

## **CHAPTER I**

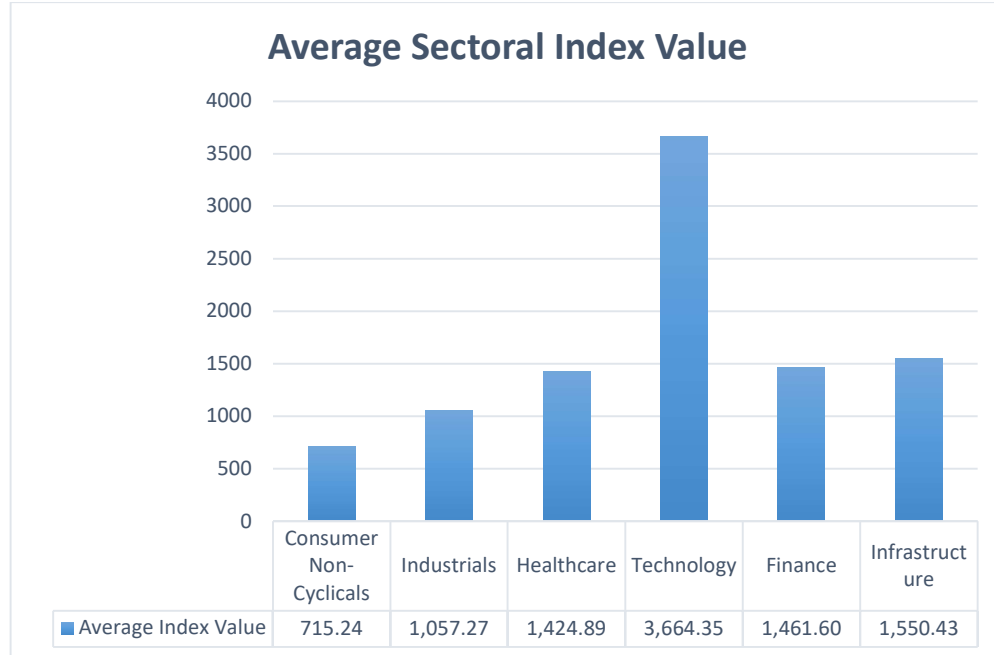
### **INTRODUCTION**

#### **1.1 Overview of the Research Object**

A company is an organization or entity established for the purpose of making a profit by carrying out economic activities in the form of providing goods or services for sale to the public. Companies that offer shares to the public, or go public, will obtain additional capital from external parties. When a company goes public, the public can follow the firm value development in real-time through the share price traded on the stock exchange. For investors, the share price is considered good if it reflects the potential for profit and investment stability. Therefore, companies that succeed in increasing public trust through strong business performance tend to experience an increase in firm value.

The Indonesia Stock Exchange (IDX) plays an important role as a provider of transparent trading and information systems, facilitating investor access to the capital market. In addition, the IDX also oversees activities in the stock market to ensure that they comply with applicable regulations. Until now, the Indonesia Stock Exchange (IDX) has been striving to enhance the competitiveness of the Indonesian capital market at the international level under the supervision of the Financial Services Authority (OJK). Various updates to technology and regulations are also being made to facilitate access for domestic and foreign investors. In addition, the IDX provides education to the public about investing in the capital market through financial literacy programs. The IDX has created a classification system used to regulate and group listed companies, the Indonesia Stock Exchange Industrial Classification (IDX-IC). This classification divides companies into 12 sectors, one of which is the healthcare sector. The healthcare sector is interrelated with other sectors, especially industry, finance, and infrastructure. Based on the type of product, the healthcare sector includes pharmaceuticals, medical equipment, and medical services, which require industrial assistance in the manufacture of medical equipment and materials. In terms of the market, the healthcare sector depends on the financial sector to provide funding and investment for the development of medical technology. The healthcare sector also depends on the infrastructure sector

to provide health facilities such as hospitals and clinics, which require good transportation and supply networks.



**Figure 1. 1 Average Sectoral Index Value**

*Source: id.investing.com, data processed by Researcher (2024)*

Based on Figure 1.1 above, the technology sector has the highest average index of 3,664.35, outperforming other sectors, while the consumer non-cyclicals sector has the lowest average index of 715.24. The average index of the healthcare sector is 1,424.89, ranking in the middle compared to other sectors. The data in this graph is year-to-date data, thus reflecting the index trends of these sectors throughout the current year. In this study, the selection of the healthcare sector is based on its importance and resilience to economic changes because the need for health services is very important and tends to be stable.

The healthcare sector consists of several sub-sectors, namely pharmaceuticals, medical devices & supplies, healthcare providers, and health research. The healthcare sector includes companies engaged in pharmaceuticals, medical devices, hospitals, and other health services. Companies in this sector have a very important role, especially in providing services and products needed by the

community to maintain health. Although the healthcare sector is often considered stable, its performance can be influenced by various factors, such as government regulations, developments in medical technology, and changes in market demand, which give this sector a unique dynamic in the capital market.

The healthcare sector was chosen as the focus of this study because it possesses distinctive and complex characteristics compared to other sectors. It is considered attractive since the demand for healthcare services tends to remain stable and is relatively unaffected by economic cycles, given that healthcare is a fundamental societal need (Rahmawati & Sembiring, 2022). At the same time, this sector is also complex due to its strong reliance on government regulations, the requirement for substantial investment in technology, and the presence of diverse sub-sectors such as pharmaceuticals, medical equipment, and hospital services, each with its own specific operational challenges. Although the demand for healthcare services persists, not all companies within the sector are able to maintain consistent performance and firm value. This indicates the presence of internal management challenges, such as dividend policy, managerial ownership, and corporate governance, all of which can influence investor perceptions of firm value. Therefore, the healthcare sector offers a relevant context for analyzing the factors that affect firm value.

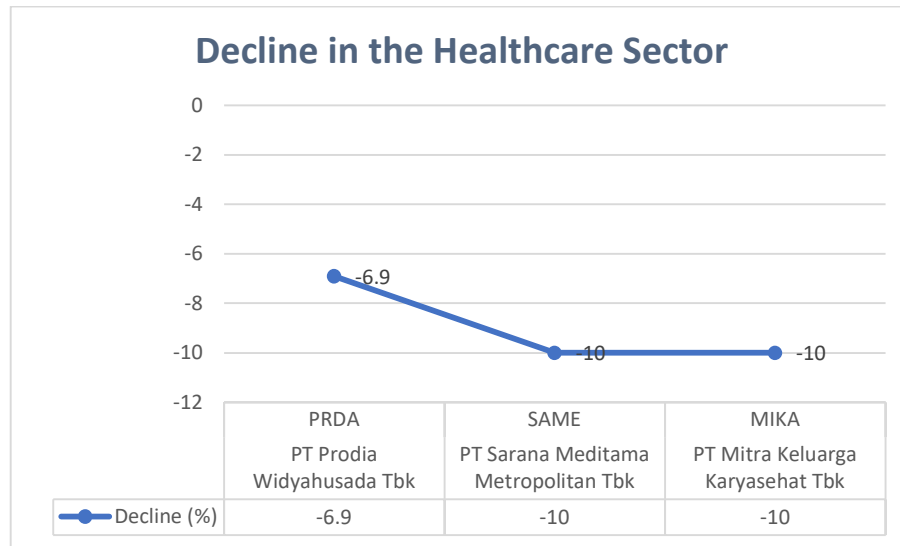
## **1.2 Background of Research**

In the capital market, firm value is an important aspect that illustrates the level of investor confidence in the company's future performance. A company with a high firm value can be interpreted as a company that can manage resources, risks, and business opportunities (Marpaung & Hocky, 2023).

Firm value is reflected in the signals conveyed through financial information, policies, and strategic decisions that reflect its prospects and quality. Signalling theory is a theory that explains how companies signal to investors to demonstrate their prospects and performance. These signals aim to help investors distinguish quality companies from underperforming ones (Margono & Gantino, 2021).

Firm value is a measure that reflects the market's perception of the company's performance, its ability to return profits to shareholders, and its growth potential (Oktari & Dianawati, 2023). Firm value increases through trust in the “social contract” that connects the company to society, by ensuring that its activities are beneficial and in accordance with social norms. This can be achieved with transparency in the annual report that shows the company's environmental responsibility (Adiputra & Hermawan, 2020). Therefore, firm value does not only depend on financial factors, but also on social trust. Thus, this initiative can strengthen the company's position in facing increasingly dynamic market competition.

Firm value is an important aspect in understanding how the market views the performance and prospects of companies, especially given the ever-changing dynamics of the industry. The healthcare sector is one of the sectors facing significant challenges, both operational and financial, in the aftermath of the COVID-19 pandemic. An understanding of firm value can help determine the extent to which changing economic conditions and market trends will impact the firm's performance in overcoming these challenges. In addition, company valuation is also an important indicator for investors in making investment decisions and reflects market confidence in the company's ability to adapt in uncertain times. Therefore, analysis of these changes is increasingly important in understanding the phenomena that emerge in the post-pandemic health services sector.



**Figure 1. 2 Decline in the Healthcare Sector**

*Source: CNBC Indonesia, data processed by Researcher (2024)*

In the aftermath of the COVID-19 pandemic, the healthcare sector has undergone significant changes. At the beginning of August 2023, there was a decline in share prices of up to 3%. The weakening of the bottom-line performance of several pharmaceutical and hospital issuers led to this decline in share prices. For example, PT Prodia Widyahusada Tbk (PRDA) experienced a 6.9% decrease in net profit compared to the previous year, despite an increase in revenue. In addition, PT Sarana Meditama Metropolitan Tbk (SAME) also experienced the same thing, with the share price falling by 10%. Another hospital that experienced a decline in share price was PT Mitra Keluarga Karyasehat (MIKA). This decline was caused by a decrease in income due to a decline in outpatient income and an increase in operating expenses.

This phenomenon is largely due to the normalization of demand for health services and medical devices after the pandemic subsided. The World Health Organization (WHO) declaration in May 2023, which stated that COVID-19 was no longer a global health emergency, marked the transition of this sector from a pandemic to a normal situation. This normalization has implications for company strategies in maintaining firm value amid declining demand and increasing operational burdens (CNBC Indonesia, 2023). The COVID-19 pandemic caused

significant market fluctuations and impacted investment value in Indonesia, necessitating active portfolio strategies to minimize risk and maximize returns, particularly in emerging markets like Indonesia (Kristanti et al., 2022).

Based on this phenomenon, the author will use four independent variables, namely dividend policy, independent board of commissioners, managerial ownership, and firm age.

The first independent variable in this study is the dividend policy applied by the company. Dividend policy is a guideline for determining whether year-end profits will be distributed as dividends to shareholders or retained as retained earnings to support future investment financing. Dividend policy is the determination of the proportion of net income distributed as dividends (Rahmadi, 2020).

The importance of dividend policy lies in its impact on stock prices because high dividend payments can increase stock prices and ultimately increase the firm value. Dividends not only function as profit sharing but also as a positive signal regarding the future prospects of a company so that it can attract the attention of investors (Dewi & Suryono, 2022). Therefore, an appropriate dividend policy that pays attention to the balance between dividends and retained earnings can increase market confidence and increase the firm value.

It can be concluded that dividend policy has a positive effect on firm value, because high dividend payments can increase share prices, attract investor attention, and ultimately increase firm value. This is in accordance with the research of Nianty *et al.* (2023), which states that dividend policy has a positive and significant effect on firm value. Consistent dividend payments create a reliable company image in the eyes of investors, which then strengthens market confidence and attracts more investment capital which ultimately increases the firm value. However, this differs from the findings of Dewi and Suryono (2022), who state that dividend policy has a significant negative effect.

Furthermore, the second independent variable in this study is independent board of commissioners. An independent board of commissioner is a member of the board of commissioners who must come from outside the issuer or public company,

have no affiliation with the controlling shareholders or company management, and meet the requirements as a commissioner, as described in the Financial Services Authority Regulation Number 33/POJK.04/2014. Independent board of commissioners have the main task of overseeing company management policies and procedures and ensuring that the rights and obligations of shareholders, especially minority shareholders, are properly protected in accordance with applicable regulations and the principles of good corporate governance (Fitriyani, 2019). As part of Good Corporate Governance (GCG), the independent board of commissioners assists in decision-making by providing an objective assessment of the performance of management and the board. This creates equality between interests and encourages improved management performance and firm value (Hidayat *et al.*, 2021). Therefore, an independent board of commissioners that ensures that company management is transparent and accountable can increase investor confidence and ultimately increase firm value. Independent board of commissioners have a positive impact on firm value by creating transparency and accountability in corporate governance. This is in accordance with the research of Hidayat *et al.* (2021), which states that independent boards of commissioners have a positive and significant effect on firm value, due to their vital role in overseeing management and supporting the implementation of effective Good Corporate Governance (GCG). However, this is different from the research of Purwaningrum and Haryati (2022), which states that independent board of commissioners do not have a significant effect on firm value.

The third independent variable is managerial ownership. Managerial ownership is the percentage of shares owned by directors, managers, and the board of commissioners, which is considered capable of harmonizing potential differences of interest between management and outside shareholders. The greater the management ownership, the less likely it is that resources will be used irrationally. Consequently, managerial ownership is expected to improve company performance and value (Priyambudi, 2019). Greater managerial ownership sends a positive signal to investors that managers have a greater responsibility for company decisions, as they also have a direct interest in the company's long-term success.

Managerial ownership has a positive impact on firm value because it provides incentives for managers to focus more on improving business performance and making decisions that support the company's sustainability. This is in accordance with research by Rahmadi and Wahyudi (2021), which states that the higher the level of ownership of a company, the more motivated managers will be to improve the company's performance, which in turn contributes to an increase in the company's impact value. However, this is in contrast to research by Manurung (2022), which states that managerial ownership has no effect on firm value.

The fourth independent variable in this study is firm age. Firm age is the period of time calculated from the establishment of the company until a certain unspecified time (Serolin, 2023). Firm age reflects the existence, competitiveness, and utilization of available business opportunities. Firm age can affect the firm value, because older companies generally have more experience in facing various market challenges so that they have better skills in risk management and taking advantage of business opportunities. According to Riyadi *et al.* (2021), the long lifespan of a company reflects that a business can survive despite various economic conditions and business competition. This increases investor confidence because the company is seen as stable and capable of delivering consistent performance. Therefore, older companies tend to be more attractive to investors, which ultimately has a positive impact on the firm value.

Firm age signals stability, experience, and the ability to adapt to market changes, which can increase investor confidence and have a positive impact on the firm value. This is in accordance with research by Aditya *et al.* (2022), which states that the firm age has a positive effect on the firm value. Companies that have been around for a long time have a lot of experience in overcoming various challenges and competing with business competition. Companies with long operational histories can utilize their experience to manage operations more effectively. Older companies are also better known and recognized by the public, especially if they demonstrate continuously improving performance quality, which can attract more investors and help increase the firm value. However, this is different from Dewi and Susanto (2022), who states that the firm age has a negative effect on the firm value.

Often, old companies are considered to have old assets, irrelevant information, and slow profit growth.

Furthermore, there are control variables that will be used in this study. The control variables are predictor variables whose effects are neutralized first so that the change in the effect of the main variables on the criterion variables can be measured (Purwaningrum & Haryati, 2022). This allows for a better understanding of the relationship between the main variables and the criterion variables. Three control variables will be used by the researcher in this study, namely Profitability as the first control variable, firm size as the second control variable, and leverage as the third control variable.

The first control variable that the researcher uses is profitability. Profitability is the main indicator of a company's performance in achieving goals through increased profits (Febiyanti & Anwar, 2022). A high level of profitability indicates that the company manages its assets well and has high value. The greater the growth in a company's profitability, the better its prospects in the future, so that its value increases in the eyes of investors. Increased profits will drive up stock prices and make the company better able to cover investments with internal funds, such as retained earnings (Putri & Gantino, 2023).

Research conducted by Ali *et al.* (2021), states that profitability has a positive and significant effect on firm value. This shows that investor confidence in the company's ability to generate profits increases with its profitability, which in turn increases the firm value. This is also supported by Fatoni (2021), who states that profitability has a significant effect on firm value. High profitability indicates the efficiency of the company's asset and capital management, which is an important factor in attracting investors to invest. Profitability also functions as an indicator of financial performance and as a main determinant of market perception of firm value.

Furthermore, the second control variable that the researchers use is firm size. According to Dwiastruti and Dillak (2019), firm size is a value that indicates how large or small a company is based on various indicators, such as total assets, total

sales, and market capitalization. Companies with many assets have more flexibility to utilize their assets, which makes it easier to manage and increase their value.

Research conducted by Kalsum *et al.* (2023), shows that firm size has a positive effect on firm value. This finding is in line with the results of research by Akbar and Fahmi (2020), which also states that firm size has a positive impact on firm value. The market assumes that the performance and future prospects of a company will increase along with its size, so that its value tends to increase.

The third control variable that the researcher uses is leverage. Leverage is a company policy related to the extent to which the company uses debt financing to increase capital and profits, but a high debt ratio can increase the risk of bankruptcy and consequently requires careful management (Wijaya *et al.*, 2021). Leverage is a measure used in the analysis of financial statements to indicate how much collateral is available to creditors. The leverage ratio measures how much a company owes. The level of debt usage in the capital structure can affect investors' perceptions of risk and potential returns, so leverage has a significant effect on the firm value. By utilizing leverage as a source of funding for projects that generate more profit than the cost of the debt itself, companies can become more valuable.

Research conducted by Pradanimas and Sucipto (2022), states in their research results that leverage has a significant positive effect on firm value. This is also supported by Nadhilah *et al.* (2022), who state that leverage has a significant effect on firm value. Because leverage demonstrates a company's ability to use debt efficiently to fund operations and investments, it is an important component that can influence the increase in firm value.

### **1.3 Research Question**

Based on this background, firm value is one of the important aspects that is considered in assessing business performance, especially in the healthcare sector which has its own dynamics and challenges. Increasing competitiveness is very important considering the very tight competition between issuers and it is a must for companies to be able to maintain and even increase the firm value. However, the dilemma between the health industry and health services is problematic in the

business process of healthcare sector companies. Investors and prospective investors will certainly look at an issuer from the value it has.

Companies with good corporate values will be in demand by investors or potential investors, but healthcare sector companies tend to be less attractive to investors due to various risk-prone factors such as stock price fluctuations in a volatile market. If management is unable to maintain the stability of the firm value, investors will tend to try to leave the company. However, if management succeeds in maintaining or even increasing the firm value, investors and potential investors will certainly return to invest in the company. Thus, the higher the firm value, the greater its attractiveness for investors in investing and vice versa. Due to inconsistent results in previous studies, this study will analyse firm value based on dividend policy, independent board of commissioners, managerial ownership, and firm age. Therefore, the author formulated the following research question:

1. What are the descriptive result of dividend policy, independent board of commissioners, managerial ownership, firm age, profitability, firm size, leverage, and firm value in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period?
2. Do dividend policy, independent board of commissioners, managerial ownership, and firm age affect firm value, with profitability, firm size, and leverage as control variables, in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period?
3. Does dividend policy affect firm value, with profitability, firm size, and leverage as control variables, in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period?
4. Does the independent board of commissioners affect firm value, with profitability, firm size, and leverage as control variables, in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period?
5. Does managerial ownership affect firm value, with profitability, firm size, and leverage as control variables, in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period?

6. Does firm age affect firm value, with profitability, firm size, and leverage as control variables, in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period?

#### **1.4 Research Objectives**

This study aims to address the identified issues. Based on the research questions previously outlined, the objectives of this study are as follows:

1. To examine the descriptive research of dividend policy, independent board of commissioners, managerial ownership, firm age, profitability, firm size, leverage, and firm value in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period.
2. To analyse the effect of dividend policy, independent board of commissioners, managerial ownership, and firm age on firm value, with profitability, firm size, and leverage as control variables, in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period.
3. To determine whether dividend policy affects firm value, with profitability, firm size, and leverage as control variables, in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period.
4. To determine whether the independent board of commissioners affects firm value, with profitability, firm size, and leverage as control variables, in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period.
5. To determine whether managerial ownership affects firm value, with profitability, firm size, and leverage as control variables, in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period.
6. To determine whether firm age affects firm value, with profitability, firm size, and leverage as control variables, in healthcare sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period.

## **1.5 Research Benefits**

In this study, the author hopes that the results achieved can provide benefits for other parties from theoretical and practical aspects. In addition, the author also hopes that this study can contribute as a reference for future studies, especially related to firm value.

### **1.5.1 Theoretical Aspect**

The usefulness of the theoretical aspects of this study is expected to provide useful insights for the development of literature and understanding in research for authors, including:

1. This study can add insight into the effect of dividend policy, independent board of commissioners, managerial ownership, and firm age on firm value with profitability, firm size, and leverage as control variables.
2. The results of this study are expected to be a reference for future research that focuses on the effect of dividend policy, independent board of commissioners, managerial ownership, and firm age on firm value with profitability, firm size, and leverage as control variables.

### **1.5.2 Practical Aspect**

The practical aspects of this study are expected to provide benefits to the parties concerned, including:

1. For Company Management  
This study is expected to provide insights into dividend policy, independent board of commissioners, managerial ownership, and firm age on firm value, so that management can make better decisions in strategic planning on company performance.
2. For Investors  
This study is expected to provide insights and help in understanding the factors that influence firm value, so that investors can make wiser and more strategic investment decisions to reduce the risk of their investments.

## **1.6 Thesis Structure**

Thesis structure consists of five interrelated chapters that provide a clear description of this research, making it easier for readers to better understand the objectives and results of the research. Thesis structure are as follows:

### **a. CHAPTER I INTRODUCTION**

This chapter provides a brief and clear general explanation of firm value, dividend policy, independent board of commissioners, managerial ownership, firm age, profitability, firm size, and leverage. This chapter covers important aspects including an overview of the research object, namely healthcare sector companies listed on the Indonesia Stock Exchange for the period 2019-2023, research background, problem formulation, research objectives, research benefits, and final assignment writing systematics.

### **b. CHAPTER II LITERATURE REVIEW**

This chapter presents theories ranging from general to more specific ones regarding signalling theory, firm value, dividend policy, independent board of commissioners, managerial ownership, firm age, profitability, firm size, and leverage. This chapter also reviews previous research, develops a framework, and formulates a hypothesis.

### **c. CHAPTER III RESEARCH METHOD**

This chapter explains in detail the approaches, methods, and techniques used to collect and analyse data to answer research questions. This chapter elaborates on various important aspects including the type of research, the operationalization of variables consisting of the dependent variable, namely firm value, the independent variables, namely dividend policy, independent board of commissioners, managerial ownership, and firm age, as well as the control variables, namely profitability, firm size, and leverage. In addition, this chapter also discusses the stages of research, population, sample, data collection, classical assumption tests, panel data regression analysis methods, coefficient of determination test, simultaneous hypothesis testing, and partial hypothesis testing.

**d. CHAPTER IV RESEARCH RESULTS AND DISCUSSION**

This chapter explains in detail the approaches, methods, and techniques used to collect and analyse data to answer research questions. This chapter elaborates on various important aspects including the type of research, the operationalization of variables consisting of the dependent variable, namely firm value, the independent variables, namely dividend policy, independent board of commissioners, managerial ownership, and firm age, as well as the control variables, namely profitability, firm size, and leverage. In addition, this chapter also discusses the stages of research, population, sample, data collection, classical assumption tests, panel data regression analysis methods, coefficient of determination tests, simultaneous significance tests, and partial significance tests.

**e. CHAPTER V CONCLUSIONS AND SUGGESTIONS**

This chapter contains conclusions that are answers to the research questions posed. The research results are the basis for providing advice related to the benefits of the research. The advice provided consists of practical and theoretical aspects.