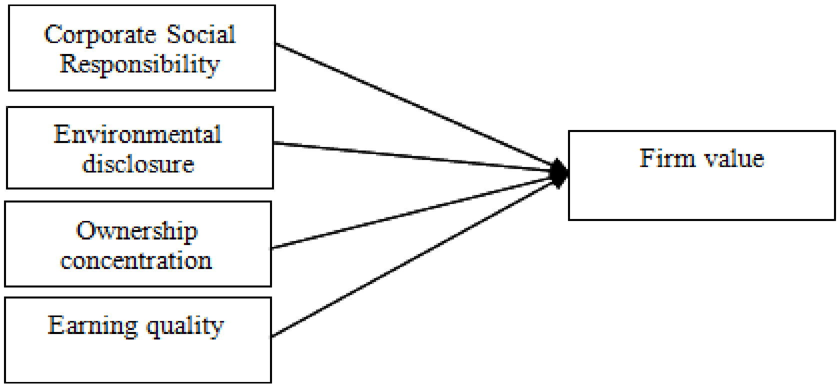

Figure 1. Conceptual Framework

Research Methods

The research sample was taken based on the following criteria: 1) manufacturing companies follow Proper and are listed on the IDX in 2017 – 2019, 2) financial statements are presented in Rupiah.

In accordance with the aim of this research, which will examine the related of independent variables consisting of: corporate social responsibility, environmental disclosure, ownership concentration, and earning quality on firm value, the hypothesis testing uses a linear regression model:

$$FV = \forall + \beta_1 CSR + \beta_2 ED + \beta_3 OC + \beta_4 EQ + e$$

The value of the company (FV) is measured based on the market price of the company's shares namely price to book value. Corporate Social Responsibility (CSR) shows the company's responsibility to the community, especially the environment where the company operates. Global Reporting Initiative 4 (GRI 4) is used as a guideline for the disclosure score consisting of 91 items.

Environmental disclosure is information related to the impact of past, current and future environmental management activities as a result of the company's activities (Campbell, 2004). Global Reporting Initiative 4 (GRI 4) is used as a guideline for the disclosure score consisting of 34 items (Burgwal & Vieira, 2014).

Ownership concentration (OC) can be seen from the percentage of share ownership owned by firms or individuals (Aviyanti & Isbanah, 2019). Ownership concentration (OC) is measured using a comparison between largest number of shareholdings and total shares.

Quality of earnings is an investor's description of the company's earning ability and the usefulness to predict future earnings (Bellovary et al., 2005). Earnings quality is measured using a comparison between cash flow from operating activities and earnings before interest and tax.

Results and Discussion

Based on purposive sampling, the initial data of the study were 152 sample data. The results of the normality test show that the residual data are not normally distributed, so 25 data must be excluded because of outliers. The final sample is 127 research data.

Table 1. Descriptive Statistic

Variable	Min	Max	Mean	Std. Deviation
Firm value	-.15677	5.10674	1.66572	1.34180
Corporate social responsibility	.030	.640	.21449	.136287
Environmental disclosure	.02941	.38235	.18643	.09078
Ownership concentration	10.18602	95.23809	60.31132	21.42127
Earning quality	-15.85764	36.38899	1.20699	4.34667

Table 1 shows the descriptive statistical value of the research data. All data have a homogeneous data distribution where the standard deviation value is smaller than the mean value, except for earning quality the data distribution is heterogeneous where the mean value is lower than the standard deviation.

Table 2. Linear Regression Assumption Test

Variable	VIF	Sig
Corporate social responsibility	1.070	0.127
Environmental disclosure	1.083	0.699
Ownership concentration	1.022	0.208
Earnings quality	1.010	0.299
One sample KS		0.084
Runs test		0.106

Table 2 shows the results of linier regression assumption test, including: 1) the residual data is normally distributed where the value of one sample KS is 0.084 > 0.05, 2) the run test value is 0.106 > 0.05 so that the regression model is free from autocorrelation assumptions, 3) the VIF value all independent variables < 10, there is no indication of high multicollinearity, 4) the glejser test for all independent variables > 0.05 means that all independent variables are free from the assumption of heteroscedasticity.

Table 3. Hypothesis Testing Results

Variable	Beta	Sig t-test
Corporate social responsibility	2.069	0.016*
Environmental disclosure	3.615	0.005*
Ownership concentration	0.014	0.010*
Earnings quality	-0.031	0.235
Adjusted R Square = 0.132		
F-test = 5.800		0.000*

*Sig level 5%

The results of hypothesis testing with multiple linear regressions are presented in table 3. The fit regression model is indicated by the F-test value of 5,800, significance of 0.000 < 0.05. The independent variable affects the firm value by 13.2%. CSR has a positive effect on firm value, H_1 is accepted. If more and more social responsibility is carried out by the firm towards its social and environment, then the public's trust in the firm will increase (Siregar & Safitri, 2019). This supports the stakeholder theory which states that the firm exists not only to fulfill personal interests but also to benefit the stakeholders. The existence of support from these stakeholders will affect the existence of a firm. Firms that are increasingly recognized by stakeholders can do business better and be able to compete in their environment, so as to increase the firm's share price. The firm's stock price increases will make the company's presence more attractive to stakeholders. If a company is able to maximize the benefits provided by stakeholders, there will be a sense of stakeholder satisfaction so it will increase the firm value. This study supports previous research conducted by Putri & Suprasto (2016) and Chang et al. (2019), but does not support the research of Tarek (2019).

The environmental disclosure is positively related to the level of firm value, H_2 is accepted. Firms with good environmental management will produce a good corporate image in the community and investors so that the company can grow the value of the company (Sheryn & Hendrawati, 2020). Based on stakeholder theory, it explains that a company needs support from stakeholders whose goal is to ensure the sustainability of the firm. One way for firms to get support from stakeholders is to manage the firm's environment. Effective management of the firm's environment is useful for reducing the negative impact on the environment and increasing the firm's added value for stakeholders. Firms those are consistently able to implement good environmental management can have a positive impact on share prices and create a higher value of the company. This study supports previous research conducted by Plumlee et al. (2015), Fuadah et al. (2018), Daromes & Kawilarang (2020), and do not support Utami (2019) that environmental disclosure has not to effect on firm value.

The concentration of ownership is positively related to the level of firm value, H_3 is accepted. Share ownership that helps assists company management in strategic decision making so that corporate governance improves and has an impact on company performance. Improving the company's performance will encourage investors to invest in the company so that the value of the company's shares can also be increased. The increase in the company's share price will affect the growth of company value for stakeholders. This is in accordance with the objectives of the stakeholder theory where the company is founded not only for the benefit of the company itself but also to create value and losses that arise for stakeholders. This study supports previous research conducted by Sualehkhattak & Hussain (2017) and Aviyanti & Isbanah (2019) which show ownership concentration has a positive effect on value of a company. This study does not support the research of Lozano et al. (2016) which states that ownership concentration has no influence on firm value.

Earnings quality is not related to the level of firm value, H_4 is rejected. Quality earnings do not make the company value high for investors. Investors pay less attention to quality earnings reporting, what is considered more important for investors is not the quality of their earnings but the value of their earnings themselves. Most likely investors do not understand how the quality of earnings and how to determine the earnings quality. The descriptive shows a high distribution of data on earnings quality as indicated by the minimum and maximum values which have a very high range and the mean which is lower than the standard deviation. This result is not by the concept of agency theory, where low earnings quality can make investors and creditors' decision-making errors so that the value of the firm is reduced. This study supports previous research conducted by Lusi et al. (2019) and Saputro & Hermanto (2018) which explain that earnings quality does not effect on firm value. The results of this study do not support the research of Dewi & Devie (2017), and Utomo & Dianawati (2017) which shows that earnings quality is positively related to firm value.

Conclusion

This study concludes that CSR, environmental disclosure, and ownership concentration have a positive relationship with firm value, while earnings quality has no related with firm value. This study provides important implications for public companies where the firm value is not only determined by financial factors but also non-financial factors, especially the environment in which the company is located. The wider the knowledge and the development of science, investors pay more attention to how the company interacts with its stakeholders, the better the company's relationship with stakeholders, the higher the firm value.

This research still has limitations, especially with the calculation of the CSR index and the environmental disclosure index where the calculations are based on the observations of researchers without involving other parties so that that the calculations are subjective. In addition, there are manufacturing companies that do not publish financial reports, do not provide CSR information, and also do not disclose environmental information. Future research can research on all manufacturing companies, not only those listed on Proper, but also add other variables as independent variables, such as environmental performance, sustainability reporting, intellectual capital, eco-efficiency, and others.

Acknowledgment

Thank you Mr. Hari Triono and Mr. Nanang Shonhadji for their support to the author so that this research can be completed.
Thank you to the Accounting Department of Hayam Wuruk Perbanas University for supporting the author to attend the seminar and complete this research

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