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# INDEXING


INTERNATIONAL JOURNAL OF APPLICATION ON ECONOMICS AND BUSINESS
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INDEX COPERNICUS INTERNATIONAL

# ARTICLES

406-416

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.406-416

## FACTORS AFFECTING STOCK PRICE WITH DIVIDEND POLICY AS MODERATING VARIABLE

Jovena Lim, Sufiyati Sufiyati , Andreas Bambang Daryatno

78-89

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.78-89

## INTERNAL FACTOR AND EXTERNAL FACTOR TO PREDICT FINANCIAL DISTRESS

Ivan Sanjaya, Henryanto Wijaya

349-356

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.349-356

## FACTORS INFLUENCING NETFLIX PURCHASE INTENTION IN JAKARTA

Devia Megasari, Sanny Ekawati

15-23

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.15-23

## FACTORS AFFECTING FIRM VALUE ON TRANSPORTATION COMPANIES LISTED ON THE IDX

Nadine Hadisoewono, Agustin Ekadjaja

308-317

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.308-317

## ANALYZING OF INVESTMENT DECISIONS IN THE SRI KEHATI INDEX

Vicly Gunawan Lumingkewas, Kartika Nuringsih

261-269

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.261-269

FACTORS THAT INFLUENCE CONSUMERS' INTENTION TO PURCHASE ENVIRONMENTALLY FRIENDLY PRODUCTS

Eric Han, Louis Utama

206-216

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.206-216

THE INFLUENCE OF INTERNSHIP EXPERIENCE, SOCIAL SUPPORT, AND WORK MOTIVATION ON WORK READINESS OF FEB STUDENTS OF UNIVERSITAS TARUMANAGARA

Vilysia Vilysia, Joyce A. Turangan

151-161

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.151-161

THE EFFECT OF FIRM SIZE, PROFITABILITY, LEVERAGE, SALES GROWTH AND CAPITAL INTENSITY ON TAX AVOIDANCE

Aldo Suhartono, Agustin Ekadjaja

425-434

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.425-434

THE INFLUENCE OF SOCIAL COST, FAMILY OWNERSHIP, CAPITAL STRUCTURE ON FIRM VALUE

Jessica Louie Honggono, Henryanto Wijaya

101-110

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.101-110

## THE INFLUENCE OF WORK ENVIRONMENT, WORK MOTIVATION, AND COMPENSATION ON JOB SATISFACTION OF GENERATION Z IN JABODETABEK

Jonathan J. Susilo, Joyce A. Turangan

368-383

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.368-383

## FACTORS INFLUENCING ENTREPRENEURIAL INTENTIONS MEDIATED BY ENTREPRENEURSHIP EDUCATION IN S1 MANAGEMENT STUDENTS OF TARUMANAGARA UNIVERSITY

Theodore Darren Tan, and Wijaya

39-49

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.39-49

## THE EFFECT OF INSTITUTIONAL OWNERSHIP, FOREIGN OWNERSHIP, LEVERAGE AND AUDIT FIRM SIZE ON CSR DISCLOSURE

Imanuela Glory Della Febryanti, Rousilita Suhendah

318-330

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.318-330

## SYSTEMATIC LITERATURE REVIEW INNOVATION MODEL AS A MEDIATING AND MODERATING VARIABLE IN MSMEs PERFORMANCE

I Wayan Sukania, Agustinus Purna Irawan, Fransisca Iriani Roesmala Dewi

279-287

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.279-287

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.249-260

THE INFLUENCE OF PROFITABILITY, LEVERAGE, AND FIRM SIZE ON FIRM VALUE OF THE BANKING SECTOR LISTED ON THE INDONESIAN STOCK EXCHANGE

Christian Febianto, Merry Susanti

195-205

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.195-205

FACTORS THAT INFLUENCE ATTITUDE TOWARDS ONLINE SHOPPING AT SHOPEE AMONG GENERATION Z

Gilberto Kalim, Louis Utama

475-485

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.475-485

FACTORS AFFECTING COMPANY VALUE WITH CSR AS A MODERATING VARIABLE IN ENERGY SECTOR COMPANIES

Frans Tegas, Susanto Salim

141-150

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.141-150

THE INFLUENCE OF JOB SATISFACTION, JOB STRESS AND CAREER DEVELOPMENT ON BARISTA TURNOVER INTENTION

Ardelia Widjaya, Mei Ie

417-424

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.417-424

270-278

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.270-278

FACTORS INFLUENCING STUDENT'S INTEREST IN BECOMING PUBLIC ACCOUNTANTS: CASE OF PRIVATE UNIVERSITY STUDENTS IN BOGOR

Shelley Meilita, Hendro Lukman

217-226

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.217-226

THE INFLUENCE OF GROWTH OPPORTUNITIES, DEBT POLICY, AND SOLVENCY ON COMPANY VALUE

Nurainun Bangun, Khairina Natsir, Ngadiman Ngadiman

162-172

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.162-172

FACTORS THAT INFLUENCE SHARES PRICE

Fanny Magdalena, Andy Andy, Vincent Winaldo, Karen Widjaja

435-448

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.435-448

PROVINCIAL-LEVEL DETERMINANTS OF ENERGY INTENSITY: THE INTERPLAY OF ENVIRONMENT GOVERNANCE INDEX, FIRM CHARACTERISTICS, AND REGIONAL DEVELOPMENT

Nguyen Hoang Long, Chu Thi Mai Anh, Phan Huong Giang

111-122

PDF

| Abstract views: 0 | Download :0 https://doi.org/10.24912/ijaeb.v2i3.111-122

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# THE INFLUENCE OF GROWTH OPPORTUNITIES, DEBT POLICY, AND SOLVENCY ON COMPANY VALUE

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***ABSTRACT***

*This study aims to prove the influence of growth opportunity, debt policy, and solvency on company value in basic industrial and chemical companies listed on the Indonesia Stock Exchange from 2019 to 2021. A total of 27 selected samples with a total of 81 observations over three years were used in the research. This. Research data is secondary data extracted from company annual financial reports that have been audited and published. Panel data was processed with the help of Eviews version 12 software. Data analysis uses multiple linear regression. The testing stages include the classic assumption test consisting of multicollinearity and heteroscedasticity tests, then selecting the most appropriate regression model using the Chow test, Hausman test and Lagrange Multiplier test. Research hypothesis testing was carried out by a t-test and coefficient of determination test. The results of the analysis show that growth opportunity partially has a negative effect on company value, debt policy has an insignificant positive effect on company value, and solvency has a significant positive effect on the value of basic industrial and chemical companies listed on the Indonesia Stock Exchange in the 2019-2021 period.*

***Keywords:*** *company value, growth opportunity, debt policy, solvency*

## 1. INTRODUCTION

Every company needs financial reports as an important reference for the running of the company's operations. Financial reports are needed as a component in conducting evaluations. The core part that is the main focus in financial reports that shows the company's business performance is profit. The existence of differences in performance data can influence stakeholder choices. The approach taken by management to change stakeholder opinions through profits is income smoothing. Based on Amalia Haniftian & Dillak (2020), income smoothing carried out by management is useful for showing the appropriate level compared to the previous year. So, management chooses to reduce profits when the profits generated during the year are high, and increase profits when profits are inadeqate. Income smoothing is carried out by management as a matter of personal interest. Among them, there are companies that target profits, bonuses and other benefits if the profit target is achieved. The phenomenon that every company runs its business is to seek profit. To achieve this, companies that have gone public must maximize the value of their companies. According to Setiawati & Lim, (2018) the company was founded which aims to improve the welfare of the company owner which results in increasing the value of the company. According to Ni Wayan Indah Paramyta Agustino & Dewi (2019) company value is a certain condition that is achieved by a company as an illustration of community trust in a particular company after going through a process of activities carried out for years, namely since the company was founded. The value of the company is shown by the financial performance reported in the financial statements, especially the company's statement of financial position which contains financial information for past periods and income statements to assess the value of the company that has been running for years (Astohar, 2018). The value of the company is reflected in the stock price. If the stock price increases, the value of the company will increase, thereby increasing the welfare of shareholders and company owners. The higher the value of the company, the higher the prosperity of the company owner. There is a significant relationship between the financial ratios of funds and company value, while if there is instability in the company, then it can be indicated that the company is experiencing a decline and this can reduce or even eliminate the trust of investors and there will be steps such as selling shares again. by investors causing the company to lack capital and this can disrupt the company's operations.

Information regarding stock valuation is needed by investors or the public as a consideration in determining the company before they invest in the capital market. The high value of the company reflects the company's current performance so that it can make the market believe in the company's future prospects (Derita Rosalina Sihotang & L.Saragih, 2017).

One of the factors that influences the value of the company is the growth opportunity Growth opportunity is a number that shows the magnitude of a company's growth opportunities in the future (Isnaeni et al., 2021). Growth opportunities for each company are different, this causes differences in spending decisions taken by financial managers. Companies that have predictions that they will experience high growth in the future will prefer to use shares to fund the company's operations. Companies with high growth opportunities tend to make investment expenditures with their own capital to avoid underinvestment problems, namely not implementing all positive investment projects by company managers (Andanika & Ismawati, 2017) . Increasing the welfare of shareholders and increasing the value of the company will affect the growth opportunity of the company in the future. Research conducted by Marpuah et al. (2021) stated that growth opportunity has a positive effect on firm value. This research is supported by research conducted by Dewi & Candradewi (2018) which reveals that company growth has a positive influence on company value, which means that the faster the growth of a company will result in a higher company value. However, research conducted by Anggara et al; (2019) stated a different matter, that is, company growth has no effect on company value.

Debt policy according to Lie Sha (2018) is a policy that measures how much a company is financed with debt. Debt is a company's external funding source to carry out its operational activities. The use of debt for companies has a sensitive effect on the high or low value of the company. The higher the proportion of debt determined by the company at a certain level, the higher the value of the company. Previous research conducted by (Sumanti & Mangantar, 2015) Sumanti & Mangantar (2015) stated that the debt policy variable had no significant effect on firm value. The results of this study contradict research conducted by Yastini & Mertha (2015) who found that debt policy has a positive and significant effect on firm value .

The other factor that can affect the value of the company that can be used in making funding decisions is solvency. Solvency is a measure of the soundness the  debts using its own capital, so solvency is an important point for making a loan if the company is short of funds to carry out an operational activity in the company. One type of solvency ratio that will be used is DER (Debt to Equity Ratio). According to the research of  Khumairoh et al (2016) states that DER can have a significant effect on firm value. Meanwhile, research conducted by Yulfitri et al., (2021) states that DER has no significant effect on firm value. This ratio is used in capital management to determine a company's ability to finance its business by borrowing funds provided by shareholders. Based on the results of several previous studies tt can be seen that the findings from these studies are still different from each other, so researchers are interested in conducting further research.

The purpose of this research is to investigate the effect of growth opportunity unit, debt policy and solvency against the value of basic industrial and chemical companies listed on the Indonesia Stock Exchange from 2019 to 202.

**Agency Theory**
According to (Jensen & Meckling, 2019) Jensen and Meckling (1976) there is a schematic understanding in analyzing the attitudes and needs of parties who have a position as donors of authority to the first party so that the first party takes action and makes decisions according to their interests. In this case, the agent theory is a conflict that occurs between shareholders and company managers in carrying out company management and operations, a manager is not allowed to act more in the interests of individuals in the company's internal interests than the interests of shareholders, because it can result in losses for the company. If the company's management and shareholders have the same goal, it can be said that there will be no conflict of interest between the principal and the agent. the principal and agent are obliged to equate their interests, but in agency relationships information asymmetry often occurs, in which the agent has more data bound by the company's financial explanation than the principal in this matter is a shareholder. According to (Widianingsih, 2018) the management should be held responsible because of efforts to adopt the best provisions for shareholders. .

**Signaling Theory**
Using signaling theory as a guide for investors to understand how management views the prospects of a company is called signaling theory (Brigham & Houston, 2016). Based on this theory, information asymmetry between companies and outsiders results from the fact that insiders know more about the company and its prospects than outsiders (investors). They naturally defend themselves by disparaging the company because other people don't know much about it. Lack of knowledge also undermines investors' confidence in the business. Industry data can help potential funders in determining the determination of the capital to be obtained. It is hoped that the data provided by the industry regarding the actual situation of the industry will reduce the uncertainty of funders in making decisions .

**Company Value**
According to (Variaty & Natsir, 2021) company value is a value that shows a reflection of a company as a whole. Firm value is the company's performance as reflected by the share price formed by demand and supply in the capital market. Firm value in this study is calculated using Price to Book Value (PBV). This ratio is used to compare the market price per share with the book value per share. The greater the result of calculating this ratio, the greater the additional wealth enjoyed by the owner of the company.

**Growth Opportunity**
One of the things that the owner or investor anticipates for the sustainability of the company is a growth opportunity or growth. Strong potential or prospects exist for businesses with sustainable organizations. According to Retnasari et al. (2021), company growth will generate significant profits.

According to Bintara (2018) every business has the same opportunity to develop or develop. businesses that have the potential to develop, achieve growth levels, or expand their business. There are opportunities for companies to grow in both good and bad financial conditions. Companies experiencing rapid growth may be able to expand their operations. The business has a high growth opportunity value, which indicates a high probability of being able to make a lot of money in the future. It can also be used as a reference or analytical tool to ensure shareholder welfare .

**Debt Policy**

Based on the opinion of Nurainun Bangun (2022) debt policy is a policy that measures how much a company is financed with debt. Debt is a company's external funding source to carry out its operational activities. The use of debt for companies has a sensitive effect on the high or low value of the company. The higher the proportion of debt determined by the company at a certain level, the higher the value of the company.

**Solvency Ratio**

Solvency is a financial ratio used to assess a company's ability to pay off all of its short-term and long-term obligations with guaranteed assets owned by the company until liquidated. Solvency in this study is calculated using the Debt to Equity Ratio (DER). DER is a ratio used to explain that the relative portion of equity and debt used is used to finance a company's assets. This ratio is used to calculate the size of a company's financial leverage, as well as to show the portions of each own capital used to guarantee debt.

**Growth opportunity relationship with firm value**

Based on the signal theory of growth opportunity relationship to firm value. The higher the stock price, the higher the company value. One of the factors that influence the rise in stock prices is a growth opportunity. The high growth opportunity indicates that the company can develop in the future with investments made by investors. Companies that have good development every year indicate that the quality of the company's financial performance is in a healthy condition. This can affect investors' decisions in investing. Previous research has been conducted by Suwardika & Mustanda (2017) showing that Growth Opportunity has a positive effect on firm value. From the explanation above, it is formulated that Growth Opportunity plays an important role in firm value, so the hypothesis that is formulated is as follows:

$H_1$ : Growth opportunity has a positive effect on firm value .

**Relationship of debt policy with firm value**

Debt is an external source of funding that a company obtains to run its operations. Debt policy is an act of company management that will fund the company using capital originating from debt. Brigham & Houston (2019) stated that debt policy is a policy taken to fund the company's operational activities. In research conducted by (Pertiwi et al., 2016) shows that Debt Policy simultaneously has a significant effect on Firm Value. So the fifth hypothesis of the study is formulated as**:**

$H_2$ : Debt policy has a positive effect on firm value.

**Solvency relationship with firm value**

Solvency (DER) reflects the amount of capital used to cover the company's total debt. The greater the DER, the greater the risk the company has, so many investors avoid companies that have a high DER.

Low DER is more attractive to investors (Kholis et al., 2018). The benefits and costs arising from the use of debt must be balanced so that the value of a company increases. A low DER illustrates that the company can fulfill all its obligations (I. G. A. P. T. Putri, 2020). This will increase investor confidence and attract interest investors to buy shares. If the amount of debt is stable, an increase in share prices will automatically increase the company's value. The increase in company value is in line with the increase in share prices (Rusgowanto & Panggabean, 2021). Based on previous research, it is known, among others, according to research by Markonah et al. (2020) company value is significantly influenced by the leverage variable (DER). So in this research a hypothesis is proposed:
$H_3$ : solvency has a positive effect on firm value .
Based on the description above, the model in this study can be described as follows:

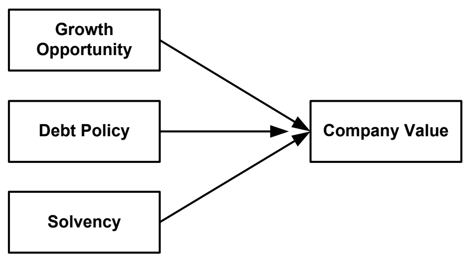


Figure 1. Research Model

The research hypothesis is formulated as follows:
$H_1$ : Growth opportunity has a positive effect on firm value .
$H_2$ : Debt policy has a positive effect on firm value.
$H_3$ : Solvency has a positive effect on firm value .

## 2. RESEARCH METHODS

### Design, Subject and Object of research

The research subjects in this study were basic and chemical industrial companies listed on the Indonesia Stock Exchange in 2019-2021. The sample selection method in this study was a purposive sampling method or sample selection based on certain criteria according to the problems in this study. The criteria used in this study are: 1) Basic and chemical industrial companies listed on the Indonesia Stock Exchange in the 2019-2021 period, 2) Basic and chemical industrial companies that publish their financial reports ending December 31 in the 2019-2021 period , 3) Basic industrial and chemical companies that use Rupiah, , 4 ) Basic and chemical industrial companies that have not experienced an Initial Public Offering (IPO), delisting, relisting in the 2019-2021 period.

### Variable Operationalization

The variables of this study consist of dependent variables and independent variables. The firm value variable is the dependent variable whose position will be evaluated or analyzed as a result of the influence of the independent variables. The independent variables here only use 3 variables, namely Growth Opportunity, Debt policy, and Solvency. In order to be able to analyze how the influence of the independent variable on the dependent variable, all of these variables will be measured using thr following formula:

Table 1. Variable Operationalization

| | Size | Scale | Source |
|---|---|---|---|
| The Company Value | $\text{PBV} = \dfrac{\text{Market Value per Share}}{\text{Book Value per Share}}$ | Ratio | Sanjaya & Suryadi (2018) |
| Growth Opportunities | $\text{Growth Opport} = \dfrac{\text{Total Asset}_{t} - \text{Total Asset}_{t-1}}{\text{Total Asset}_{t-1}}$ | Ratio | Handoyo & Fathurrizki (2018) |
| Debt Policy | $\text{DER} = \dfrac{\text{Total Liabilities}}{\text{Total Shareholders Equity}} \text{ x } 100\%$ | Ratio | Inayah & Izzaty (2021) |
| Solvency | $\text{DER} = \dfrac{\text{Total Liabilities}}{\text{Total Equity}} \text{ x } 100\%$ | Ratio | Sarra & Mikrad (2021) |

**Data analysis**

To carry out data analysis, several statistical tests were carried out. The statistical tests carried out included descriptive statistical analysis, after which it was continued with the classical assumption test. There are 3 model approaches to panel data regression, namely the common effect model (CEM), random effect model (REM ), and the fixed effect model (FEM). The selection for the most appropriate panel data regression model was carried out using the Chow, Hausman , and Lagrange Multiplier tests. In the final stage is the partial test and also the coefficient of determination test as the hypothesis test tools that will answer the problems of this research.

## 3. RESULTS AND DISCUSSION

**Description of Research Subjects**

The research subjects of this study are basic chemical and industrial companies listed on the Indonesia Stock Exchange in 2019-2021. Purposive sampling method was used to select the sample. A total of 23 industrial and basic chemical companies listed on the Indonesia Stock Exchange in 2019-2021 were selected as a sample. The total number of observations in the 3-year data is 69

**Multicollinearity Test**

The multicollinearity test explains that a good regression model research is a regression that does not have a linear relationship between the independent variables. The independent variables in this study are Growth Opportunity, Debt Policy, and Solvency . This test was conducted to identify whether or not there is a multicollinearity problem between each of the independent variables. The results of the multicollinearity test in this study can be seen in the following table :

Table 2. Multicollinearity Test Results
Source: Processed Data Results

| | GROWTH_OPP | DEBT_POLICY | SOLVENCY |
|---|---|---|---|
| GROWTH_OPP | 1.0000 | -0.0196 | -0.0766 |
| DEBT_POLICY | -0.0196 | 1.0000 | 0.6804 |
| SOLVENCY | -0.0768 | 0.6804 | 1.0000 |

From the multicollinearity test that was carried out, it can be seen from the correlation between anoe variable to another is less than 80%. This means that the independent variables in this study does not experience the multicollinearity problems.

**Chow test**

The chow test is one of the steps to estimate the right panel data regression model between the CEM and FEM models in this study. The result of chow test show that the probability of cross section is 0.0000 which is smaller than 0.05. This means that $H_0$ is rejected , so the most appropriate model according to cow test is the fixed effect model.

**Hausman test**

Hausman test is one of the stages for estimating the right panel data regression model between the FEM and REM models in this study. The Hausman test results in estimating the right model shows that the probability of a random cross section is 0.1475 which is greater than 0.05. This means that H0 is accepted , so the most appropriate model in this study is the random effect model.

**Lagrange Multiplier (LM)**

The results of the Chow test and Hausman test do not recommend the same regression approach, so it is necessary to carry out a Lagrange multiplier test to get the final decision. LM test is one of the stages for estimating the right panel data regression model between the CEM and REM models in this study. The following is a table of Hausman test results in estimating the right model for this study:

Table 3. LM Test Results
Source: Processed Data Results

| | Test Hypothesis | | |
|---|---|---|---|
| | **Cross-section** | **time** | **Both** |
| **Breusch-Pagan** | 23.4922<br>(0.0000) | 0.0001<br>(0.9909) | 23.4923<br>(0.0000) |

Based on table 3, the LM test results show that the Breusch-Pagan probability is 0.0000 which is smaller than 0.05. This means that H0 is rejected , so the most appropriate model in this study is the random effect model.

**Hypothesis Testing using Random Effect Regression Model**

Multiple regression is used to determine partial effects of independent variables on the dependent variable. In this study, the independent variables are growth opportunities, debt policy, and solvency, while the dependent variable is enterprise value. By performing multiple regression analysis of the dependent variable and independent variable, the results of multiple regression analysis can be seen in the following table:

Table 4. Regression Results of the REM model on Firm Value (PBV) variables
Source: Processed Data Results

| Variables | coefficient | t-Statistics | Prob. |
|---|---|---|---|
| C | 0.7467 | | |
| GROWTH_OPP | -0.8315 | -3.189771 | 0.0025 |
| DEBT_POLICY | -0.3980 | -0.434817 | 0.6656 |
| SOLVENCY | 0.5070 | 2.405353 | 0.0200 |

The t-test is performed to partially test the influence of the independent variable on the dependent variable. If the probability value is less than 0.05, it indicates the existence of a significant effect. The magnitude and direction of the influence can be determined from the value indicated in the coefficient column. The results show that growth opportunities have a negative and significant impact on firm value (PBV), solvency has a positive and significant impact on firm value, while debt policy does not have significant impact on firm value.

**Determination Coefficient Test ($R^2$)**

The coefficient of determination r-square test is used to explain how much the independent variables Growth Opportunity, Debt Policy, and Solvency contribute to the dependent variable firm value. The magnitude of the $\mathbf{R^2}$ value ranges from 0 to 1. If the value of the coefficient of determination is close to 0, it means that the independent variables have a very limited contribution. Conversely, if the value of the coefficient of determination is closer to 1 then these independent variables can contribute in the form of extensive information that can be used to predict the value of the dependent variable. The test results for the coefficient of determination in this study resulted in an adjusted R-square value of 0.6026. This means that Growth Opportunity, Debt Policy, and Solvency, are able to explain 60.26% of the Firm Value, while the remaining 39.74% is explained by other variables not included in this study.

**Effect of Growth Opportunity on Firm Value**

The statistical test result found that growth opportunity significantly has a negative effect on firm value. The relationship between growth opportunity and firm value can be explained by signal theory. In an effort to increase the value of the company, management is required to manage assets optimally. for the company to grow. The company's growth will be accompanied by high funding needs so that it will increase the debt ratio. This can mean that asset growth has an effect, but if debt is too large it will have a negative impact on company value, meaning the company cannot utilize its assets properly. The high debt ratio will be responded negatively by investors so that it has the potential to reduce the value of the company. The test results are in line with research by Gabriela & Widiasari (2019) which proves growth opportunity has a negative effect on firm value, and contradicts the results of research by Apriyanti et al. (2016) which reports that growth opportunity has a positive effect on firm value.

**Effect of Debt Policy on Company Value.**

Testing hypothesis $H_2$ is accepted. In other words, debt policy, taken individually (in part), does not have a significant effect on the value of the company and has a negative effect. The results of this study indicate that the higher the debt a company holds, the higher the risk it faces, which will lead to a decrease in company value because higher financial leverage will lead to difficulties. financially, so the value of the company will decrease. company decreases. Thus, debt policy has a negative impact on company value. So, the higher a company's debt policy, the lower its value. The results of this study support the results of previous studies conducted by Wulandari (2013) which showed that debt policy has a negative impact on firm value. This situation occurs because the company under study has large debts that cause high investment costs to exceed the tax benefits obtained while the company's revenue does not increase significantly. The higher a company's debt policy, the lower its value. However, the results of this study are not consistent with the study of Hidayat et al. (2019) find that debt policy has a positive impact on firm value. This means that the higher the debt capital structure, the higher the value of the company. Nevertheless, research by Putri & Rachmawati (2018) shows that debt policy does not affect enterprise value. This means that the size of the debt-derived capital structure does not affect the book value of the company's shares.

**Effect of Solvency on Firm Value**
Based on the t-statistics test results, it shows that solvency expressed as debt-to-equity ratio (DER) has a significant positive impact on firm value. The positive effect that DER shows that the company is able to manage debt well so that it can increase company value. This result is consistent with previous research results conducted by Gill showing that DER has a positive and significant impact on company value. The value of the company will be high if its debt level remains within reasonable limits, and if the company's debt level exceeds the limit then the value of the company will decrease due to more interest incurred. company. business. The company must repay its creditors, which will reduce investors' investment interest and reduce the company's value. it can also have an impact on corporate bankruptcy. The positive market response shows that the debts owned by companies in the property and real estate sector are still reasonable, and the company is able to pay them off. The results of this study also support Miller and Modigliani's debt policy theory which states that an increase in debt can increase firm value if it has not reached its maximum risk (Brigham & Houston, 2019).

## 4. CONCLUSIONS AND SUGGESTIONS

Based on statistical tests and the results previously shown, it can be concluded that growth opportunity has a negative effect on the value of basic and chemical industry companies listed on the Indonesia Stock Exchange in the 2019-2021 period , debt policy individually (partially) has no significant positive effect on the value of basic and chemical industry companies listed on the Indonesia Stock Exchange in the 2019-2021 period , and solvency has a significant positive effect on the value of basic and chemical industry companies listed on the Indonesia Stock Exchange in the 2019-2021 period .

The value of the coefficient of determination in this study is only about 60%, and there is still another 40% which can explain the value of the company. It is hoped that the next researcher will be able to explore more broadly with more variables so that they can find out the factors that greatly contribute to company value, which will provide clues to company managers to develop company value in the future. In addition, in future research it is recommended to expand the population and research sample, so as to increase the level of research accuracy and provide a more real picture of the factors that influence firm value.

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