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Factors Affecting Company Value of Consumer Goods Sector at Indonesia Stock Exchange

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ABSTRACT

Company value reflects management's success. This research aims to empirically examine how profitability, solvency, company size, independent audit committees, and independent commissioners each impact company value. The study focuses on consumer goods companies listed on the IDX from 2018 to 2020, using multiple regression analysis for data evaluation. The findings indicate that profitability, company size, independent audit committees, and independent commissioners positively influence company value, while solvency negatively affects it.

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1. INTRODUCTION

Company value indicates the success of its management. Higher company value boosts share prices and shareholder profits. To attract and maintain the trust of stakeholders, strong company performance is essential. Factors influencing company value include financial performance (profitability, solvency, and size) and good corporate governance (independent commissioners and audit committees).

Financial performance can be evaluated through profitability, solvency, and company size. Profitability reflects the company's ability to generate profits based on management's policies. Solvency indicates the company's capacity to repay loans or long-term debt, serving as a measure of its financial health. Company size signifies growth and development; larger companies often inspire greater investor confidence in their ability to deliver returns on investment.

Good corporate governance (GCG) regulates and controls a company to foster a healthy relationship with its shareholders. GCG effectiveness can be measured by the roles of the independent audit committee and independent commissioners. The independent audit committee supports the board of commissioners in supervision, enhancing GCG and thereby increasing company value. Independent commissioners also supervise to ensure the company is trustworthy. This research aims to provide empirical evidence on how profitability, solvency, company size, the independent audit committee, and independent commissioners each affect company value..

Signalling Theory
Signaling theory posits that companies can send positive or negative signals to shareholders and investors about their future prospects. It reflects how shareholders perceive the company's potential to enhance its value over time.. (Brigham & Houston, 2014)

Company Value
Company value reflects the level of public trust achieved after years of consistent operations.. (Ponziani & Azizah, 2017). Company value can be measured using: (1) Price-Earnings Ratio (PER): indicates the relationship between a stock's market price and its earnings per share, (2) Tobin's Q**:** represents the market value of a company's assets relative to their replacement cost, (3) Price to Book Value (PBV): compares the stock price to its book value per share, reflecting shareholder earnings relative to the share price.

Financial Performance
Financial performance analysis evaluates how well a company adheres to financial management principles and regulations. (Fahmi, 2017). For companies, financial performance assesses current achievements and internal control effectiveness. For investors, financial performance is an essential tool for analyzing and making investment decisions.

Profitability
Profitability measures how effectively a company uses its resources, such as assets, capital, or sales, to generate profits. For companies, this ratio evaluates management effectiveness and performance. Profitability can be assessed using: (1) Return on Assets (ROA)**:** indicates the profit generated per unit of assets after tax, (2) Return on Equity (ROE**):** shows the company's ability to provide returns to shareholders based on net profit relative to shareholder equity.

Solvency
Solvency measures the degree to which a company depends on debt for financing. (Brigham & Houston, 2014). Solvency ratios help management and investors gauge the risk associated with a company's capital structure. Solvency can be evaluated using: (1) Debt to Assets Ratio (DAR): shows the percentage of a company's assets financed by debt, highlighting the influence of debt on asset management, (2) Debt to Equity Ratio (DER): compares a company's total debt to its total equity, offering insight into its financial leverage, (3) Times Interest Earned Ratio: evaluates a company's ability to pay interest expenses using its pre-tax profits, indicating its capacity to service debt.

Company Size
Company size is determined by factors like the number of employees, sales revenue, and total assets. It reflects the company's scale and overall resources.(Sintyana & Sri Artini, 2019). Company size is often gauged by assessing its total assets and overall sales volume, providing a clear indication of its scale and economic footprint.

Agency Theory
Agency theory originates from the idea of the division between company owners (shareholders) and management (executives).(Kusmayadi, Rudiana, Badruzaman, & Firmansyah, 2015). Agency theory arises due to conflicts of interest between management (agents) and shareholders, which can lead to agency costs and potentially harm the company. Agency theory contributes to enhancing company value by addressing the behavior of agents or related parties who may prioritize their own interests over those of shareholders or investors.

Good Corporate Governance (GCG)
Good Corporate Governance (GCG) refers to a structured set of systems used to manage, direct, and lead a business, aimed at enhancing company value and ensuring long-term business sustainability. (Kusmayadi, Rudiana, Badruzaman, & Firmansyah, 2015).). One of the goals of implementing Good Corporate Governance (GCG) is to enhance investor confidence and promote

effective company management, thereby increasing company value. According to the National Committee for Governance Policy (2006), the principles of GCG include: (1) transparency: openness in decision-making and disclosure of necessary information to shareholders and other stakeholders, (2) accountability: clarity in defining roles, duties, and responsibilities, (3) responsibility: adherence to societal norms, morals, ethical codes, and compliance with laws and regulations, (4) independence: operations conducted autonomously without undue influence from related parties, (5) fairness: equitable treatment of all stakeholders, such as shareholders and company management. These principles collectively aim to foster trust, fairness, and sustainable growth within the organization.

Independent Audit Committees
The audit committee is appointed by and reports to the Board of Commissioners to assist in fulfilling its responsibilities. Independence of the audit committee ensures it operates without influence from company management or related parties. Its primary role includes supporting the board in monitoring and implementing Good Corporate Governance (GCG). The committee consists of a minimum of three members, led by an independent commissioner, with other members from outside the issuer or an independent public company. At least one member must possess accounting and finance expertise.

Independent Commissioners
Independent commissioners are board members who have no affiliations with company management, other board members, or controlling shareholders. They are free from any business relationships that could undermine their ability to act independently in the best interests of the company. Independent commissioners typically form a minority within the board of commissioners. One of their primary responsibilities is to oversee and ensuring that Good Corporate Governance (GCG) principles are effectively implemented within the company.

Profitability and Company Value
Higher company profits lead to more favorable responses from shareholders and investors due to increased returns. This positive investor sentiment typically results in higher share prices and enhanced company value. Thus, profitability positively influences company value. (Sahyu & Maharani, 2023). Research results by Nararya P & Prasetiono (2021), Patrick & Jonnardi(2022), demonstrates that profitability significantly enhances company value. The findings indicated a clear and substantial direct impact of profitability on firm value. (Mubyarto, 2020).

Solvency and Company Value
Greater debt results in higher interest costs, which reduce profits and dividends. Investors focused on increasing investment value react negatively, causing share prices and company value to decrease. Solvency significantly impacts firm value. (Rinofah, Kusumawardhani, & Fadhilah, 2022). Solvency negatively and significantly affects firm value. (Okte & Hasanah, 2023). Research results by Sunaryo D & Adiyanto Y (2017), Aditya Permana & Rahyuda (2019) and Khoeriyah (2020) indicates that solvency exerts a significant negative impact on company value.

Company Size and Company Value
The larger the company size, the more efficiently it can utilize its assets, leading to improved overall performance. This favorable condition tends to attract investor interest in investing capital in the company. Both firm size and firm age are significant factors influencing firm value. (Fadila, Wahyuni, & Aldiyansa, 2023). Firm size, Return on Assets (ROA), and Return on Equity (ROE) positively impact firm value. (Atiningsih & Izzaty, 2021) Research results by Nararya P & Prasetiono (2021) demonstrates that company size and institutional ownership exert significant positive effects on company value. (Shaumi & Srimindarti, 2022). The study findings indicated that firm size and liquidity positively and significantly influence firm value. (Hapsoro & Falih, 2020).

Independent Audit Committees and Company Value

The independent audit committee operates autonomously, free from influence by company management or related parties, to ensure objective assessments. This objectivity enhances credibility with the public, shareholders, investors, and other stakeholders. The audit committee's influence on company value is significant. (Sondokan, Koleangan, & Karuntu, 2019). Managerial ownership, independent commissioners, audit committees, and audit quality demonstrate a positive effect on company value, although statistically insignificant. (Nuryono, Wijayanti, & Samrotun, 2019). The audit committee exerts a substantial influence on firm value. (Oktari, Mela, & Zarefar, 2018) Research results by Amaliyah & Herwiyanti (2019) indicates that an independent audit committee significantly enhances company value.

Independent Commissioners and Company Value

Independent commissioners who effectively oversee the implementation of GCG can enhance company performance and value. Their influence on company value stems from their responsibility to promote and uphold the principles of good corporate governance.. (Oktari, Mela, & Zarefar, 2018). Managerial ownership, independent commissioners, audit committees, and audit quality contribute positively to company value, but their impact is statistically insignificant. (Nuryono, Wijayanti, & Samrotun, 2019). Research results byAzizah, Rizal, & Munir (2018) and Suryaningsih, Andini, & Oemar (2018) indicate that independent commissioners significantly enhance company value. Both the board of independent commissioners and the board of directors show a positive impact on firm value. (Suryana & Surjadi, 2020).

2. RESEARCH METHOD

The population in this study comprises all consumer goods sector companies listed on the IDX from 2018 to 2020. Secondary data from these companies serves as the research's data source, collected through mechanical observation. Generally, the variables in the study can be described as follows:

a. Independent variables
   (1) Profitability
   Profitability was measured by Return on Asset (ROA)
   $$ROA = \frac{\text{Net Profit}}{\text{Total Asset}} \times 100\%$$
   (2) Solvency
   Solvency was quantified by Debt Equity Ratio (DER)
   $$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}} \times 100\%$$
   (3) Company size
   Company size measured by total asset
   (4) Independent Audit Committees
   Independent audit committees measured by this formula
   $$IAC = \frac{\text{Number of independent audit members}}{\text{Total audit committees}} \times 100\%$$
   (5) Independent Commissioners
   Independent Commissioners measured by this formula
   $$IC = \frac{\text{Number of independent commissioners}}{\text{Total independent commissioners}} \times 100\%$$

b. Dependent variable
   Company value was measured by Price to Book Value (PBV)
   $$PBV = \frac{\text{Price per share}}{\text{Book Value}} \times 100\%$$
   $$\text{Book Value} = \frac{\text{Total Equity}}{\text{Number of shares outstanding}} \times 100\%$$

In multiple regression analysis, the regression equation typically takes the form:

$$Y = \alpha + \beta_1X_1 - \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$$

Y = Company value

X_1 = Profitability

X_2 = Solvency

X_3 = Company size

X_4 = Independent audit committees

X_5 = Independent commissioners

α = Intercept

β_1, β_2 β_3, β_4 = Regression coefficient

ε = Error disturbance

3. RESULTS AND DISCUSSIONS

NormalityTestResults

Table 1. Normality test results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		96
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	1.96959698
Most Extreme Differences	Absolute	.105
	Positive	.105
	Negative	-.066
Kolmogorov-Smirnov Z		1.032
Asymp. Sig. (2-tailed)		.238

a. Test distribution is Normal.

b. Calculated from data.

Based on the results of the Kolmogorov-Smirnov test, where the asymptotic significance value (2-tailed) is 0.238, which exceeds the usual significance level of 0.05 (5%), we can conclude that the research data follows a normal distribution.

Multicolliniearity Test Results

Table 2. Multicollinearity test results

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Profitabilitas (ROA) - X1	.974	1.027
	Solvabilitas (DER) - X2	.965	1.037
	Ukuran Perusahaan (Total Aset) - X3	.978	1.022
	Komite Audit Independen - X4	.941	1.062
	KomisarisIndependen - X5	.979	1.022

a. Dependent Variable: Nilai Perusahaan (PBV) - Y

The tolerance value exceeds 0.1, and the VIF value is below 10. Therefore, the regression model is considered free from multicollinearity, as indicated by these tolerance and VIF values.

Heteroscedasticy Test Results

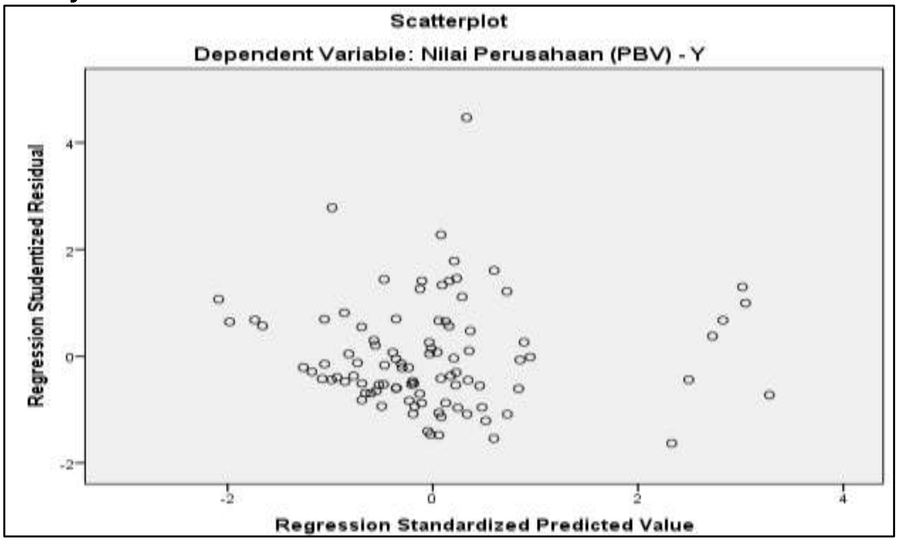

Figure 1. Heteroscedasticy test results

The absence of heteroscedasticity in a regression model is shown by an even scatter of points around zero on the Y-axis in the residuals plot.

Autocorrelation Test Results

The regression model shows no autocorrelation, as indicated by a Durbin-Watson (DW) value of 1.871, falling between the dL (1.560) and dU (1.7785) critical values. This range suggests the model is free from autocorrelation issues.

Regression Test Results

The regression analysis results, evaluating the impact of profitability, solvency, company size, independent audit committee, and independent commissioners on company value, are summarized in Table 3.:

Table 3. Regression test results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	.511	.660		.774	.441
	Profitabilitas (ROA) - X1	.102	.020	.380	5.072	.000
	Solvabilitas (DER) - X2	-.015	.005	-.212	-2.815	.006
	Ukuran Perusahaan (Total Aset) - X3	.000	.000	.475	6.361	.000
	Komite Audit Independen - X4	.027	.010	.213	2.796	.006
	KomisarisIndependen - X5	.037	.014	.198	2.646	.010

a. Dependent Variable: Nilai Perusahaan (PBV) – Y

Based on the earlier regression test results, the regression equation can be formulated as follows::

$$Y = 0.511 + 0.102\ X_1 - 0.015\ X_2 + 0.000\ X_3 + 0.027\ X_4 + 0.037\ X_5 + \varepsilon$$

Effect of Profitability on Company Value

Profitability positively and significantly affects the company's value. Higher profits lead to increased stock prices, which investors respond to positively due to larger returns, thereby boosting the company's overall value. These findings align with previous studies conducted by Mubyarto (2020), Pandhega & Prasetiono (2021), Patrick & Jonnardi (2022), Rinofah, Kusumawardhani, & Fadhilah (2022), and Sahyu & Maharani (2023). (Okte & Hasanah, 2023).

Effect of Solvency on Company Value

Solvency exerts a significant negative impact on the company's value.. Increased debt elevates risk and amplifies interest costs, reducing profitability and dividends for shareholders. Consequently, investors focused on maximizing returns respond negatively, causing stock prices and the company's overall value to decline. These findings align with research conducted by Aditya Permana & Rahyuda (2019), Sunaryo & Adiyanto (2017), Okte & Hasanah (2023), and Khoeriyah (2020). Specifically, the Debt to Equity Ratio (DER) demonstrates a notable and adverse impact on firm value. (Ahmad, Muslim, & Syahrah, 2022). The findings of the study do not align with those of Sahyu & Maharani's research. (2023).

Effect of Company Size on Company Value

Company size positively and significantly influences firm value.. Larger companies can effectively utilize their assets, which enhances their overall performance and condition. This attractiveness encourages external funding through shares, thereby attracting investors to invest in the company. These findings align with previous research by Pandhega & Prasetiono (2021), Shaumi & Srimindarti (2022), and Fadila, Wahyuni, & Aldiyansa (2023).

Effect ofIndependent Audit Committees on Company Value

Independent audit committees have a significant positive impact on company value. The objective and independent assessments conducted by these committees enhance the company's credibility with the public, shareholders, investors, and other stakeholders, leading to positive responses. This increase contributes to the overall enhancement of the company's value. These findings align with previous research by Amaliyah & Herwiyanti (2019) and Sondokan, Koleangan, & Karuntu. (2019)

Effect of Independent Commissioners on Company Value

Independent commissioners significantly enhance company value through their oversight of Good Corporate Governance (GCG) implementation, which positively influences investor perception and company performance.This increased investor interest leads to higher stock prices and company value. These findings are supported by research conducted by Azizah, Rizal, & Munir (2018), Suryana & Surjadi (2020), and Suryaningsih, Andini, & Oemar (2018). However, these results do not align with the findings of Sondokan, Koleangan, & Karuntu (2019).

4. CONCLUSIONS

Partially, profitability, company size, independent audit committees, and independent commissioners exhibit significant positive effects on company value. Conversely, solvency shows a substantial negative impact on company value. These findings align with and reinforce existing theories. The study's period is limited to three years, restricting the data to short-term insights into company conditions. Future researchers are advised to extend the research period, broaden the sample size, expand the scope of study objects, and consider additional variables such as dividend policy, sales growth, constitutional ownership, managerial ownership, and audit quality. These enhancements can provide a more comprehensive understanding of company dynamics over longer durations and with broader parameters.

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