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Determining Firm Value: Profitability, Leverage, and Ownership in LQ45 (2020–2024)

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Abstract

Purpose: This research aims to determine the the influence of profitability, leverage, managerial ownership, institutional ownership, and foreign ownership on the firm value of companies listed in the LQ45 index during the period 2020–2024.

Methodology/approach: This research is a quantitative research with a descriptive approach. The sample was selected using the purposive sampling method and valid data were 19 companies. The data processing technique used multiple regression analysis assisted by EViews software version 12.

Results/findings: The results obtained from this study are that profitability has no effect on company value, leverage has a significant negative effect on company value, managerial ownership and institutional ownership have a significant positive effect on company value, foreign ownership has no effect on company value.

Conclusions: Profitability has no effect on firm value (H1 rejected), leverage has a negative effect on firm value (H2 accepted), managerial ownership has a positive effect on firm value (H3 accepted), institutional ownership has a positive effect on firm value (H4 accepted) and foreign ownership has no effect on firm value (H5 rejected).

Limitations: This study is limited by the use of secondary data that is not always complete, the 2020–2024 time period which was affected by the COVID-19 pandemic, limited independent variables, and does not include qualitative factors such as management quality and corporate governance.

Contribution: This research can be used as a reference for further research, especially research that discusses the determination of firm value.

Keywords: *Firm Value, Ownership Structure, Leverage, Profitability*

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1. Introduction

Companies' primary objective is to maximize profits to enhance shareholder welfare (Fanani, 2016). A high firm value reflects a company's success in generating future cash flows that can enrich shareholders. Firm value also serves as a key indicator that attracts potential investors (Kodriyah et al., 2023). Therefore, firms must consistently maintain and improve their value to ensure business sustainability and gain market trust (Manurung, 2022). Firm value is strongly influenced by investors' perceptions of the company's condition and prospects (Sondakh, Saerang, & Samadi, 2019). These perceptions are reflected in stock prices formed through the forces of supply and demand in the capital market (Rutin, Triyonowati, & Djawoto, 2019).

Strong financial performance and transparent corporate governance enhance investor confidence, which subsequently drives stock-price appreciation. Thus, firm value can be considered the market's perception of a firm's quality and prospects. Indonesia's stock market showed a positive trend after experiencing a downturn during the COVID-19 pandemic. The Jakarta Composite Index (IHSG) reached an all-time high in 2024, accompanied by a significant increase in the number of stock investors in Indonesia. However, this performance is not always reflected in leading indices such as the LQ45. Several LQ45 constituents experienced substantial declines, despite having strong fundamentals.

This indicates that other factors, such as profitability, capital structure, and ownership structure, play a critical role in determining firm value. Profitability reflects a firm's ability to generate earnings and is a key indicator of operational efficiency. Leverage represents a company's capital structure and its use of debt for financing, which may enhance returns but also elevate financial risk. Additionally, different ownership structures—managerial, institutional, and foreign —affect firm value through varying mechanisms, such as monitoring effectiveness, managerial incentives, and investor preferences.

Although numerous studies have examined the effects of profitability, leverage, and ownership structure on firm value, their results remain inconsistent. Some studies report positive effects, whereas others show negative or insignificant relationships. Moreover, previous research typically focused on limited variables, and no study has examined all five independent variables simultaneously. These inconsistencies highlight the need for further research that analyzes these five variables using an integrated model. Therefore, this study aims to examine the influence of profitability, leverage, managerial ownership, institutional ownership, and foreign ownership on firm value among LQ45 companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024.

2. Literature Review and Hypothesis Development

Agency Theory, first introduced by Jensen and Meckling (2019), explains the contractual relationship between principals and agents, which often gives rise to agency problems due to misaligned interests between the two parties. These problems occur when managers prioritize short-term objectives, such as personal gain, over shareholders' long-term goals of enhancing firm value (Rahayu, 2024). To mitigate these issues, agency theory suggests increasing managerial ownership so that managers' interests align with those of shareholders, while also encouraging active monitoring by institutional and foreign investors, who typically possess stronger governance capabilities. An effective ownership structure can strengthen managerial oversight, reduce agency costs and information asymmetry, and ultimately improve firm performance and value.

Signaling Theory explains that managers send signals to stakeholders—especially investors—regarding the company's future prospects in response to information asymmetry between internal and external parties (Hergianti & Retnani, 2020). This asymmetry arises from differences in the quantity and quality of information held by insiders compared to that held by outside investors. Information disclosed by the firm will be interpreted by investors as either a positive signal (good news) or a negative signal (bad news), both of which influence investors' perceptions and valuations of the company. Therefore, the signals conveyed must be strong and credible to effectively alter the market's perception of firm performance and prospects.

Firm value represents investors' and the market's perception of a company's condition, potential, and long-term ability to generate profits and deliver optimal returns to shareholders (Sondakh et al. 2019). Firm value reflects how valuable a company is in the eyes of stakeholders and is typically manifested in its market stock price. In financial management, firm value is often measured by stock price, which is formed through the interaction of supply and demand in the capital market. Demand increases when investors perceive strong future prospects, whereas supply increases when the firm's outlook is deemed less favorable (Brigham & Houston, 2006).

Profitability refers to a company's ability to generate earnings and evaluate management's effectiveness in utilizing resources (Ikhsan, 2019). High profitability signals the company's efficiency in generating profits and conveys a positive signal to the market—consistent with the signaling theory—that the firm

has strong prospects and is well managed. Such signals enhance investor trust and interest, ultimately increasing the firm's value. Several empirical studies—including Oktaviarni, Murni, and Suprayitno (2019); Hergianti and Retnani (2020); and Septiana and Zulkifli (2024) provide evidence supporting the positive effect of profitability on firm value.

H1: Profitability positively affects firm value.

Leverage is a ratio used to measure the extent to which a company's assets are financed by debt and serves as an indicator of a firm's financial risk (Sutama & Lisa, 2018). According to Oktaviarni et al. (2019), leverage also reflects the use of fixed-cost financing to increase potential returns for shareholders; in other words, debt enhances operational profits. In this study, leverage is proxied by the debt-to-equity ratio (DER), which indicates the proportion of company financing originating from debt relative to equity.

Although the use of debt may provide benefits such as funding efficiency and tax shields, excessively high DER poses the risk of heavy financial burdens that can threaten corporate stability (Budiman, Yadiati, Hasyir, & Barat, 2024). From the perspective of signaling theory, high leverage can be perceived as a negative signal that raises concerns about bankruptcy risk, thereby reducing investor confidence and decreasing firm value. This is in line with the findings of Nurminda, Isynurwardhana, and Nurbaiti (2017) and Marceline and Harsono (2017), which show that DER negatively affects firm value.

H2: Leverage has a negative effect on firm value.

Managerial ownership refers to the percentage of outstanding shares owned by the management, including directors, commissioners, and managerial personnel (Thesarani, 2017). According to Jensen and Meckling (2019), managerial ownership effectively reduces agency problems by creating a dual role for managersas both decision-makers and owners, thereby aligning their interests with those of shareholders. When managers hold ownership stakes, they tend to be more committed and cautious in decision-making because the consequences directly affect them as investors. Therefore, a higher level of managerial ownership contributes to an increase in firm value. This finding is supported by studies conducted byAlabdullah (2018), Darmayanti and Sanusi (2018), and D. M. Sari and Wulandari (2021).

H3: Managerial ownership positively affects firm value.

Institutional ownership refers to shares owned by organizations such as banks, insurance companies, mutual funds, and investment institutions, which typically aim to secure long-term returns for their stakeholders (Darmayanti and Sanusi, 2018). Jensen and Meckling (2019), argue that institutional ownership can mitigate agency problems because institutional investors possess substantial resources to effectively monitor management. With greater resources and influence than individual investors, institutional investors can exert strong pressure on management to improve corporate performance. Improved performance creates a positive perception among investors, ultimately enhancing the firm's value. These findings are supported by Boshnak (2023) and Cristofel and Kurniawati (2021), who conclude that institutional ownership positively affects firm value.

H4: Institutional ownership has a significant effect on firm value

Foreign ownership represents the proportion of company shares held by investors from other countries, including individuals, corporations, and foreign governments (R. Sari, 2020). Foreign investors, particularly multinational corporations, often implement governance practices that are more transparent, sustainable, and globally standardized than domestic investors. They also bring expertise in risk management and innovation, which can improve long-term corporate performance (Jayanti, Wulandari, & Kompyurini, 2021).

According to Jensen and Meckling (2019), foreign shareholders can reduce agency problems because they demand high accountability and encourage management to adopt stronger governance standards. With strict oversight from foreign owners, firms can minimize detrimental managerial practices and strengthen their organizational structures to achieve optimal performance in the global market. This is supported by the empirical findings of Jayanti et al. (2021) and Mareta and Fitriyah (2017).

H5: Foreign ownership positively affects firm value.

Table 1. Summary of Previous Studies

No.	Researcher(s)	Findings
1.	(Marceline & Harsono, 2017)	Leverage has a negative effect on firm value
2.	(Mareta & Fitriyah, 2017)	Foreign ownership has a positive effect on firm value
3.	(Alabdullah, 2018)	Managerial ownership has a positive effect on firm value. Foreign ownership has no effect on firm value.
4.	(Darmayanti & Sanusi, 2018)	Managerial ownership has a positive effect on firm value. Institutional ownership has a positive effect on firm value
5.	(Oktaviarni et al., 2019)	Profitability has a positive effect on firm value. Leverage has no effect on firm value
6.	(Hergianti & Retnani, 2020)	Profitability has a positive effect on firm value. Leverage has a positive effect on firm value
7.	(Cristofel & Kurniawati, 2021)	Institutional ownership has a positive effect on firm value
8.	(Jayanti et al., 2021)	Foreign ownership has a positive effect on firm value
9.	(D. M. Sari & Wulandari, 2021)	Institutional ownership has no effect on firm value. Managerial ownership has a positive effect on firm value
10.	(Nurminda et al., 2017)	Profitability has a positive effect on firm value. Leverage has a negative effect on firm value
11.	(Boshnak, 2023)	Institutional ownership has a positive effect on firm value. Foreign ownership has a positive effect on firm value
12.	(Septiana & Zulkifli, 2024)	Profitability has a positive effect on firm value. Leverage has a positive effect on firm value

Source: Processed Data

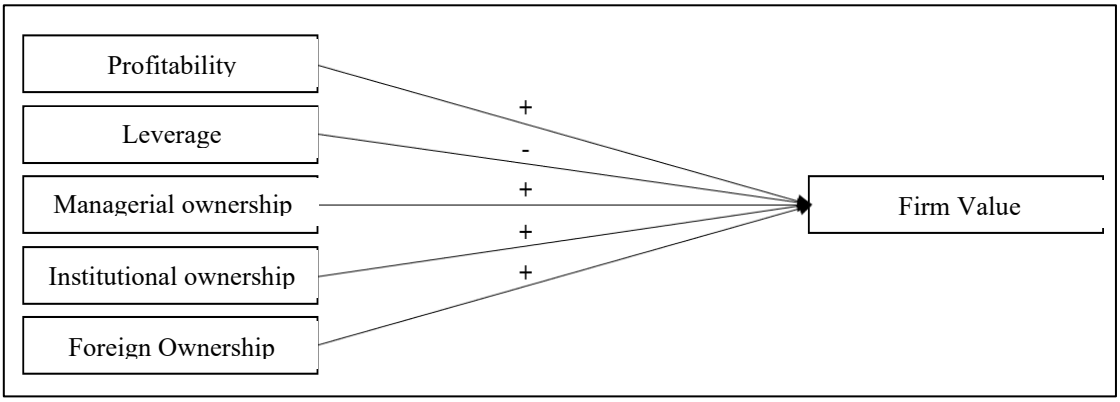

Figure 1. Research Model
Source: Processed Data

3. Research Methodology

This study is a descriptive quantitative research using secondary data obtained from the financial statements of the sampled companies through their official websites or the official website of the Indonesia Stock Exchange (IDX). The sample was selected using a purposive sampling method with the following criteria: 1) LQ45 index companies that were continuously listed on the Indonesia Stock Exchange during the 2020–2024 period; and 2) LQ45 index companies listed on the Indonesia Stock Exchange that presented their financial statements in Indonesian Rupiah during the 2020–2024 period. The total number of valid samples in this study was 19 companies. The dependent variable used is Firm Value, while the independent variables consist of Profitability, Leverage, Managerial Ownership, Institutional Ownership, and Foreign Ownership.

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The dependent variable is influenced by the independent variable. The dependent variable used in this study is Firm Value. Firm value is measured using Tobin's Q formula as follows:

$$Q = \frac{EMV+D}{TA}$$

Where:
EMV = *Market value of equity* (number of outstanding shares × closing price)
D = Total Liabilities
TA = Total Assets

Profitability in this study is proxied by Return on Assets (ROA). ROA is a ratio used to measure how effectively and efficiently a company utilizes its assets (Maharani, 2025). ROA is calculated by dividing a company's net income for one year by the average total assets owned by the company during the same year. Ikhsan (2019) calculated ROA using the following formula:

$$\textit{Return on Asset} = \frac{Net\ Income\ for\ the\ Year}{Average\ Total\ Assets\ for\ the}$$

Leverage in this study is proxied by the debt-to-equity ratio (DER). The DER is calculated by dividing a company's total liabilities by its total equity. The formula for calculating the DER, according to Hergianti and Retnani (2020) and Imnana, Siaila, and Wenno (2023), is as follows:

$$\textit{Debt to Equity Ratio} = \frac{Total\ Liabilities}{Total\ Equity}$$

In this study, managerial Ownership is measured using the percentage of shares owned by managers, commissioners, and directors compared to the company's total outstanding shares at the end of the year. Fadillah (2017) formulated the following calculation for managerial ownership:

$$\text{Managerial Ownership} = \frac{Number\ of\ shares\ owned\ by\ directors,commissioners,and\ managers}{Total\ outstanding\ shares\ of\ the\ company}$$

Institutional Ownership in this study is measured using the percentage of shares owned by institutional investors relative to the company's total outstanding shares. Yudha, Latifah, and Prasetyo (2014) formulated the following calculation for institutional ownership:

$$\text{Institutional Ownership} = \frac{Number\ of\ shares\ owned\ by\ institutions}{Total\ outstanding\ shares\ of\ the\ company}$$

Foreign Ownership in this study is measured using the percentage of company shares owned by foreign investors, either individuals or institutions, compared to the company's total outstanding shares. According to Susanti and Riharjo (2013), the level of foreign ownership can be calculated as follows:

$$\text{Foreign Ownership} = \frac{Number\ of\ shares\ owned\ by\ foreign\ parties}{Total\ outstanding\ shares\ of\ the\ company}$$

A summary of the operationalization of the variables used in this study is presented in Table 2.

Table 2. Operationalization of Variables

No.	Variable	Measurement Formula	Scale	Source
1.	Firm Value	$Q = \frac{EMV+D}{TA}$	Ratio	Sari dan Wulandari (2021)
2.	Profitability	$ROA = \frac{Net\ Income\ for\ the\ Year}{Average\ Total\ Assets\ for\ the}$	Ratio	Ikhsan dan Wijayati (2019)
3.	*Leverage*	$DER = \frac{Total\ Liabilities}{Total\ Equity}$	Ratio	Imnana et al. (2023)
4.	Managerial Ownership	$\frac{Number\ of\ shares\ owned\ by\ directors, commissioners, and\ managers}{Total\ outstanding\ shares\ of\ the\ company}$	Ratio	Yudha et al. (2014)
5.	Institutional Ownership	$\frac{Number\ of\ shares\ owned\ by\ institutions}{Total\ outstanding\ shares\ of\ the\ company}$	Ratio	Yudha et al. (2014)
6.	Foreign Ownership	$\frac{Number\ of\ shares\ owned\ by\ foreign\ parties}{Total\ outstanding\ shares\ of\ the\ company}$	Ratio	Susanti & Riharjo (2013)

Source: Processed Data

4. Results and Discussion

4.1 Descriptive Statistical Analysis

The descriptive statistical test results of this study are presented in Table 3.

Table 3. Descriptive Statistics Results

	X1	X2	X3	X4	X5	Y
Mean	0.078519	2.797278	0.000968	0.954073	0.411220	1.871632
Maximum	0.347880	16.07858	0.009700	0.993943	0.939375	14.41466
Minimum	0.003824	0.170309	0.000000	0.854200	0.080600	0.634452
Std. Dev.	0.072213	3.385159	0.001849	0.036446	0.285311	2.061472
Observations	95	95	95	95	95	95

Source: Processed Data

Based on Table 3 above, it can be seen that the number of observations for all variables is 95. The mean value of profitability (X1) is 0.078519, with a maximum value of 0.347880, a minimum value of 0.003824, and a standard deviation of 0.072213. The mean value of the leverage variable (X2) is 2.797278, with a maximum value of 16.07858, a minimum value of 0.170309, and a standard deviation of 3.385159. The mean value of Managerial Ownership (X3) is 0.000968, with a maximum value of 0.009700, a minimum value of 0.000000, and a standard deviation of 0.001849. The mean value of Institutional Ownership (X4) is 0.954073, with a maximum value of 0.993943, a minimum value of 0.854200, and a standard deviation of 0.036446. The mean value of Foreign Ownership (X5) is 0.411220, with a maximum value of 0.939375, a minimum value of 0.080600, and a standard deviation of 0.285311. The mean value of the Firm Value variable (Y) is 1.871632, with a maximum value of 14.41466, a minimum value of 0.634452, and a standard deviation of 2.061472.

4.2 Classic Assumption Test

The normality test was conducted using the Jarque–Bera Test, which produced a significance value of 0.918, which was far greater than 0.05, indicating that the data were normally distributed (Figure 2).

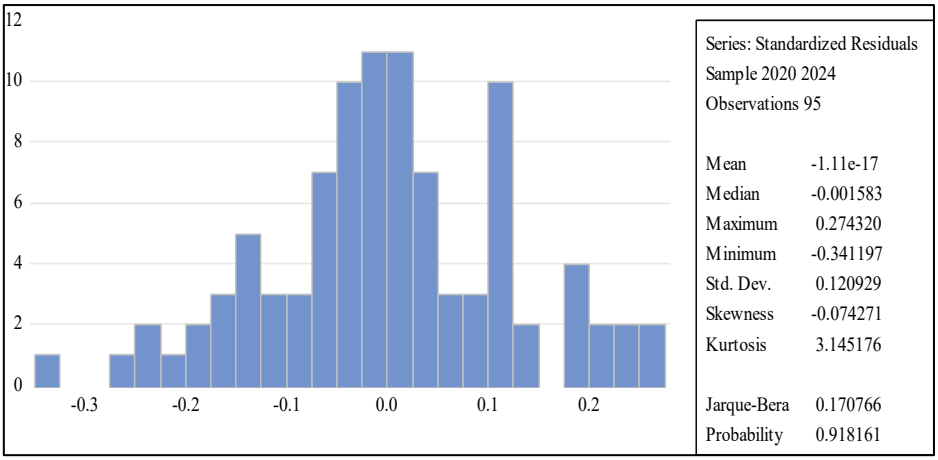

Figure 2. Normality Test Result
Source: Processed Data

A multicollinearity test was conducted using the Variance Inflation Factor (VIF) method. The results show that all research variables have VIF values < 10, indicating that multicollinearity does not occur (Table 4).

Table 4. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1.347813	893.7499	NA
X1	0.356043	2.673800	1.218203
X2	0.000162	2.060729	1.219298
X3	475.0637	1.361036	1.066048
X4	1.480101	894.6796	1.290008
X5	0.023497	3.889808	1.254998

Source: Processed Data

A heteroskedasticity test was performed using the Glejser Test (Table 5). The results show that the probability value for each independent variable is > 0.05, indicating that the model is free from heteroskedasticity symptoms.

Table 5. Heteroskedasticity Test Results

Variable	Coefficient	t-Statistic	Prob.
C	0.483523	0.752542	0.4542
X1	0.233257	0.825516	0.4118
X2	0.006606	0.427465	0.6703
X3	-11.15733	-1.475364	0.1445
X4	-0.351992	-0.491504	0.6246
X5	-0.198646	-0.455515	0.6501

Source: Processed Data

The autocorrelation test, as shown in Table 6, was performed using the Durbin–Watson test. The result shows a Durbin–Watson value of 1.119, which falls within the range of –2 to +2, indicating that the model is free of autocorrelation issues.

Table 6. Autocorrelation Test Results

Equation	Adj. R-Squared	Durbin-Watson
1	0,941620	1,110900

Source: Processed Data

4.3 Selection of Panel Data Regression Model

The first stage in selecting the appropriate panel data regression model is the Chow Test. The Chow Test aims to determine the better model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). If the probability value is less than 0.05, the FEM is considered more suitable than the REM. Conversely, if the probability value is greater than 0.05, the CEM is considered appropriate. The Chow Test results, as shown in Table 7, indicate that the probability value of the cross-section chi-square is 0.0000, which is smaller than the significance level of 0.05. Based on these results, it can be concluded that the Fixed Effect Model (FEM) is the most appropriate model.

Table 7. Chow Test Results

Effect Test	Statistic	d.f.	Prob.
Cross-section F	13,542258	(18,71)	0,0000
Cross-section Chi Square	141,467599	18	0,0000

Source: Processed Data using EViews version 12

The second stage is conducting the Hausman Test to determine the more appropriate model between the Fixed Effect Model (FEM) and the Random Effect Model (REM). If the probability value of the cross-section random statistic is less than 0.05, the FEM is considered suitable. Conversely, if the probability value is greater than 0.05, the REM is selected. The Hausman Test results, as shown in Table 8, indicate that the probability value of the cross-section random is 0.0000, which is smaller than 0.05. Based on these results, it can be concluded that the fixed effects model (FEM) is more appropriate for use.

Table 8. Hausman Test Results

Test Summary	Chi-Sq. Stat	Chi-Sq. d.f.	Prob.
Cross-section Random	35,384358	5	0,0000

4.4 Panel Data Regression Model

Based on the processed data, the results of the panel data regression analysis are presented in Table 9.

Table 9. Panel Data Regression Analysis

Variable	Coefficient	t-statistic	Prob
C	-6.582984	-5.158829	0.0000
X1	0.535454	0.954176	0.3432
X2	-0.078924	-2.571681	0.0122
X3	36.28277	2.415759	0.0183
X4	7.476754	5.256798	0.0000
X5	-0.048633	-0.056152	0.9554

Source: Processed Data

Based on the panel data regression results using the fixed effects model (FEM), the resulting regression equation is as follows:

$$Y = -6.582984 + 0.535454X1 - 0.078924X2 + 36.28277X3 + 7.476754X4 - 0.048633X5 + e \ldots\ldots\ldots(1)$$

4.5 Results of the Coefficient of Determination Test (Adjusted R-Squared)

Table 10 shows that the Adjusted R-Squared value is 0.9416. This means that the independent variables collectively can explain 94.16% of the variation in the dependent variable, Firm Value (Y). The remaining 5.84% (100% minus the Adjusted R-Squared value) is explained by other factors outside the model.

Table 10. Coefficient of Determination Test Results

Equation	Adj. R-Squared	Durbin-Watson
1	0,941620	1,110900

Source: Processed Data

4.6 Results of the F-Statistic Test

The F-test results in Table 11 show that the probability value of the F-statistic is 0.0000, which is far below the 0.05 significance level. This indicates that Profitability, Leverage, Managerial Ownership, Institutional Ownership, and Foreign Ownership collectively have a significant effect on Firm Value. This means that the combination of the five independent variables can convincingly and statistically significantly explain the variation in the dependent variable.

Table 11. F-Statistic Test Results

Equation	F-Statistic	Prob.
1	66,91898	0,0000

Source: Processed Data

4.7 Results of the t-Statistic Test

The t-test results presented in Table 12 show the following findings: The probability value of the t-statistic for the profitability variable (X1), proxied by ROA, is 0.3432, which is greater than 0.05, and the coefficient value is positive at 0.535454. Therefore, H1 is rejected, indicating that profitability has no significant effect on Firm Value. For the Leverage variable (X2), proxied by DER, the probability value of the t-statistic is 0.0122, which is less than 0.05, and the coefficient value is negative at –0.078924. Therefore, H2 is accepted, indicating that leverage has a negative effect on Firm Value.

The probability value of the t-statistic for the Managerial Ownership variable (X3) is 0.0183, which is less than 0.05, and the coefficient value is positive at 36.28277. Therefore, H3 is accepted, meaning that Managerial Ownership has a positive effect on Firm Value. For the Institutional Ownership variable (X4), the probability value of the t-statistic is 0.0000, which is less than 0.05, and the coefficient value is positive at 7.476754. Therefore, H4 is accepted, suggesting that Institutional Ownership positively influences Firm Value. The probability value of the t-statistic for the Foreign Ownership variable (X5) is 0.9554, which is greater than 0.05, and the coefficient value is negative at –0.048633. Therefore, H5 is rejected, indicating that Foreign Ownership does not significantly affect Firm Value.

Table 12. t-Test Results

Variable	Coefficient	t-Statistic	Prob.
C	-6.582984	-5.158829	0.0000
X1	0.535454	0.954176	0.3432
X2	-0.078924	-2.571681	0.0122
X3	36.28277	2.415759	0.0183
X4	7.476754	5.256798	0.0000
X5	-0.048633	-0.056152	0.9554

Source: Processed Data

4.7.1 The Effect of Profitability on Firm Value

The t-test results in Table 12 show that profitability, proxied by ROA, has a positive regression coefficient of 0.535454, indicating a direct relationship between profitability and firm value. However,

the t-statistic probability value of 0.3432 (greater than 0.05) indicates that the effect of profitability on the firm value of LQ45 companies during 2020–2024 is not statistically significant. Therefore, the first hypothesis of this study is rejected. This finding supports the studies of Lumentut and Mangantar (2019) and Farizki, Suhendro, and Masitoh (2021), who concluded that profitability does not affect firm value. However, the result contradicts the findings of Hergianti and Retnani (2020); Oktaviarni et al. (2019) and Imnana et al. (2023) which reported significant effects—either positive or negative—of profitability on firm value.

The insignificance of profitability's influence may be attributed to several factors, such as fluctuations in net income, the impact of the Covid-19 pandemic, and earnings management practices. Investors also tend to be skeptical of profitability derived from unsustainable sources, such as short-term efficiency or asset sales. Therefore, when making investment decisions, they are more likely to consider other fundamental factors, including management quality, long-term growth strategies, and the transparency and sustainability of the company's financial performance.

4.7.2 The Effect of Leverage on Firm Value

The test results show that leverage, proxied by the DER, has a regression coefficient of –0.078924 and a t-statistic probability value of 0.0122. The negative coefficient indicates an inverse relationship between leverage and firm value, and because the probability value is < 0.05, the effect is statistically significant. This means that leverage has a significant negative effect on the firm value of LQ45 companies during the 2020–2024 period; thus, the second hypothesis of this study is accepted. This study is consistent with the findings of Dewantari et al. (2019), Nurminda et al. (2017), and Marceline and Harsono (2017), who also found that leverage negatively affects firm value. An overly aggressive capital structure is perceived to increase financial risk and reduce the confidence of investors.

However, these findings differ from those of Hergianti and Retnani (2020), Imnana et al. (2023), and Septiana and Zulkifli (2024), who concluded that leverage has a significantly positive effect on firm value. Theoretically, the use of debt (leverage) may increase potential returns because it provides additional capital at a lower cost than issuing equity. However, excessive use of high interest expenses can reduce company profits and increase bankruptcy risk. In the context of LQ45 companies, investors appear to assess high leverage levels negatively, interpreting them as signs of inefficiency in financing-structure management. This ultimately leads to a decline in market perception of the firm's value

4.7.3 The Effect of Managerial Ownership on Firm Value

The test results show that managerial ownership has a regression coefficient of 36.28277, with a t-statistic probability value of 0.0183. The positive coefficient indicates a direct relationship between managerial ownership and firm value, and because the probability value is < 0.05, the effect is statistically significant. Thus, it can be concluded that managerial ownership has a significant positive effect on firm value among companies listed in the LQ45 index during the 2020–2024 period, and the third hypothesis is accepted. This finding supports agency theory, which states that the greater the managerial ownership, the more aligned the interests between managers and shareholders. This alignment encourages managers to make decisions that prioritize improving company performance and firm value.

Empirically, managerial ownership has also been shown to enhance investor perceptions, as it is associated with stronger corporate governance and more effective internal monitoring. The results of this study are consistent with the findings of Darmayanti and Sanusi (2018); D. M. Sari and Wulandari (2021); Alabdullah (2018) who state that managerial ownership can motivate management to improve company performance. However, these results contradict those of Fadillah (2017) and Shao (2019), who found a negative effect. Overall, these findings reaffirm that managerial ownership plays an important role in shaping firm value among LQ45 companies during the study period.

4.7.4 The Effect of Institutional Ownership on Firm Value

The test results show that institutional ownership has a positive regression coefficient of 7.476754 and a t-statistic probability of 0.0000. As this value is smaller than 0.05, it indicates a statistically significant effect. This implies that the higher the level of institutional ownership, the higher the firm value. Therefore, the fourth hypothesis of this study is accepted. These findings strengthen the perspective that institutional investors, such as pension funds and insurance companies, can provide more effective and stringent monitoring of management. Institutional ownership is considered capable of reducing agency conflicts because institutional investors possess both incentives and resources to actively monitor company performance.

Furthermore, higher institutional ownership is often associated with better corporate governance practices, which can enhance firm value. This study is consistent with the findings of Darmayanti and Sanusi (2018), Khan et al. (2020), and Boshnak (2023), who demonstrated that institutional ownership plays an important role in improving firm performance and value. However, the results contradict Fadillah (2017), who argued that institutional investors may compromise with management, as well as the findings of D. M. Sari and Wulandari (2021) and Dewi and Sanica (2017) who reported that institutional ownership had no significant effect due to limited involvement in monitoring activities.

4.7.5 The Effect of Foreign Ownership on Firm Value

The test results show that foreign ownership has a regression coefficient of –0.048633 and a t-statistic probability of 0.9554. The negative coefficient indicates an inverse relationship between foreign ownership and firm value; however, the probability value far exceeds 0.05, indicating that this effect is statistically insignificant. Thus, it can be concluded that foreign ownership does not affect the firm value of LQ45 companies during the 2020–2024 period, and the fifth hypothesis is rejected. This insignificant effect may be attributed to several factors, including the relatively low involvement of foreign investors in strategic decision-making processes. Many foreign investors tend to be passive and focus on short-term gains. Barriers such as cultural differences, information constraints, and regulatory uncertainty in Indonesia may also reduce the effectiveness of the role of CSR in increasing firm value.

Additionally, the higher investment risks for foreign investors in emerging markets, such as Indonesia, make them more cautious and less active. These findings suggest that foreign ownership is not necessarily a key determinant of firm value, particularly among large companies listed on the LQ45 index. Although the direction of influence is negative, its insignificance indicates that foreign ownership's contribution to firm value remains weak. This study does not support the findings of Fanani (2016) and Jayanti et al. (2021), who reported a positive effect of foreign ownership, but aligns with the studies of Alabdullah (2018) and Anisah and Hartono (2022), which found no effect of foreign ownership on firm value.

5. Conclusion

5.1 Conclusion

Based on the results of the data analysis and discussion in the previous chapter, several conclusions can be drawn: Profitability does not significantly affect the firm value of LQ45 companies during the 2020–2024 period. This may be attributed to external factors such as the impact of the Covid-19 pandemic, profit fluctuations, and investor perceptions of unsustainable earnings sources. Investors tend to place greater emphasis on management quality, long-term strategies, and performance sustainability; therefore, companies must enhance transparency and ensure that their profits originate from sustainable operational activities.

Leverage has a significant negative effect on firm value among LQ45 companies in 2020–2024. Although debt can increase potential returns, excessive borrowing increases financial risk and burdens the company with interest expenses, ultimately reducing profits and investor confidence. Investors generally view highly leveraged firms negatively because they are perceived to be inefficient in managing their capital structure.

Managerial ownership has a significant positive effect on firm value in LQ45 companies during the 2020–2024 period. The higher the proportion of shares owned by managers, the greater the firm's value. This alignment of interests reduces agency conflicts because managers with ownership stakes are more motivated to act in the best interests of shareholders. Consequently, the market responds positively, perceiving the company as having stronger governance and internal oversight than its competitors.

Institutional ownership also has a significant positive effect on firm value. Institutional shareholders typically enhance managerial monitoring and control, thereby minimizing agency problems. Institutional investors, such as pension and mutual funds, actively ensure that corporate policies focus on maximizing shareholder value, ultimately improving governance and company performance. Foreign ownership does not significantly affect firm value among LQ45 companies during the 2020–2024 period. Foreign investors tend to be passive, with limited involvement in strategic decision-making, due to communication barriers, cultural differences, and regulatory uncertainty in the domestic market. Additionally, higher market risks make them more cautious and less active in terms of governance. Therefore, the effectiveness of foreign ownership largely depends on the host country's operating environment and regulatory context.

5.2 Limitations and Suggestions

The limitations of this study include the use of secondary data from LQ45 company reports, which are not always complete; the limited observation period of 2020–2024, which was heavily influenced by the COVID-19 pandemic; the limited number of independent variables analyzed; and the exclusion of qualitative factors, such as management quality and corporate governance. Based on these limitations, future research should expand the sample to other stock indices and extend the observation period to better capture long-term conditions. Additionally, incorporating variables such as firm size, sales growth, dividend policy, and macroeconomic factors can enrich the analysis. Qualitative or mixed-method approaches are also suggested to explore deeper perspectives on non-financial influences on firm value. Furthermore, for investors in the Indonesian stock market—particularly those focusing on the LQ45 index—the independent variables examined in this study may be useful in assessing whether a firm's value is fair, undervalued or overvalued.

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