Determinants of Firm Value on Mining Companies in Indonesia

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Abstract: The purpose of this study was to analyze the determinants factors that influence the firm value of mining company in Indonesia. The factors namely capital structure, profitability, hedging decisions and managerial ownership. The population in this study are mining companies listed on the Indonesia Stock Exchange for the 2016-2021. The sampling technique used was a purposive sampling method, which obtained a sample of 41 companies. The type of data used is secondary data obtained from the company's annual report on the Indonesia Stock Exchange. The data analysis in this study used multiple regression analysis. The results showed that all independent variables simultaneously affected firm value. But partially, capital structure, hedging decisions, and managerial ownership do not have a significant effect on firm value, while profitability has a significant effect on firm value.

1 INTRODUCTION

The company is a form of business entity that has the goal of maximizing profit by utilizing labor, capital, and resources. Maintaining the company's operations is very important for its sustainability, especially when it comes to the welfare of its owners. The goal of companies that have gone public is to generate profits and increase shareholder prosperity by increasing the value of the company. The maximum value of the company can be seen from the share price, this is the company's goal in addition to getting maximum profits, the welfare of shareholders and company owners (Hartono, 2009: 124).

According to Wiagustini (2010: 8), the buyer will use the value of the company as the basis for payment when selling it. When the company value is high, the prosperity received by shareholders will also be higher.

According to Salvatore (2011: 9) the factors that affect investors' perceptions of the company are seen from the value of the company, because company value is an indicator used to assess the company as a whole.

There are also determinants of firm value, namely: capital structure, profitability, company growth, funding decisions, dividend policies, investment decisions, and company size. These factors have a consistent relationship and influence on firm value (Salvatore, 2011:11).

According to Prasetia *et al* (2014) through stock returns, firm value can be measured because the goal of investors to invest is to get high returns with a certain level of risk.

Mint Ha and Minh Tai (2017) define capital structure as the comparison of long-term debt and total equity. Modigliani & Miller (1958) is the one who put forward the theory of capital structure which explains that the value of the company will increase if the interest costs for using debt so as to reduce tax payments. the conclusion that firm value is influenced by capital structure.

Profitability is the company's ability to make a profit. The higher the company's management, the higher its profit level (Sutrisno, 2012). The stock price will rise as investors increase the number of purchases of company shares that are highly profitable. High stock prices which have an impact on the high value of the company.

According to Ross, Westerfield, Jordan, Lim & Tan (2016: 344), international transactions can lead to foreign currency exposure risks or currency exchange rate fluctuations. This risk affects the company's cash flow, which has an impact on its value. With *hedging*, companies can be protected from fluctuations in foreign exchange. This is in line

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with research conducted by Niswatuhasanah and Hendratno (2020), Henny and Prima (2018), Amrie Firmansyah, Eko Bayu Dian Purnama (2020), Zaminor, *et al* (2021), *hedging* with derivative instruments has a positive effect on company value. Amrie and Eko (2020) research shows that hedging with derivative instruments does not have any impact on company value.

The process of maximizing firm value will have an impact when there is a conflict of interest between the agent (the management) and the principal (the company), which is often referred to as the agency problem. In practice, agents or management often have different interests and goals from the principal, agents or management often deviate from the company's main goals and are more concerned with their personal interests. The agent's actions will incur additional costs for the company and affect the value of the company. In an effort to minimize conflicts between managers and shareholders or agency problems, namely with a supervisory mechanism that can align these interests which results in the emergence of agency costs. The use of institutional and managerial ownership of shares is a way to reduce agency costs.

Managerial ownership is ownership of shares by management, specifically the board of commissioners and the company's board of directors. The managerial team is a group that plays a role in decision-making in the company. Managerial share ownership is believed to encourage management to act in accordance with shareholder wishes, which can ultimately lead to an increase in company value.

Formulation of the Problem

The problem formulation for this study is as follows:

Do capital structure, profitability, hedging decisions, and managerial ownership have a significant effect on the company value of mining companies listed on the Indonesia Stock Exchange in 2016-2021?

Research Purposes

Based on the description of the background of the problem, the purpose of this study:

To determine the effect of capital structure, profitability, hedging decisions and managerial ownership on firm value in mining companies listed on the Indonesia Stock Exchange in 2016-2021.

2 LITERATURE REVIEW

2.1 Agency Theory (Agency Theory)

Jasen & Meckling's (1976) agency theory explains agency relationships, in which the management and control of resources is governed by managers (agents) and owners of economic resources (principals) who are bound by a set of contracts (nexus of contracts).

Agency theory explains the separation of the management function (manager) from the ownership function (shareholders) in the company. According to Wongso (2012) agency relationships occur when one or more people hire other people to provide services and then give decision-making authority to agents (managers) and cause information asymmetry between managers and shareholders. According to Suseno (2012), agency problems are caused by the fact that management owns more information than shareholders.

2.2 The Value of the Company

Producing goods and services for sale by organizing and combining various resources is the meaning of the company (Salvatore, 2005). The company's theory aims to maximize short-term profits. However, in practice, companies often sacrifice short-term profits to increase profits for the future or long-term. The theory of the company (*theory of the firm*) now assumes that the main goal of the company is to maximize the wealth or value of the company.

2.3 Determinants of Firm Value

Several determinants of company value (Selvi and Ita, 2019) include capital structure, probability, company growth, funding decisions, dividend policy, company size, and hedging.

- The capital structure is a balance between long-term debt and equity owned by the company.
- Profitability is the ability of the company to generate profits from its operational activities.
- The company's growth is an indicator that the company gets an increase in profits every period and is sustainable.
- Funding decisions are decisions regarding capital structure, namely regarding the determination of the composition of debt and equity.

- Dividend Policy is a decision to determine the right profit allocation between dividend payments and adding to the company's retained earnings balance.
- Investment decisions are a combination of types of assets determined by the company, tangible and intangible used to produce goods or services.
- The size of the company is seen from the total assets owned and can be used as company operations.
- Hedging is a company's way of minimizing the risk of changes in foreign currency exchange rates that will affect the company's costs and income.

2.4 Effect of Capital Structure on Firm Value

The capital structure is a very important part of a company. Company activities are carried out based on the use or utilization of the capital structure. Dhani & Utama (2017) state that own capital and capital with obligations are the notions of capital structure. Large-scale companies require very large sources of funds and may require capital or funds from outside investors.

The capital structure is a financial structure that combines debt and equity over a long period of time. Whether capital structure is good or bad is a very important issue for companies because it has a direct effect on the company's financial position which ultimately affects company value (Brigham F. & Houston, 2010). According to Yuliana, *et al* (2013) there is a link between capital structure theory and changes in capital structure to firm value assuming constant investment decisions and dividend policies. The optimal capital structure for the company can be achieved by maximizing the company's stock price, as suggested by Brigham Dah Houston (2013). The optimal capital structure is the company's funding mix that can maximize its value.

The results of previous research show different results on the variable capital structure, such as research by Heven & Fitty (2016) finding that capital structure has a simultaneous effect on firm value, while research by Dedi & Nurhadi (2019) found that capital structure does not affect firm value.

2.5 Effect of Profitability on Firm Value

Profitability is the ability of a company to generate profit from its operations. Profitability is the standard of success for a company. Apart from being an indicator of the effectiveness and efficiency of resource use, profitability is also a reference for investors in investing. Therefore, profitability becomes a fundamental aspect for the company .

Profitability growth can increase the trust and interest of potential investors who will invest in a company because the goal of investors investing is to get optimal returns from the investments made. The value of the company will increase when investors respond positively to the stock price.

One way to find out how far the rate of return from an investment in a company is going is to look at the company's profitability. Investors will invest their funds in companies that are included in the category of companies that provide benefits in the future by buying shares of these companies so that this will push share prices higher.

Haugen and Baker (1996) proved that the greater the profit distributed from the profitability of a large company, the more it will increase the value of the company. This is supported by research conducted by Baihaqi, Geraldina, and Wijaya (2021), which found that profitability has a significant positive effect on company value.

2.6 Hedging Decisions on Firm Value

According to Ayuningtyas and Santi (2019), foreign exchange exposure is a level of sensitivity to changes in the real value of assets, operating income and liabilities expressed in domestic currency to changes in exchange rates that cannot be anticipated. Exposure to changes in exchange rates is divided into three types, namely: transaction exposure, economic exposure, and accounting exposure.

Actions to reduce risk and exposure are known as *hedging*, changes in foreign exchange rates will cause exposure (Ayuningtyas and Santi, 2019). According to some researchers, hedging with derivatives is one way to increase firm value. The use of hedging with the use of derivative instruments can reduce the risk of increasing company value.

Through the use of derivatives in an effort to control corporate risk and also to protect against uncertainty, another use for using derivatives is to reduce risks caused by poor diversification of human and capital capital. invested in the company. An increase in firm value is connected to a reduction in risk based on risk aversion, as shareholders want to invest in certain returns (Gastineau and Kritzman, 1999). So, reducing risk through hedging can increase the value of the company. This is in line with research conducted by Zaminor, Razali, and Anwar (2021), who found that hedging using derivatives has a significant positive effect on company value. In contrast to the research conducted by Amrie and Eko (2020) the results of hedging with derivative instruments have no effect on company value.

2.7 The Effect of Managerial Ownership on Firm Value

Managerial ownership is a situation where the manager has company shares in the company he manages or it can also be called that the manager is a company shareholder. Managerial ownership becomes an interesting matter when associated with *agency theory*. In *agency theory*, the relationship between managers and shareholders is shown by the relationship between *agents* and *principals* (Schroeder *et al.* 2001). Where *the agent* (manager) is given responsibility by *the principal* (shareholder) to run the business in the interest of *the principal*.

The interests of internal parties and shareholders can be linked to the existence of managerial ownership, so that decisions taken by management will be better and the impact will increase the value of the company. The ability to monitor company activities is affected by the size of managerial ownership (Endraswati, 2012).

This is supported by several studies that aim to explore the relationship between managerial ownership and firm value. Zaminor, Razali and Anwar (2021) found that managerial ownership has a positive effect on firm value, in companies engaged in derivative positions on the Malaysian stock exchange in 2012-2017. However, in research conducted by Wida and Suartana (2014), it was stated that managerial ownership has no effect on firm value.

3 RESEARCH METHODOLOGY

3.1 Type, Location and Time of Research

The type of research used is to use quantitative research methods. The location of the research was carried out in the Building of the Faculty of Economics and Business, Riau Islamic University, Jl. Kaharuddin Nasution No.113, Marpoyan, Pekanbaru, Riau with research data obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id). The time of the research was carried out from November 2022 to May 2023.

3.2 Population and Research Sample

The research sample used is 56 companies listed in the mining sector on the Indonesia Stock Exchange in 2016-2021. The sampling technique in this study used *purposive sampling* with the criteria of companies listed on the Stock Exchange and reporting financial reports consistently. The final sample results included in the criteria are 41 companies.

3.3 Data Collection Sources and Methods

This study utilizes secondary data that is derived from company consolidated financial statements. The data was obtained from the 2016 -2021 financial report data base published by the Indonesia Stock Exchange. Documentary data collection technique, by taking from the second source which is available on the official website of the Indonesia Stock Exchange www.idx.co.id.

3.3 Data Analysis Method

The method used to analyze the data in this study is multiple regression using the EVIEWS 10 tool.

Table 1: Descriptive Statistical Analysis.

Variable	Min	Max	Means	std. Deviation
The value of the company	-20,397	18,761	1,268	2,842
Capital Structure	-15435	57,15	-62.92	984.46
Profitability	-187,201	57,614	-0.422	12,546
Hedging decisions	0	1	0.292	0.455
Managerial ownership	0	67,440	4,368	11,994

The data analysis used in this study is descriptive statistical analysis and multiple regression analysis. The information provided in the descriptive statistics is *minimum*, *maximum*, *mean* and standard deviation.

The results of the descriptive analysis based on table 1, that the lowest company value is -20.397, which is owned by PT. Energi Mega Persada Tbk and the highest company value is 18,761 which is owned by PT. Atlas Resources Tbk. The average company value is 1.268, which shows that the average stock is being traded at an overvalued price (above book value). The standard deviation of 2.842 indicates that the distribution of company value data is greater than the average value.

The capital structure variable has the lowest value of -15435 which is owned by PT. Capitalinc Investment Tbk and the highest value of 57.15 is owned by PT. Capitalinc Investment Tbk. The average capital structure of companies in the study was -62.92, which shows that companies rely more on debt in their operational activities. The standard deviation of 984.46 indicates that the distribution of capital structure data is greater than the average value.

The profitability variable has the lowest value of -187.21 where the company that has this value is PT. Capitalinc Investment Tbk and the highest value is 57,614 and is owned by PT. Capitalinc Investment Tbk. The average profitability of companies in this study is -0.422 and this shows that mining sector companies during this study period have not been able to generate maximum profits for their companies. The standard deviation of profitability is 12.546 which indicates that the distribution of profitability is greater than the average value.

The hedging decision variable in this study is determined by ordinal data, with 1 being the company's use of hedging and 0 being the company's lack of use of hedging.

The managerial ownership variable has the lowest value of 0 and the highest value is 67.44 and the company that has the highest value is PT. Bayan Resources Tbk. The average managerial ownership of companies in this study is 4.368 and this means that in mining companies only about 4% of the total managerial companies own shares in the company they lead. The standard deviation of managerial ownership is 11.99%, indicating that the distribution of managerial ownership is large.

Multiple Regression Analysis

Based on the results of testing multiple regression analysis the regression equation obtained is as follows: PBV = 0.627 + 0.078 X_1 + 0.235 X_2 + 0.119 X_3 + 0.023 X_4 + ei

Analysis of the Coefficient of Determination

Based on the *Adjusted R Squared value* of 0.102102, the conclusion that can be made is that all independent variables in this study have an influence of 10.21% on the dependent variable, while the remaining 89.79% is explained by other variables not included in this study.

Hypothesis Testing Analysis

Table 2: T test.

Variables	coefficient	std. Error	t-Statistics	Prob.
C	0.627221	0.241806	2.593897	0.0113
LOGDER	0.078329	0.103524	0.756629	0.4515
LOGROE	0.235512	0.075102	3.135898	0.0024
DECISION_ HEDGING	0.119739	0.207804	0.576211	0.5661
LOGKM	0.023677	0.029406	0.805165	0.4231

Based on table 2 above, the conclusions that can be made are as follows:

1. The DER variable has a positive but not significant effect on firm value based on a probability value that is greater than 0.05.
2. The ROE variable has a significant positive effect on firm value based on its probability value which is less than 0.05
3. The hedging decision variable has no significant positive effect on firm value based on a probability value greater than 0.05.
4. Managerial Ownership variable has no significant positive effect on firm value based on its probability value which is greater than 0.05.

Table 3: Test F.

R-squared	0.144356	Mean dependent var	0.111990
Adjusted R-squared	0.102102	SD dependent var	0.896901
SE of regression	0.849881	Akaike info criterion	2.568940
Sum squared residue	58.50613	Schwarz criterion	2.711635
Likelihood logs	-105.4644	Hannan-Quinn criter.	2.626368
F-statistics	3.416391	Durbin-Watson stat	0.517626
Prob(F-statistic)	0.012397		

Based on table 3 above, it can be seen from the probability value of the F-statistic of 0.012397 and this value is less than 0.05, it can be concluded that all the independent variables in this study simultaneously (simultaneously) have a significant effect on firm value. Based on the calculated f-value of 3.4163 which is greater than the f-table value of 2.41, the conclusion also states that the independent variables simultaneously have a significant effect on firm value.

Effect of Capital Structure on Firm Value

Simultaneously or together, capital structure has a significant effect on firm value. The effect of capital structure on firm value is partially positive, but not significant for mining companies listed on the Indonesia Stock Exchange. This positive influence is in accordance with the theory of capital structure, whereby the use of debt for accelerating company development activities due to insufficient company capital will make investors think that the company has good business prospects in the future. This can happen if the company is able to optimize its operational activities and achieve returns that are in line with the target. This research is supported by research conducted by Dedi & Nurhadi (2019) which found that capital structure has no effect on firm value.

Effect of Profitability on Firm Value

Partially, profitability has a positive and significant effect on the firm value of mining companies listed on the Indonesia Stock Exchange. Simultaneously or jointly profitability also has a significant effect.

This research is supported by research conducted by Baihaqi, Geraldina, and Wijaya (2021), which found that profitability has a significant positive effect on firm value. This shows that the higher the profitability of the company, the company's stock price will increase and will also increase the value of the company.

***Hedging* Decisions on Firm Value**

Simultaneously or jointly, hedging decisions have a significant effect on the company value of mining companies listed on the Indonesia Stock Exchange. *Hedging* decisions partially have a positive effect but not significant. These positive results are supported by *hedging theory.* When companies transact with foreign companies and payments for these transactions use foreign currency, there will be differences in future receipts and differences in future debt payments, therefore *hedging* is a solution to this problem. The use of hedging is that we companies receive payments on receivables from foreign companies against domestic companies at the same time as when the transaction occurred. Likewise with debt, domestic companies pay their debts in the future in the same amount as when the transaction occurred. When you do not *hedge*, the potential for the company to suffer losses will be even greater. These insignificant results are caused by *hedging* which is unable to reduce the risk of fluctuations in interest rates and commodity prices which have a significant effect on firm value, but *hedging* has a positive effect on firm value when applied to exchange rates. Amrie and Eko (2020) research supports this research, which shows that hedging with derivative instruments has no effect on company value.

The Effect of Managerial Ownership on Firm Value

Simultaneously, managerial ownership has a significant effect on the firm value of mining companies listed on the Indonesia Stock Exchange. Managerial ownership partially has a positive effect on firm value, but it is not significant. The positive influence is in line with agency theory, which requires management to run the business in the interests of shareholders. Maximizing company resources is one of the decisions that managers must make. Investors' views on large managerial ownership in a company are responsible for this insignificant result. The managers or directors will arrange it in a manner that ensures the company's financial reports are equally effective. The number of shares that directors or managers can own is already regulated by every company. To avoid creating a negative premise for companies where managers have stakes in the companies they lead. This research is supported by research conducted by Wida and Suartana (2014), which states that managerial ownership has no effect on firm value.

4 CONCLUSION

There is a positive but not significant influence on the capital structure variable partially on firm value. So that any changes in the capital structure will not significantly affect the value of the company. When the ratio of the company's capital structure is high, this indicates that the company will also make payments to investors who own the company's shares, this will cause stock prices to tend to be stable and the company's value will also be stable.

There is a positive and significant effect on the profitability variable partly on firm value. So that any changes that occur in profitability will significantly affect the value of the company. Mining companies that have high profitability will also have high share prices and this will increase the value of the company.

The hedging decision variable has a positive but not significant impact on the firm value. So that any changes that occur to the company's hedging decisions do not significantly affect the company's value.

The value of the firm is not significantly affected by the managerial ownership variable. So that any changes in managerial ownership do not significantly affect the company's value.

Based on the probability value of the F-statistic in this study, it shows that all independent variables, namely capital structure, profitability, hedging decisions and managerial ownership, simultaneously have a significant effect on firm value. Based on the results of the calculations, it can be concluded that all independent variables have a simultaneous effect on the firm value.

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