

## THE DRIVERS OF FIRM VALUE

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### Abstract

The objective of this literature review is to identify and analyze the factors that determine the value of a company, as evidenced in multiple studies. This study focuses on comprehending the determinants that impact the evaluation of a company's worth, a significant subject in the field of economics and finance. The chosen approach is Systematic Literature Review (SLR), which involves gathering and assessing relevant literature pertaining to the research topic. The results of the Systematic Literature Review (SLR) analysis indicate that financial performance, institutional ownership, capital structure, company size, corporate governance, corporate social responsibility, and dividend policy are the primary determinants of company value. The discussion emphasizes the discrepancies in research findings and contextual disparities that can influence the connection between determinants and firm value. While these findings offer a more profound comprehension of the intricate factors that influence firm value assessments, additional research is required to elucidate the precise impacts and identify particular market situations that moderate this relationship. The findings of this literature review emphasize the significance of considering multiple factors in order to comprehensively comprehend the overall value of a firm. Additionally, it highlights the need for future research to delve into the dynamics of the relationship between these factors and firm value.

**Keywords:** *Determinants, Value, Company*

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### 1. INTRODUCTION

Indonesian companies commonly encounter a range of issues, such as intricate regulations, burdensome bureaucracy, volatile exchange rates, inadequate infrastructure, and difficulties in attracting and retaining skilled employees (Franciska & Putra, 2021). Moreover, fluctuations in worldwide economic circumstances, such as the financial crisis or pandemics like COVID-19, can exert a substantial influence on companies in Indonesia, as well as companies across different regions of the globe (Ambarwati et al., 2021). To obtain more precise information, it is advisable to consult sources that provide the most up-to-date economic news, company financial reports, or industry-specific analysis. It is crucial to recognize that every company possesses its distinct context and obstacles, which are influenced by factors such as industry sector, scale of operations, and other variables (Hardiningsih, 2020).

Determinants are elements or variables that exert influence or determine specific outcomes or conditions. The outcome of an event or process is frequently dependent on the factors that impact it. Determinants are significant due to their capacity to initiate or bring about specific alterations or circumstances (Bilayudha & Kiswanto, 2019). Within an economic framework, determinants play a crucial role in influencing and guiding different facets of a country or region's economy. For instance, in the context of economic growth, factors such as investment, levels of consumption, and monetary policy can serve as significant catalysts. During periods of economic contraction, a thorough examination of factors such as unemployment rates, consumer demand, and fiscal policy can aid in pinpointing the root cause of the issue and devising efficient remedies (Pohan et al., 2020). Within the realm of health, determinants of well-being encompass elements such as the physical surroundings, personal habits, and availability of healthcare resources. Gaining insight into the factors that influence health is instrumental in formulating strategies that can enhance the well-being of the general population by addressing the underlying origins of issues.

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The significance of determinants encompasses social and cultural dimensions as well. Within the realm of education, factors such as the availability of educational opportunities, the competence of teachers, and the level of support from families can exert a substantial influence on students' academic performance (Rahmawati et al., 2021).

In general, comprehending and examining determinants aids in formulating more efficient policies and more precise solutions to desired alterations. Through the identification of influential factors, we can devise more effective strategies to enhance performance, well-being, and living conditions at both the individual and societal levels (Nur et al., 2019). Studying the factors that influence the worth of a company holds significant significance within the economic and financial framework. Understanding the key determinants that have a substantial impact on a company's worth is crucial for decision-makers, investors, analysts, and regulators. An examination of the factors that determine a company's value yields a comprehensive comprehension of the diverse elements that mold and impact company performance, enabling the formulation of more intelligent and flexible strategies.

This research facilitates investors in making well-informed and risk-averse investment decisions by enabling them to comprehend the key factors that significantly influence the market value of a company. Company managers can enhance their decision-making in resource management and business strategy design by taking into account the factors that influence the value of the company. This analysis encompasses various factors, including financial performance, risk management, dividend policy, brand reputation, and environmental considerations, which can impact the value of a company. Studying the factors that influence the worth of a company also has consequences for the development of government and regulatory policies. Gaining a more comprehensive comprehension of the variables that impact corporate value can aid in formulating regulations that promote sustainable economic expansion and guarantee the openness and honesty of financial markets. Studying the factors that influence the worth of a company not only offers profound understanding of economic and financial patterns, but also establishes a basis for making more informed decisions at different levels, ranging from individual choices to economic policy-making.

**2. IMPLEMENTATION METHOD**

Systematic literature review (SLR) is a rigorous and thorough methodological approach to gathering and analyzing scientific literature that is pertinent to a specific research subject. The purpose of a systematic literature review (SLR) is to systematically analyze and integrate empirical evidence from various sources in order to present a comprehensive understanding of the knowledge development on a specific topic. The process of conducting a systematic literature review (SLR) involves several rigorous steps. These steps include identifying relevant literature sources, establishing criteria for including or excluding studies, evaluating the methodological quality of the included studies, and systematically analyzing the collected data (Zhu et al., 2018).

Systematic Literature Review (SLR) is a valuable tool for researchers as it offers a dependable and unbiased analysis of empirical evidence. It helps researchers comprehend the progression of current knowledge and identify the path for future research. Systematic Literature Review (SLR) can enhance the validity of research findings by mitigating selection bias and facilitating more robust generalization, thereby offering a comprehensive and unbiased perspective on a specific subject matter. Research using Systematic Literature Review (SLR) is crucial in various disciplines such as social sciences, health, information technology, and others. For instance, in the advancement of novel technology, SLR can assist in identifying both achievements and challenges encountered in prior research, thereby establishing a foundation for future research planning. Within the field of health sciences, systematic literature review (SLR) can be employed to assess the efficacy of different interventions or diagnostic techniques (Akhigbe et al., 2017). Hence, conducting systematic literature reviews not only enhances scientific understanding of a

subject but also establishes a robust foundation for making informed decisions in diverse research settings.

### 3. RESULTS AND DISCUSSION

Based on the SLR results of 7 journals that match the searched keywords, namely Determinant, Value, and Company, the following results were obtained:

No.	Article Title	Writer	Research Findings/Results
1	Determinants of Company Value with Financial Performance as an Intervening Variable	(Neliana & Destiana, 2021)	Company value is positively and significantly influenced by financial performance. However, institutional ownership has no influence on financial performance. Likewise, the size of the audit committee has no impact on financial performance. On the other hand, financial performance is positively and significantly influenced by Corporate Social Responsibility (CSR).
2	Determinants of Company Value in the Food and Beverage Subsector for the 2016-2018 Period	(Glory et al., 2020)	From partial research results, it was found that Capital Structure (DER) has an influence on Company Value (PBV), while Profitability (ROE) also influences Company Value. However, company size does not have an impact on company value. Overall, the independent variables explain 91.76% of the variation in the dependent variable.
3	Determinants of Company Value in Various Industrial Sectors on the Indonesian Stock Exchange	(Holly, 2020)	The results of this research show that Capital Structure has a positive and significant influence on Company Value. Meanwhile, liquidity does not have a significant influence on company value. On the other hand, Profitability shows a positive and significant influence on Company Value.
4	Determinants of Company Value in the 2015-2019 Jakarta Islamic Index	(Franciska & Putra, 2021)	From the research results, it can be seen that financial leverage, company size, asset structure and corporate governance have a positive and significant influence on company value.
5	Determinants of the Value of Manufacturing Companies Listed on the Indonesian Sharia Stock Index	(Aninulyaqin et al., 2019)	From the conclusions of this research, it can be concluded that Managerial Ownership (KM), Profitability (PROFIT), and Corporate Social Responsibility (CSR) do not have a significant influence on the value of manufacturing companies listed on the Indonesian Sharia Stock Index (ISSI) during the 2011-2017 period. .

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6	Determinants of Company Value in Non-Financial Companies Listed on the Indonesian Stock Exchange	(Afifah & Susanty, 2019)	The findings of this research indicate that profitability, dividend policy, earnings per share, and the existence of an independent board of commissioners have an impact on company value.
7	Determinants of Company Value with Institutional Ownership as a Moderating Variable	(Ammy & Ramadhan, 2021)	From the research results, it appears that return on assets has a positive but not significant influence on company value.

Research in the field of literature has identified several key factors that can impact the value of a company. Primarily, the assessment of a company's value heavily relies on its financial performance, which is considered a paramount factor. Empirical data demonstrates that a firm's strong financial performance, particularly its high levels of profitability, consistently exhibits a positive correlation with its value. Institutional ownership is a commonly identified factor in the literature. While research findings may differ, certain studies suggest that the degree of institutional ownership can impact the value of a company (Wicaksono & Septiani, 2020). Furthermore, the capital structure is recognized as a crucial factor in determining the value of a company. Multiple studies emphasize a direct correlation between an ideal capital structure and favorable evaluations of a company's worth. Another crucial factor is the size of the company.

The literature indicates that larger companies generally have higher values, although this relationship may not always be consistent. However, the impact of company size on value can differ depending on the industry sector and market conditions (Amirya & Atmini, 2019). The literature highlights the importance of corporate governance, specifically the presence of an autonomous board of commissioners. Research indicates that companies that possess effective governance and a robust board of commissioners that operate independently can have a favorable impact on value evaluations. Furthermore, scholarly literature frequently identifies corporate social responsibility (CSR) and dividend policy as influential factors in determining company value (Neliana & Destiana, 2021). While several of these factors have been recognized, the literature also delineates variations in research results. The variations in company context, differences in research methodology, and different market characteristics account for these differences.

Hence, this literature review offers an all-encompassing portrayal of the factors that determine a company's worth, emphasizing the intricate and ever-changing nature of this determination. Additionally, it pinpoints potential avenues for future research aimed at gaining a deeper comprehension of the elements that impact a company's value (Neliana & Destiana, 2021). The findings of the literature review on the determinants of company value encompass a comprehensive comprehension of the factors that can impact the evaluation of a company's worth. Primarily, the financial performance of a company, specifically its profitability, significantly influences its overall value. Empirical data demonstrates that companies exhibiting robust financial performance, as indicated by elevated levels of profitability, are typically assigned higher valuations in the market. Nevertheless, a growing body of literature examines whether certain factors or market conditions can influence the connection between financial performance and firm value (Wicaksono & Septiani, 2020). The subsequent noteworthy aspect is institutional ownership, albeit the influence it exerts can yield diverse research findings. Certain studies indicate that the degree of institutional ownership can have an effect on the evaluation of a company's worth, whereas other studies demonstrate a negligible influence. Future advancements in this study could investigate particular institutional contexts or characteristics that moderate the correlation between

institutional ownership and firm value. In addition, the capital structure is also a crucial factor. The literature widely agrees that achieving an optimal capital structure can effectively enhance the value of a firm. Nevertheless, it is important to acknowledge that external variables, such as market conditions or a financial crisis, can influence and moderate the connection between capital structure and the value of a company (Nur et al., 2019).

The size of a company is a significant factor in determining its value. While there is typically a positive association between the size of a company and its value, additional investigation could focus on gaining a more comprehensive comprehension of the underlying mechanisms driving this correlation. It would also be valuable to explore whether there are any distinct industry or market sector variations that impact this relationship. The presence of an independent board of commissioners in corporate governance has a favorable influence on evaluating company value, as stated in the literature. Nevertheless, the existing literature emphasizes the importance of gaining a deeper comprehension of the surrounding circumstances and particular variables that could potentially alter the correlation between corporate governance and firm value.

The literature acknowledges that corporate social responsibility (CSR) and dividend policy are significant factors. Research indicates that companies that prioritize social responsibility and adopt prudent dividend policies can enhance their overall company value (Afifah & Susanty, 2019). Nevertheless, it is important to acknowledge that the literature also demonstrates disparities in research outcomes, and this variation could be attributed to disparities in research methodology, corporate environment, and market attributes. Hence, the findings of this literature analysis not only offer a thorough perspective on the factors that determine a company's worth, but also highlight the intricate and contextual nature of these connections. Consequently, they guide future research towards gaining a deeper comprehension of the elements that impact firm value.

#### **4. CONCLUSION**

The outcomes drawn from the literature study on the determinants of company value demonstrate a profound comprehension of the crucial factors that impact the evaluation of a business entity's worth. Financial performance, particularly profitability, has been identified in literature as the primary factor that has a positive impact on the value of a firm. Nevertheless, additional investigation is required to comprehend the precise context or market conditions that could moderate this relationship. Furthermore, the examination of institutional ownership is also a subject of interest, albeit yielding inconsistent results. Company size, capital structure, and corporate governance, particularly the presence of an independent board of commissioners, are acknowledged as important factors in determining company value.

Corporate social responsibility (CSR) and dividend policy are significant factors in determining a company's value. While these findings offer valuable insights, it is important to acknowledge that the literature demonstrates discrepancies in research outcomes, which could be attributed to variations in methodology, market characteristics, and company context. Hence, additional investigation is required to gain a deeper comprehension of the mechanisms underlying this correlation and pinpoint factors that may influence the effect of these determinants on the value of a company. In summary, the findings of this literature analysis offer a thorough understanding of the intricate array of factors that impact the value of a company. This study enhances our comprehension of the factors that influence the value of a company and also paves the way for future research to investigate particular circumstances and variations in market conditions that might influence the connection between these factors and assessments of a company's value.

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