



Firm Value Model in Pharmaceutical Companies

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ABSTRACT

This study intends to investigate and fill the knowledge vacuum among academics about the issue wherein leverage is not given priority as a risk factor in relation to institutional ownership and the availability of firm liquidity. Furthermore, investors in the capital market do not perceive leverage to be a major factor. This study uses a quantitative methodology, focusing on chemical businesses listed on the Indonesia Stock Exchange (IDX) over a ten-year period. It does this by using a multiple regression analysis method using panel data. Five companies were chosen through the use of a purposive sampling strategy. Through the use of leverage as an intervening variable, the study aims to maximize Firm Value. Two research models are combined into one, with each passing through different phases of testing for model selection, such as the Lagrange Multiplier, Hausman, and Chow tests. The results of the first model show that while liquidity affects leverage, ownership structure has no effect on it. In the second model, liquidity successfully explains the relationship between ownership structure and firm value. Furthermore, the impact on firm value is not mediated by leverage as an intervening variable. It is expected that these results will function as a roadmap for publicly traded corporations seeking to increase their Firm Value

INTRODUCTION

Corporate finance officials must exercise caution when determining debt ratios, commonly referred to as capital structure decisions. These decisions are critical as they directly affect the company's objective of increasing shareholder wealth or maximizing value. Gitman (2009) defined capital structure as the proportion of debt to equity in a business. According to Modigliani and Miller's 1958 proposal, capital structure has no bearing on performance if there are no taxes or transaction expenses and a company's debt strategy has no effect on performance. But in a later version, Modigliani and Miller (1963) modified their theory to take taxes into consideration and proposed that debt use might have a favorable effect on business performance. Similar to this, Myer (1977) made the case in the trade-off theory that, as long as debt stays within an ideal range, raising debt levels could improve a company's performance. Performance is positively correlated below this ideal point, but negatively correlated above it. impact.

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This study uses capital structure as an intervening variable to investigate the effects of ownership structure and liquidity on firm value. This study is necessary since previous research on capital structure and firm value—by Margaritis and Psillaki (2010), Fosu (2013), Haryono et al. (2017), and Attig et al. (2009), for example—has shown inconsistent results. Likewise, research conducted by Lins (2002), Vafeas (1999), Morck et al. (1988), and Yermarck (1996) have shown conflicting results regarding ownership structure's impact on company value.

This research is crucial, as companies with larger ownership structures typically demonstrate a greater capacity for external parties to monitor management activities, thereby reducing the potential for managerial misconduct and the risk of bankruptcy. Consequently, a higher degree of institutional According to Bathala et al., ownership promotes more effective asset usage and reduces inefficient management (1994).

Through diligent monitoring of business-related elements, institutional share ownership plays a vital influence in shaping the value of the company. This monitoring, according to Lin and Fu (2017), helps reduce agency issues and information asymmetry, which eventually improves business performance. It is important to pay attention to the role played by institutional investors, especially in countries with concentrated ownership such as Indonesia where controlling shareholders are common. According to Thomsen and Pedersen (2000), institutional ownership has a favorable impact on business performance. Institutional ownership can increase the value of a firm because of the network of ownership and the professionalism of the management. Though it may also promote professional growth, research by Hamdani & Yafeh (2010) suggests that minority institutional ownership can result in disputes with majority shareholders. governance, which produces excellent commercial outcomes. On the other hand, research by Zeitun and Tian (2007) and Imam and Malik (2007) indicates that institutional ownership has little effect on the performance of businesses.

LITERATURE REVIEW

In Agency theory was initially introduced by Jensen and Meckling in 1976. According to this view, the agency relationship is explained as a contract between the principal and the agent, who is also sometimes referred to as the manager. According to Eisenhardt (1989), managers might act opportunistically and prioritize their personal interests over the company's or shareholders' wealth, maximizing their own wealth instead of maximizing the value of the business. This is founded on the fundamental premise that managers are human. This discrepancy creates room for agency disputes between shareholders and managers. There may also be other agency conflicts between majority and minority shareholders, or between shareholders and creditors. In the event that the majority shareholder behaves as a dominating shareholder in order to use their choice of management to influence company policy in a way that will harm minority shareholders. In Indonesia, it is common for family members to hold the majority of the shares or for the ownership structure to be concentrated.. This kind of ownership structure tends to be detrimental to minority shareholders because every company policy will be based on family interests.

The development of Modigliani and Miller's theory (1958) was carried out by Myers (1977) which is known as the Trade-off Theory. What is explained in this theory is that the optimal capital structure can be done through a process of balancing the benefits of debt use policies (tax shield advantage of leverage), as well as the price of financial hardship and agency issues (Megginson, 1997). In keeping with this principle, the addition of debt then has the potential to provide the business with a tax reduction benefit due to the interest paid on the debt, which is commonly known as an interest tax shield. Even when the company makes money, there is a greater chance that it will become bankrupt due to higher bankruptcy costs.

Companies that use funding from debt will process interest payments, on the other hand the amount of interest is a tax deduction or often referred to as a tax deductible. The thing that needs to be controlled by company management is to control the amount of debt so that it does not exceed the optimal value, namely maintaining a balance point between tax benefits and bankruptcy costs and agency costs. The company's policy on debt that exceeds the optimal point, the company will face a level of risk of difficulty in paying interest and principal debt in order to influence the risk often known as financial distress. Therefore, the use of debt in the capital structure will be able to improve company performance, but not beyond its optimal point because it will have an impact on the level of decline in company performance. This suggests that the trade-off theory describes a relationship between capital structure and company performance.

According to Kennelly (2000), a significant portion of ownership held by investors is considered institutional ownership. This institutional ownership will lead to more oversight of the business's operations. The significant portion of shares held by institutional investors will be able to produce more effective monitoring Jensen (1986). The existence of institutional ownership will be able to reduce the occurrence of agency conflicts, besides also having the ability to control and provide direction to managers in terms of debt policy and dividend distribution.

According to Lin and Fu (2017), Pedersen (2000), and Hamdani & Yafeh (2010), institutional investors can reduce problems like agency conflicts and information asymmetry by actively monitoring business operations. This improves company performance and, eventually, increases its value. Manzanque et al. (2016) came at similar results, notwithstanding Zeitun and Tian (2007) and Imam and Malik (2007) presented conflicting findings.

Throughout this process, the Both the ownership structure and the capital structure have an effect on how stock prices reflect the worth of the company. Taking on more debt can increase risk, but it can also increase rate of return. Foverskov et al. (2023) claim that ownership structure and capital structure/ debt policy are positively correlated. Astri Kurnia (2022), on the other hand, discovered a negative link between capital structure and ownership structure. Theoretically, an increase in ownership structure by institutional ownership will reduce the level of capital structure because this ownership is more dominant in controlling the level of business risk of the company.

H1: There is an influence of ownership structure on capital structure.

According to Lins (2002), Vafeas (1999), Weisbach (1988), Yermarck (1996), Morck et al. (1988), McConnel & Serveas (1990), Fruest & Kang (2000), Slovin & Sushka (1993), Holderness & Sheeman (1985), Barclay & Holderness (1991), Shome & Singh (1995), and Allen & Phillips (2000), a strong ownership structure, whether through Institutional Ownership or Managerial Ownership, can enhance company value via stock price appreciation. This idea is also supported by Jensen and Meckling (1976), Lemons & Lins (2001), Lins (2002), Cai et al. (2001), Kholis et al. (2018), Lin and Fu (2017), Pedersen (2000), Hamdani & Yafeh (2010), and Manzanque et al. (2016).

But different results of research in Imam and Malik (2007), research results in Bangladesh, Zeitun and Tian (2007), research results in Jordan, that the results of their research did not have a significant effect of institutional ownership on company performance. Other different results occurred in the results of research in Zeitun and Tian (2007), Imam and Malik (2007).

H2: Liquidity affects Capital Structure.

Research conducted by Thomas et al. (2014), Hossain and Ayub (2012), Wahab and Nur (2014), Watung et al. (2016), Andasari et al. (2016), and Widayant et al. (2016) shown that capital structure is adversely affected by liquidity.. However, Bhatia and Manish (2016) presented opposing findings, showing that liquidity positively influences capital structure.

Generally, higher liquidity levels are associated with a reduction in capital structure, although some findings suggest that increased liquidity can actually lead to a higher capital structure, contradicting traditional theory.

H3: There is an influence of ownership structure on Firm Value.

Michalski (2010) found that liquidity is a major component impacting the value of the company and plays a critical part in increasing that value. In essence, liquidity shows how well a business can pay off its maturing debt (Kasmir, 2013). In general, liquidity is a measure of a business's ability to pay short-term debt (Titman et al., 2014 as referenced in Lubis et al., 2017).

Astuti and Yadnya's (2019) research revealed that liquidity significantly impacts a company's value; Lubis et al. also reported evidence in support of this. (2017). These findings suggest that higher liquidity levels typically correlate with higher company value, and the reverse is also true (Lubis et al., 2017). However, Awulle et al. (2018) presented contrasting results, indicating that liquidity does not necessarily impact company value.

H4: There is an influence of Liquidity on Firm Value.

Studies by S. A. Haryono et al. (2017), Attig et al. (2009), Zwiebel (1995), and Holt-Jensen (2022) discovered that capital structure has a major effect on a company's value as determined by Tobin's q. On the other hand, research by Fosu (2013) and Margaritis and Psillaki (2010) did not discover a linear relationship between capital structure and firm value. Chen (2002) and Brigham and Houston (2009) have emphasized that a number of elements contribute to increasing the value of a company, one of which is leverage.

In support of these conclusions, Modigliani and Miller (1963) contended that using debt in the capital structure might raise the value of the company when corporate income tax is taken into account. Conflicting findings, however, were reported by Soliha and Taswan (2002), demonstrating that debt strategy had no effect on a company's value.

H5: Capital structure affects firm value.

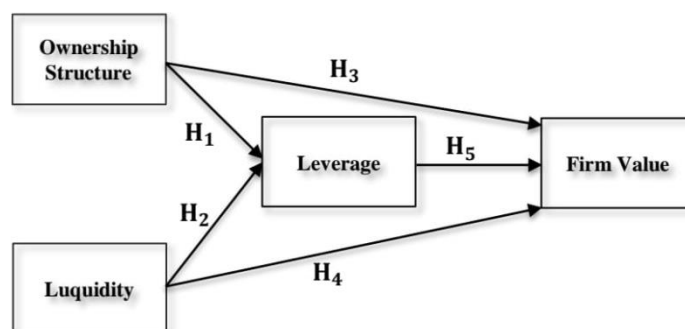


Figure 1. Research Framework Model

METHODOLOGY

This study uses a quantitative methodology, combining cross-sectional data with 10 years of time series data from 2013 to 2022 through multiple regression analysis on panel data. The whole population of firms listed in the chemical sector on the Indonesia Stock Exchange is taken into consideration for this research.

The researcher used purposive sampling from the previously indicated demographic to choose the sample based on the following standards:

1. Companies that consistently produced financial reports during the 2013-2022 period.
2. Companies that did not incur losses throughout the 2013-2022 period.

Using this sample selection method, the study identified a final sample of five companies. Operational Variables:

Table 1. Operational Variables

No	Variables	Notation	Formulas
1	Ownership Structure	OWS _{it}	$\frac{\text{Institutional Ownership}}{\text{Outstanding shares}}$
2	Liquidity	LIQ _{it}	$\frac{\text{Current Assets}}{\text{Current Liability}}$
3	Leverage	LEV _{it}	$\frac{\text{Debt}}{\text{Equity}}$
4	Firm Value	Tobins'Q _{it}	$\frac{\text{ME}_{it} + \text{Debt}_{it}}{\text{TA}_{it}}$

ME = Outstanding Shares x Market Price
 Debt = Total Amount of debt
 TA = Total Assets

Multiple Regression Estimation of Panel Data

It is crucial to confirm that the dataset contains both time series and cross-sectional data before doing multiple regression analysis on panel data. To examine this combination, you can use the following approaches:

1. Common Effect Model (CEM)
2. Fixed Effect Model (FEM)
3. Random Effect Model (REM)

Model Selection Test

The optimal panel data multiple regression model can be chosen by using the following three model appropriateness assessment procedures once the three fundamental analyses mentioned above have been applied:

Chow Test

The F-statistic is used to decide between the Fixed Effect and Common Effect models. Both the alternative hypothesis (H_a) and the null hypothesis (H_0) are assessed at a significance level of $\alpha = 5\%$. For every model, the F-statistic and F-table are compared. The alternative hypothesis (H_a) is accepted and the null hypothesis (H_0) is rejected if the estimated F-statistic is less than the value in the F-table. On the other hand, the null hypothesis is supported if the F-statistic is higher than the F-table value. Consequently, until the data indicate otherwise, the Fixed Effect Model is accepted as suitable.

Hausman Test

Selecting between the Fixed Effect Model and the Random Effect Model is aided by the Hausman test. The cornerstone of this test is the Chi-Square distribution, where the number of exogenous variables equals the degrees of freedom. The Random Effect Model is considered suitable if the results reject the alternative hypothesis (H_a) and support the null hypothesis (H_0). On the other hand, the Fixed Effect Model will be selected if the alternative hypothesis (H_a) is accepted and the null hypothesis (H_0) is rejected.

Lagrange Multiplier (LM) Test

To determine the suitable model The Random Effect Model and the Common Effect Model are compared using the Lagrange Multiplier (LM) test. The Chi-Square distribution provides the basis for the test, and the degrees of freedom are proportional to the quantity of exogenous variables. The alternative hypothesis (H_a) is accepted and the null hypothesis (H_0) is rejected if the LM statistic is greater than the critical value derived from the Chi-Square distribution. This suggests that the Random Effect Model is appropriate. In contrast, the null hypothesis (H_0) is accepted and the alternative hypothesis (H_a) is rejected if the LM statistic is less than the Chi-Square critical value, indicating that the Common Effect Model is the better fit.

Model Regresi Data Panel

Structural Equation of Research Model-1,
$$LEV_{it} = \alpha + \beta_1 OWS_{it} + \beta_2 LIQ_{it} + \varepsilon_{it};$$
$$i = 1, 2, \dots, N; \quad t = 1, 2, \dots, T$$

Structural Equation of Research Model-2,

$$\text{Tobins'Q}_{it} = \alpha + \beta_1 \text{OWS}_{it} + \beta_2 \text{LIQ}_{it} + \beta_3 \text{LEV}_{it} + \varepsilon_{it};$$

$i = 1, 2, \dots, N; \quad t = 1, 2, \dots, T$

Where:

LEV	=	Leverage	β	=	Slope
OWS	=	Ownership Structure	α	=	Intercept
LIQ	=	Liquidity	N	=	Number of Observations
Tobins'Q	=	Firm Value	T	=	Lots of time
ε	=	Error component	NxT	=	Number of Panel Data

RESULT

Descriptive Statistics

Table 2. Descriptive Statistics

	OWS	LIQ	LEV	Tobins'Q
Mean	0.012920	0.806560	0.073320	5.831400
Median	0.010500	0.861500	0.061500	6.004000
Maximum	0.031000	1.135000	0.803000	8.064000
Minimum	0.000000	0.242000	0.011000	4.079000
Std. Dev.	0.008273	0.180999	0.106688	1.132984
Observations	50	50	50	50

Source: Processed Data

Research Results Model-1 and Model-2

Leverage and Firm Value as Endogenous Variables in Testing the Suitability of Research Models

Table 3. Chow Test

Research Model-1				Research Model-2			
Chow Test: Common Effect Vs Fixed Effect				Chow Test: Common Effect Vs Fixed Effect			
Endogenous Variable: Leverage				Endogenous Variable: Firm Value			
Effects Test	Statistic	d.f.	Prob.	Effects Test	Statistic	d.f.	Prob.
Cross-section F	11.268546	(4,43)	0.0000	Cross-section F	10.511900	(4,42)	0.0000
Cross-section Chi-square	35.848966	4	0.0000	Cross-section Chi-square	34.685685	4	0.0000

Source: Processed Data

The Chow-test results for Research Models 1 and 2 show that the alternative hypothesis (Ha) should be accepted and the null hypothesis (H0) should be rejected at a significance level of $\alpha = 5\%$. This implies that the Common Effect Model is less appropriate than the Fixed Effect Model. (Table 3)

Table 4. Hausman Test

Research Model 1 Hausman Test: Fixed Effect Vs Random Effect Endogenous Variable: Leverage				Research Model 2 Hausman Test: Fixed Effect Vs Random Effect Endogenous Variable: Firm Value			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.938245	2	0.0311	Cross-section random	8.928680	3	0.0303

Source: Processed Data

According to the findings of the Hausman-test for Research Models 1 and 2, the alternative hypothesis (Ha) should be accepted and the null hypothesis (H0) should be rejected at a significance level of $\alpha = 5\%$. This suggests that the Fixed Effect Model is superior to the Random Effect Model based on these test results. (Table 4)

Table 5. Endogenous Variable: Leverage
 Total Pool (Balanced) Observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.973576	0.750508	5.294517	0.0000
OWS	8.090081	18.70619	0.432481	0.6674
LIQ	2.173800	0.855012	2.542421	0.0144
Adjusted R-squared: 0.086070		F-statistic: 3.307300	Prob(F-statistic): 0.045305	

Source: Processed data

Table 6. Endogenous Variable: Firm Value
Total Pool (Balanced) Observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.863948	0.750040	5.151659	0.0000
OVS	13.75240	19.08462	0.720601	0.4748
LIQ	2.044022	0.854914	2.390908	0.0210
LEV	1.925055	1.490141	1.291861	0.2029
Adjusted R-squared: 0.098894		F-statistic: 8.193511	Prob(F-statistic):0.000003	

Source: Proesse Data

1. Ownership Structure has a minimal impact on Leverage, as detailed in Table 5.
2. The Liquidity variable has a significant and positive relationship with Leverage, as presented in Table 5.
3. Ownership Structure shows a negligible effect on Firm Value, according to Table 6.
4. Liquidity significantly influences Firm Value and is positively related to it, as illustrated in Table 6.
5. Leverage, when used as an intervening variable, does not significantly impact Firm Value, as shown in Table 6.
6. In Research Model-1, the two exogenous variables together explain 8.61% of the variation in the endogenous variable, Leverage (see Table 5).
7. The three exogenous variables in Research Model-2 account for 9.89% of the variation in the endogenous variable, Firm Size (see Table 6).
8. Leverage fails to mediate the relationship between the exogenous variables and Firm Value.

DISCUSSION

The use of the Ownership Structure variable in this study cannot explain its impact on firm value or leverage. An further argument could be that investors in the capital market, in this instance, do not value the presence of dominating owners, or vice versa, from outside or within management. which the ownership structure explains. that the ownership structure has no bearing on how much debt a company uses or how much it reduces. The same outcomes hold true for company value, which is not amenable to direct or indirect explanation in terms of leverage acting as an intervening variable. Investors in the capital market did not react well to the rise of institutional ownership in the ownership structure, either directly or through the capital structure. These findings corroborate those of Zeitun, Tian, and Malik (2007).

The application of the external factor In this study, liquidity's strong positive association with leverage helps to explain its impact. These findings can be explained by the fact that management may take cash availability into account when deciding whether to raise debt levels. If these findings hold true, more investigation into the dividend pay-out ratio and firm size is required to determine whether or not the availability of liquidity is used to pay dividends, hence utilizing debt as a source of funding for business expansion. These findings corroborate those of Bhatia and Manish's (2016) study, which found that liquidity improves capital structure.

It is possible to describe how the liquidity variable affects both leverage and firm value in addition to how it affects leverage, but the leverage variable cannot operate to mediate the company's worth. A component of market involvement – capital market investors, in this case – is included in the Tobins'Q company value, indicating that they place a high value on liquidity. The findings of this investigation corroborate those of Lubis et al. (2017) and Astuti and Yadnya (2019).

CONCLUSION AND RECOMMENDATION

Findings: The findings of this investigation indicate that Leverage and the firm value of Tobins'Q are not significantly impacted by Ownership Structure. The substantial impact that liquidity has on leverage and the firm value of Tobins'Q can be explained by different findings on liquidity, but leverage's role as an intervening variable cannot be explained. Additionally, this analysis demonstrates that liquidity is more sensitive to leverage than it is to the firm value of Tobins'Q. Future studies ought to employ exogenous dividend pay-out ratio variables as in the discussion above.

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