



Factors Affecting Firm Value in the Energy and Basic Materials Sector (2019-2023)

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Abstract. This research discusses the factors influencing firm value. This study uses energy and basic materials sector companies listed on the IDX in 2019-2023. A total of 97 data were obtained based on the purposive sampling technique. Using SPSS version 25, the variables studied include independent variables consisting of Corporate Social Responsibility Disclosure (CSR) as assessed by the GRI standard index, Good Corporate Governance (GCG) as calculated by the independent commissioners, and Cash holding (CH) as quantified by the proportion of cash to total assets. Firm value with Tobin's Q parameters is the dependent variable. The study results indicate that CSR has no effect on firm value, GCG has a negative effect on firm value, and CH has no effect on firm value. This study concludes that GCG is a variable that companies need to consider further, considering its influence on firm value.

Keywords: CSR, GCG, Cash Holding, Firm Value

1 Introduction

Shareholders view the higher share prices creating higher firm value [1]. In 2022, there was an overall increase in stock prices in the energy and basic materials sector due to an increase in coal prices of 138% making the coal price close at US\$404.15 per ton [2]. However, there was an anomaly in 2023, when the drastic drop in coal prices of 195% (closed at US\$136.95 per ton) was followed by a significant increase by several energy and basic materials companies [3]. PT Ulina Nitra Tbk and PT Sumber Global Energy Tbk, the energy sector companies, experienced an increase in stock price by 254.10% and 218.78%, respectively. Meanwhile, in the basic materials sector, there was an increase in the stock prices of PT Chandra Asri Petrochemical and PT Darmi Bersaudara Tbk with increases of 109.16% and 142%, respectively [4]. This anomaly indicates that there are other factors outside of the price of coal commodities that also affect the price and value of firm in the energy and basic materials sectors.

PT RMK Energy Tbk experienced a 36.70% decline in share prices from Rp940 in 2022 to Rp595 in 2023 due to the company's operations causing air pollution and environmental violations against the community around the Punai Strait, Palembang [5]. This implies that companies must pay more attention to social and environmental aspects.

Indonesia that is ranked twelfth out of 12 Asian countries assessed on a survey by ACGA (Asian Corporate Governance Association) indicates there is a lack of awareness of Good Corporate Governance (GCG) implementation in Indonesia [6]. According to [7], an optimal role is needed from independent commissioners to implement effective GCG. Independent commissioners play a role in creating objectivity and fairness in making corporate decisions that can improve management performance and corporate value [8].

Investor perception of firm value can also be determined through the level of cash possessed by the company [6]. Companies with good cash management capabilities create financial stability and a small risk of losing opportunities to make profitable investments that make the company more attractive to investors [7].

The focus of this study is directed at the energy and basic materials sector because of an anomalous phenomenon, namely the existence of companies in both sectors that can still increase their firm value when market performance is declining. Based on the period 2019 to 2023, this research is set to uncover key factors enabling these companies to maintain their performance amidst market pressures. The results are hoped for enriching the theoretical aspects of the literature related to company value and can be a consideration for companies in the energy, basic materials, and other sectors in making the right company strategies and policies to maintain company value, especially in unstable market conditions.

2 Literature Review

2.1 Signaling Theory

Signaling theory interprets that companies try to convey signals and information to prevent information asymmetry or information gap between companies and investors or external parties [10]. Based on signaling theory, management can reduce the possibility of information asymmetry by presenting company reports [11].

2.2 Legitimacy Theory

Legitimacy theory states that companies must adapt to the values prevailing in society to gain recognition from society. Therefore, company activities must align with societal values so that society recognizes the company [12]. Strong legitimacy will also strengthen the company's reputation and firm value [7].

2.3 Agency Theory

Agency theory describes the relationships between agents and principal that can cause agency problems when management as the agent uses company resources for personal gain and makes the expectations of shareholders unfulfilled [13].

2.4 Firm Value

Firm value represents the level of investor or public trust in the company assessed through the stock price [11]. Firm value can be represented through Tobin's Q model,

which describes the company's ability to increase stock prices, manage assets, and grow investments [9].

2.5 Corporate Social Responsibility Disclosure

Referring to signal theory, companies that provide complete and adequate disclosure regarding CSR activities (CSR D) will be able to convey a positive signal to stakeholders. The signal indicates that the company is responsible for the impact of its business activities [15]. Furthermore, in legitimacy theory, it is known that companies need legitimacy or recognition from the community as a basis for carrying out their operations [16]. The research by [17], [7], [9], states that CSR D positively affects firm value.

H1: CSR D has a positive effect on firm value

2.6 Good Corporate Governance

Based on agency theory, GCG reduces the intensity of asymmetric relationships, namely the difference in the amount of information between management as agents and shareholders as principals [18]. The independent commissioners' presence can create a supervisory function that is separate from management, thus ensuring that the company's GCG runs effectively and results in increased company performance [7]. In the research of [19], [8], [20], it was found that independent commissioners as the measure of Good Corporate Governance increases firm value.

H2: GCG has a positive effect on firm value

2.7 Cash Holding

Companies with high levels of Cash Holding can reduce investment risks in the company and reduce cash problems in the future [21]. Cash availability is also used to distribute dividends to investors and to capture profitable investments, so the level of cash holdings is an important signal for investors [15]. This condition is in accordance with the study results of [7], [9], who found that cash holding positively influences firm value.

H3: Cash Holding has a positive effect on firm value

2.8 Research Model

The hypothesis developed is illustrated through the following research framework.

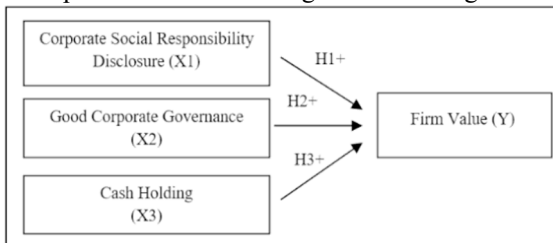


Fig. 1. Research Model

3 Research Method

The purposive sampling method is used to select samples from the population. The following are criteria and selection process of the sample in this study.

Table 1. Sampling Criteria.

Required Criteria	Total
The company belongs to the energy and basic materials sector on the IDX during 2019-2023	146
Companies that conduct an IPO (Initial Public Offering) during 2019-2023	(10)
Companies included in the delisting and suspension list during 2019-2023	(2)
Companies that experience a sector change during 2019-2023	(1)
Companies that did not publish annual reports and sustainability reports continuously in 2019-2023	(96)
Companies that did not use Global Reporting Initiative (GRI) standards as indicators in reporting sustainability reports	(15)
Number of Companies	22
Data Sample for 5 years (2019-2023)	110
Number of Outlier Data	(13)
Total Data Examined	97

This study uses independent variables consisting of CSRD as assessed by the Corporate Social Responsibility Index (CSRDI) according to the GRI 2021 standard, GCG as measured by the comparison index between independent commissioners and total commissioners, and cash holding as measured by the comparison index between cash and cash equivalents to total company assets. While firm value quantified by Tobin's Q formula is the dependent variable. The operationalization of the research variables is described in Table 2.

Table 2. Operational Variable.

Variable	Measurement	Scale	Source
Firm Value	$Tobin's\ Q = \frac{Market\ Value\ of\ Equity + Liability}{Total\ Assets}$	Ratio	[9]
CSRDI	$CSRDI = \frac{\sum X_{ij}}{N_{ij}}$	Ratio	[22]
GCG	$IC = \frac{Independent\ Board\ of\ Commissioners}{Number\ of\ Board\ of\ Commissioners}$	Ratio	[8]
Cash Holding	$CH = \frac{Cash\ \&\ Cash\ Equivalent}{Total\ Assets}$	Ratio	[23]

This study uses SPSS version 25 in data processing. The data was first tested with the classical assumption test involving normality, heteroscedasticity, multicollinearity, and autocorrelation test. Valid research data will be subjected to multiple linear regression tests and hypothesis tests, consisting of a determination coefficient test (R^2), a simultaneous test (Anova), and a partial test (T).

4 Results and Discussions

4.1 Results

Classical Assumption Test.

Table 3. Classical Assumption Test.
Source: Processed by SPSS 25

Test	Method	Requirements	Result	Description
Normality	Kolmogorov-Smirnov Test	Asymp. Sig. (2-tailed) value > 0.05	Asymp. Sig. = 0.085	Passed
Heteroskedasticity	Glejser Test	Sig. values of each variable > 0.05	CSRD = 0.935 GCG = 0.633 CH = 0.066	Passed
Multicollinearity	VIF and Tolerance Test	VIF < 10 and Tolerance Values > 0.10 for each variable	<u>VIF</u> CSRD = 0.916 GCG = 0.971 CH = 0.900 <u>Tolerance</u> CSRD = 0.916 GCG = 0.971 CH = 0.900	Passed
Autocorrelation	Durbin-Watson Test	dU < DW < (4-dU)	1.7335 < 2.033 < 2.2665	Passed

Table 3 shows that the requirements for each classical assumption test are met, so that the data is suitable and valid for further testing.

Coefficient of Determination Test.

Table 4. Coefficient of Determination.
Source: Measured by SPSS 25

Model	R ²	Adjusted R ²
1	0.132	0.104

Table 4 reveals that the Adjusted R² model value is 0.104, explaining that CSRD, GCG, and cash holding can explain the variation and behavior of the firm value of 10.4%. The remaining 89.6% of the influence is likely given by variables not explained in this research

Simultaneous Test.

Table 5. Simultaneous Test.

Source: Processed by SPSS 25

Model	Sig.
Regression	.004 ^b

Table 5 shows a Sig. value of 0.004 (< 0.05) indicating a simultaneous influence of independent variables on the dependent variable, and the model used is in a fit condition or is suitable for research.

Partial Test.

Table 6. Partial Test.
Source: Processed by SPSS 25

Variable	B	Sig.	Hypothesis.	Conclusion
(Constant)	1.211	.000	-	-
CSRD	.150	.203	H1	Rejected
GCG	-.658	.003	H2	Rejected
CH	.272	.419	H3	Rejected

The partial test in table 6 shows that CSRD's Sig. value is 0.203 (> 0.05), indicating that CSRD (X1) does not affect Firm value (Y), so hypothesis 1 is rejected. GCG has a Sig. value of 0.003 less than 0.05 with a negative coefficient, indicating that GCG (X2) negatively affects firm value (Y), thus hypothesis 2 is rejected. CH's Sig. value is 0.419 (> 0.05), indicating that CH (X3) does not affect firm value (Y). The multiple linear regression is derived into the following formula.

$$Y = 1.211 + 0.150 X1 - 0.658 X2 + 0.272 X3 + \varepsilon$$

Based on this equation, the coefficient of 1.211 indicates that the company tends to maintain an average firm value of 1.211 as the base value if the influence of the CSRD, GCG, and CH variables is ignored

4.2 Discussions

The Influence of CSRD on Firm Value. The research findings state that the increase or decrease in company value is not triggered by the amount of sustainability information disclosure. The findings are similar to study held by [13], [24], [1], [15], who found that CSRD did not influence firm value. This result may be due to investors paying more attention to the presentation of information that has a direct impact and is a real indicator of a company's performance [24]. That tendency contrasts signaling and legitimacy theory, which states that CSRD will contribute a positive signal and public legitimacy to the company. [24] explain that the difficulty in finding a direct impact between CSRD and increased company performance causes CSRD to become a secondary factor for investors in determining investment decisions, especially during an unstable macro economy and intense competition between companies. On the other hand, there is a tendency for companies to consider CSRD only as an obligation and burden. Financial Services Authority (OJK) Regulation No.51/POJK.03/2017 about the

sustainable business practices states that public companies are required to publish sustainability reports starting in 2021. This obligation indicates that disclosure of sustainability aspects cannot be used as an advantage that distinguishes one company from another because its reporting is not intended for investors but rather to comply with regulations. So that social activities and disclosures are more symbolic than substantive [16]. This study findings are not in accordance with [7], [9] who found that CSRD positively affects company value.

The Influence of GCG on Firm Value. The results conclude that the more members of independent commissioners lead to a decreasing company value. This result is similar to the research of [25], [26], [27], which found that GCG measured based on independent commissioners negatively affects the firm value. The study contrasts the agency theory which explains that independent commissioners are needed to monitor the company and to prevent conflicts of interest between shareholders and management. Based on institutional theory, independent commissioners are aimed at meeting external institutional pressures, namely government regulations in particular, with minimal actual contribution to company performance. Excessive involvement of independent commissioners causes the decision-making process to take longer than it should, thus reducing the company's competitiveness [25]. The inefficiency and ineffectiveness in managerial decisions will increase when the selected independent commissioners do not have comprehensive experience and understanding of the company's business sector [26]. The uncertainty arising from this extra supervision reduces investor confidence and lowers the firm's value in the market [25]. This study results are not in accord with [8], [20], who found that GCG measured based on independent commissioners can increase the value of a company.

The Influence of Cash Holding on Firm Value. The findings indicate that firm value is not affected by the level of cash held and reported by the company. This finding is similar to the research of [13], [28], [24], [29] which found that cash holding had no impact on firm value. The research contrasts the signaling theory in this study, which states that a high level of cash ownership will create added value for investors. The disclosure of cash holding level cannot project the firm's performance in depth and tends not to be maximized for investment activities that provide added value, so it is not to be a meaningful consideration for investors [29]. These study results are not similar to the research of [7], [9], which found that cash holding positively affected firm value. However, there is another explanation based on the research results of [30], which conclude that the company's cash holding level does not contribute a significant impact if tested directly but rather requires consideration of the existence of mediation from other components, namely consideration of the value of financial flexibility (VOFF) which explains the company's ability to maximize financial flexibility and consideration of agency costs which indicate the possibility of misuse of company assets by management. In their research, [30] found that in the VOFF mechanism, higher cash increases VOFF, which impacts in the increase of firm value. Meanwhile, the agency cost mechanism found that the higher cash increases agency costs, causing a decrease in the firm value. So, there is an assumption that a systematic factor causes

companies to have to maintain cash holding levels so that they are not too high or too low.

5 Conclusions and Suggestions

The study results conclude that CSRD has no effect on the firm value because CSRD is not a major consideration for investors. GCG represented by independent commissioners negatively affects the firm value because the increasing involvement of supervision from independent commissioners is considered to hinder the effectiveness of decision-making and decrease operational efficiency. Cash holding has no impact on the firm value and must be maintained at a certain level to provide value for the company.

It is recommended that further researchers expand the use of sectors and year periods, add other variables outside this study and use a more comprehensive research model. The factors explained in this study can be used as considerations for companies to make managerial decisions to increase firm value.

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