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LEVERAGE AND FIRM SIZE ON FIRM VALUE IN LQ45 COMPANIES

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Abstract
This study aims to analyze the effect of leverage and firm size on firm value in LQ45 companies listed on the Indonesia Stock Exchange during the 2021–2024 period. Firm value in this study is measured using Price to Book Value (PBV). This research uses a quantitative approach with secondary data obtained from the annual financial statements of LQ45 companies published on the official website of the Indonesia Stock Exchange. The sampling technique used purposive sampling, resulting in 27 companies with a total of 108 observation data. Data analysis was conducted using panel data regression analysis with the assistance of EViews software. The results indicate that leverage has a positive but insignificant effect on firm value, while firm size has a negative and significant effect on firm value. These findings indicate that the use of debt has not been able to significantly increase investor confidence in company performance, while larger company size tends to reduce firm value due to inefficiency and increasing operational complexity.
Keywords: Leverage, Firm Size, Firm Value, LQ45

INTRODUCTION

The capital market is a source of capital or funding that supports economic business programs, aiming to meet the needs of individuals, governments, investors, and companies (Sari et al., 2021). The Indonesian capital market plays a crucial role in driving economic growth. One way to achieve this is through the LQ45 index, which lists issuers with high liquidity and market capitalization. Companies included in this index are considered to have strong performance, thus attracting investor attention. When selecting stocks, investors pay close attention to company value. A high value can foster confidence in the company's future prospects and build market trust in its current performance (Fajriah et al., 2022).

Company value is a key indicator of a company's success. Investors view strong financial performance as evidenced by high company value, promising growth prospects, and low investment risk. Maximizing company value is very important for the company, because it also means increasing the profits received by shareholders, which is the main goal of the company (Sari & Septiano, 2023). Investors' assessments of the company's condition and potential for future development are also factors in determining its value. In addition to share price, company value growth can also be measured using the Price to Book Value ratio (Nadhilah et al., 2022).

Leverage and firm size are two factors that influence a company's value. Leverage is a tool to measure how much a company is financed with debt (Nardo & Sari, 2021). Leverage relates to the amount of debt a company uses in its capital structure. Excessive use of debt increases financial risk and negatively impacts company value. Conversely, when used strategically, leverage can help a company increase profits (Lamba & Atahau, 2022).

Firm size is also considered a factor affecting firm value. Large companies generally have greater assets, wider access to funding, and better operational capabilities compared to smaller

companies. However, companies with very large sizes may also experience operational inefficiency, which can negatively affect firm value (Santoso & Junaeni, 2022).

The fluctuation phenomenon of firm value in LQ45 companies during the 2021–2024 period indicates changes in market conditions and company performance. In 2021, the firm value of LQ45 companies was 3.29, then increased to 5.15 in 2022. However, in 2023 the firm value declined to 2.88 and decreased again to 2.10 in 2024. This condition indicates that the firm value of LQ45 companies experienced instability and is therefore interesting to study.

The period from 2021 to 2024 is a crucial time to examine company value, given the prolonged impact of the COVID-19 pandemic, which continues to impact global economic stability. Uncertainty caused by surging inflation, supply chain disruptions, and high interest rate policies from central banks in various countries has placed significant pressure on company performance and business continuity. Based on the data found, existing issues, and supported by previous research, I chose the title "Leverage and Firm Size on Firm Value in LQ45 Companies"

LITERATURE REVIEW

Firm Value

Firm value reflects investors' perceptions of a company's performance and future prospects. A higher firm value indicates greater market confidence and shareholder wealth. Company value is often measured using market-based indicators such as Price to Book Value (PBV) and stock prices. According to Fajriah et al. (2022), firm value is influenced by internal company factors including growth and company size. Furthermore, Santoso and Junaeni (2022) stated that financial performance and capital structure significantly contribute to increasing firm value in the capital market.

Leverage

Leverage refers to the use of debt financing to support company operations and investments. The optimal use of leverage can increase company value because debt may provide tax advantages and additional funding opportunities. However, excessive leverage can increase financial risk and reduce investor confidence. Lamba and Atahau (2022) explained that leverage has a significant effect on firm value through profitability mediation. In addition, Nadhilah et al. (2022) emphasized that leverage decisions influence market perceptions regarding the company's financial stability and future performance.

Firm Size

Firm size describes the scale of a company's operations, which is generally measured by total assets, sales, or market capitalization. Large companies tend to have easier access to funding sources, better operational stability, and stronger investor trust. As a result, firm size is often associated with

higher firm value. According to Meifari (2023), larger companies generally possess stronger financial capabilities that positively affect company value. Likewise, Anggrawati et al. (2025) found that company size and solvency significantly influence firm value in companies listed on the Indonesian capital market.

METHOD

This study employed a quantitative approach with an associative research design aimed at analyzing the relationship among variables in companies listed on the LQ45 in 2024. The quantitative approach was chosen because the study focused on numerical data measurement and hypothesis testing through statistical analysis. The data used in this study were obtained from secondary sources, including annual reports, financial statements, sustainability reports, and other official company publications.

The population of this study consisted of 45 companies listed in the LQ45 index in 2024. The sampling technique applied was purposive sampling, which selects samples based on specific criteria relevant to the objectives of the study. The criteria included companies that were consistently listed in the LQ45 index during the observation period, published complete financial reports, and provided data relevant to the research variables. Based on these criteria, 27 companies were selected as the research sample, resulting in a total of 108 observational data.

This study used a ratio scale because all variables were measured numerically and possessed absolute values that allowed proportional comparison. Data collection was conducted using the documentation method by collecting and recording information related to the research variables from company reports and capital market publications. Furthermore, the data were analyzed using descriptive statistical analysis to describe the characteristics of the data and inferential statistical analysis to test the research hypotheses. Data processing was carried out using statistical software to ensure accurate and objective research results.

RESULTS AND DISCUSSION

Classical assumption test

Normality test

The normality test is used to test whether the residual values of the regression analysis have a normal distribution or not. Using the Jarque-Bera test, this study compares the JB (Jarque-Bera) probability values with a threshold of 0.05. If the probability of JB.sig > 0.05 means that the data distribution is normally distributed. Meanwhile, if the probability of JB.sig < 0.05 means that the distribution is not normally distributed.

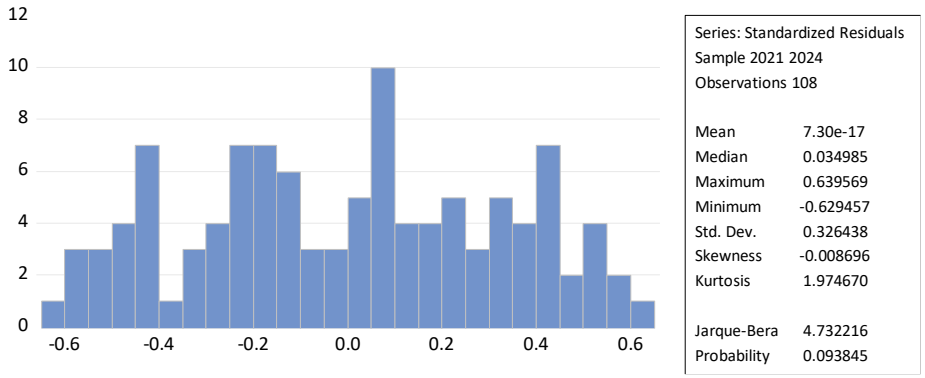

Figure 1. Results of the normality

Source: Secondary data processed with eviews 13

Based on the results of the normality test in the figure, it can be seen that the JB (Jarque Bera) probability value is 0.093845 > 0.05. So it can be interpreted that the normality test in this study is normally distributed.

Multicollinearity Test

The multicollinearity test is used to test the regression model to show the correlation between independent variables or more in a multiple linear regression model. Testing multicorrelation can be seen by looking at the VIF 15 Model (Variance Inflation Factor) value. If the Tolerance number is > 0.10 and VIF < 10, then it can be stated that the data does not show symptoms of multicorrelation.

Table 1. Multicorrelation Test Results

	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	0.222342	27.74386	NA
X1	0.000999	1.667129	1.046970
X2	0.000644	28.93230	1.046970

Source: Secondary data processed with eviews 13

Based on table 2 above, the results of the multicollinearity test in the table above show that the Centered Variance Inflation Factor (VIF) value for variables X1 (Leverage) and X2 (Firm Size) has a value of 1.046970<10, so it can be concluded that the relationship between Leverage and Firm Size is free from symptoms of multicollinearity.

Heteroscedasticity Test

Heteroscedasticity test to test whether in the regression model there is an inequality of variance from the residual of 1 study to another study. The presence or absence of heteroscedasticity is determined by the f-statistic (f-count) probability value. If the f-count probability value is > 0.05, it can be concluded that there is no heteroscedasticity or that the data is homoscedastic. Conversely, if the f-count probability value is < 0.05, heteroscedasticity has occurred.

Table 2. Results of Heteroscedasticity Test

F-statistic	2.167522	Prob. F(2,105)	0.1196
Obs*R-squared	4.282111	Prob. Chi-Square(2)	0.1175
Scaled explained SS	4.224257	Prob. Chi-Square(2)	0.1210

Source: Secondary data processed with eviews 13

Based on table 3 above, it shows that the probability value is higher than the alpha level, this can be seen from the p value indicated by the Chi square Prob. value on Obs*R-Squared which is 0.1175 > 0.05, so it can be concluded that there is no heteroscedasticity.

Panel Data Regression Analysis

Panel data regression is a research technique that combines cross-sectional data with time series data. Based on the two previous tests, the researchers concluded that the Hausman test was used with the selection of the fixed effects model (FEM). This was because the Hausman test yielded results with a significance value below 5%. Therefore, the researchers chose FEM as the appropriate model.

Table 3. Results of Fixed Effect Model Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	15.99521	4.038639	3.960545	0.0002
X1	0.066257	0.099680	0.664699	0.5082
X2	-0.841370	0.215429	-3.905557	0.0002

Source: Secondary data processed with eviews 13

Based on table 4, the results of the fixed effect model (FEM) test, the following equation was obtained:

$$Y = 15{,}99521 + 0{,}066257\ X_{1it} - 0{,}841370_{2it}$$

From this equation, the following conclusions can be drawn:

1. The results of the regression equation above show that the constant value is positive at 15.99521. This means that if the leverage and company size variables are held constant or equal to zero, the company's value will increase by 15.99521.
2. The regression coefficient for the leverage variable is positive at 0.066257. This means that if a company's leverage increases by 1%, the company's value will increase by 0.066257, assuming that the other independent variables remain constant.
3. The regression coefficient for the firm size variable is negative at –0.841370. This means that if the firm size increases by 1%, the firm value will decrease by 0.841370, assuming that the other independent variables remain constant.

Hypothesis Test

t-Test

Table 4. t-Test Results

Variable	Coefficient	t-statistic	t-table	Prob	Alpha	Conclusion
Leverage	0,066257	0,664699	1,98282	0,5082	0,05	H_1 Rejected
Firm Size	-0,841370	-3,905557	1,98282	0,0002	0,05	H_2 Accepted

Source: Secondary data processed with eviews 13

Based on table 5 above, the results are as follows:

1. The test results show that the Leverage variable has a t-statistic value of 0.664699, which is smaller than the t-table of 1.98282, with a probability value of 0.5082 > 0.05. This means that H0 is accepted and H1 is rejected, indicating that the Leverage variable has a positive and insignificant effect on Firm Value in LQ45 companies in 2021-2024.
2. The test results show that Firm Size has a t-statistic value of 3.905557 which is greater than the t-table of 1.98282, with a probability value of 0.0002 <0.05. This means that H0 is rejected and H2 is accepted, which indicates that the Firm Size variable has a negative and significant effect on Firm Value in LQ45 Companies in 2021-2024.

Determination Test

The coefficient of determination is used to determine the percentage of leverage and company size on company value. The coefficient of determination is measured using the Adjusted R-Square value.

Table 5 Determination Test Results

Information	Coefficient
R-Square	0,872401
Adjust R-Square	0,827176

Source: Secondary data processed with eviews 13

Based on table 6 above, the Adjusted R-Squared value obtained was 0.827176, this means that the leverage and company size variables have a contribution of 82.71% in explaining the company's value, while the remaining 17.29% (100% -82.71%) is explained by other variables that are not included in the model or explained by other indicators outside this study.

Discussion

This study aims to determine the effect of leverage and company size on firm value in LQ45 companies between 2021 and 2024. This research has been conducted and tested. The data obtained shows a sample size of 27 with 108 observations.

The Effect of Leverage on Firm Value

Based on the results of the hypothesis test in this study, the results show that leverage has a positive but insignificant effect on firm value. This result indicates that the extent of debt used in a company's funding structure has not significantly influenced changes in firm value. This situation may occur because the company is still able to manage its debt obligations effectively, so the level of leverage is not a primary consideration for investors when assessing the company.

These results align with research conducted by (Putri & Suprihhadi, 2025), which showed that leverage has a positive but insignificant effect on firm value. Leverage, in this study, is considered insignificant, meaning investors do not consider leverage as a benchmark in their investment activities. Companies tend to use equity capital, consisting of retained earnings and share capital, rather than debt. Research conducted by (Yanah & Sufiyati, 2025) found that leverage has a positive but insignificant effect on firm value. This is because leverage has a coefficient value of 0.341 and a significance level of 0.296. This indicates that a company's funding structure is not necessarily a primary consideration for investors when assessing a company's performance and prospects.

The Influence of Firm Size on Firm Value

It was concluded that firm size has a significant negative effect on firm value. These results indicate that the larger the LQ45 company, the lower its value tends to be. Large companies typically have more complex organizational structures, higher operational costs, and slower decision-making processes. Investors tend to perceive large companies as less flexible in responding to market changes, resulting in lower perceived firm value. This suggests that firm size is not always a positive indicator for investors; in some circumstances, large size can be perceived as an obstacle to achieving optimal performance and growth.

These results align with research conducted by (Anggrawati et al., 2025), which showed that firm size has a significant negative effect on firm value. The larger the company, the greater the potential for complex internal problems. This complexity can lead to operational inefficiencies, increased agency costs, and difficulties in effective decision-making. This ultimately can undermine investor perceptions of the company's performance, leading to a decline in the company's market value. Research by (Meifari, 2023) shows that firm size has a negative and significant effect on firm value. This suggests that excessively large firm size, as measured by total assets, is perceived as a negative signal by investors and potential investors.

CONCLUSION

This study aims to determine the effect of leverage and firm size on firm value in LQ45 companies between 2021 and 2024. The analysis method used is eViews 13. Based on the results of the study, Leverage had a positive and insignificant effect on the value of LQ45 companies listed on the Indonesia Stock Exchange from 2021 to 2024. This suggests that increasing leverage, as measured by the Debt-to-Equity Ratio (DER), tends to be followed by increasing company value, but this effect is not statistically strong enough.

Company size had a significant negative effect on the value of LQ45 companies listed on the Indonesia Stock Exchange from 2021 to 2024. This means that the larger the company size, as measured by the logarithm of total assets, the more significant the decline in company value. This

finding suggests that companies with large asset scales do not always improve positive investor perceptions in the capital market.

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