

CHAPTER I

INTRODUCTION

1.1 Research Background

The current economic circumstances have fostered heightened rivalry among industry companies. This competition drives each company to enhance their performance in order to reach their objectives. The primary aim of the company is to enhance the prosperity of its owners or shareholders by increasing the overall value of the company. The value of the company holds great significance as it mirrors the company's performance, which in turn influences how investors perceive the company. In simpler terms, the value of the company plays a pivotal role in ensuring that shareholders enjoy higher levels of prosperity when the company's value is high (Bringham and Houston, 2010).

Since its inception, the company has typically set objectives for the short, medium, and long-term periods. The company's goal is to earn much profit, and good management is needed. In addition to efficient management in various sectors, utilizing the company's internal and external resources is also required. One of the external sectors pertains to investors, who anticipate returns on their investments in companies. To make investment decisions, investors need financial information. Financial information can be obtained through financial reports (Cashman et al., 2012).

One of the most liquid assets for company inventory is cash. Every company is expected to be able to manage its cash as well as possible. Cash holding is a very essential aspect for the company, especially in finance operational activities within a company (Irawan et al., 2022). According to Ifada et al., (2020) and Irawan et al., (2022) states that cash holding at a level that highly needed for potential investment opportunities, because without sufficient internal funds and high external costs will eliminate investment opportunities so, it will reduce company value.

The financial statements of a company, such as the income statement, balance sheet, and cash flow statement, provide important information to investors about the company's performance and financial health. This information can be used by investors to make informed decisions about whether to invest in the company or not. The decision of a company to distribute dividends or retain earnings can also have a significant impact on the company's stock price and investor perceptions of the company's management. When a company decides to distribute dividends, it is seen as a positive signal by investors that the company is profitable and has excess cash that can be returned to shareholders. This can increase investor confidence in the company and lead to a higher stock price. On the other hand, if a company decides to retain earnings instead of distributing dividends, it can be seen as a signal that the company is reinvesting in its own growth and has confidence in its future prospects. This can also be viewed positively by investors, but it may not result in an immediate increase in the company's stock price (Harijoto and Martono, 2005).

While there can be advantages to using leverage as a source of funds, companies must also be mindful of the risks associated with excessive debt and

should carefully consider their funding decisions to provide long-term prosperity to their shareholders. (Brigham and Ehrhardt, 2015).

The company should carefully consider its leverage levels and aim for an optimal percentage that balances growth and financial stability. Too much leverage can increase financial risk and make the company less attractive to investors, while too little leverage may limit growth opportunities (Surwardika, 2017).

The company will use to object of this research is non-financial companies listed on the Indonesia Stock Exchange (IDX) with the time period 2021.

1.2 Research Problem

Based on the background information provided, the following problems can be identified:

- a. Does Cash Holding effect on firm value in Indonesia companies listed on Indonesia stock exchange?
- b. Does Investment Opportunity Set effect on firm value in Indonesia companies listed on Indonesia stock exchange?
- c. Does Leverage effect on firm value in Indonesia companies listed on Indonesia stock exchange?

1.3 Research Objectives

- a. To examine the effect of cash holding on firm value in Indonesia companies listed on Indonesia stock exchange?
- b. To examine the effect of Investment Opportunity Set on firm value in Indonesia companies listed on Indonesia stock exchange?

- c. To examine the effect of Leverage on firm value in Indonesia companies listed on Indonesia stock exchange?

