The Financial Ratios and Institutional Ownership Impact on Healthcare Firm's Value

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Abstract:- The pandemic has caused a contraction in the global economy. Amidst the slowing of the economy, there is a sector that still manages to grow, the healthcare sector. This is shown by the growth in the healthcare sector's GDP during the pandemic, but the PBV data on these companies didn't show a satisfactory result. This study is conducted to assess factors that might increase the firm's value of healthcare companies, such as profitability, working capital, tangible assets, leverage, and institutional ownership. This research will use a panel data analysis technique, quarterly financial statements from 2020-2021 of nine companies in the subsector of health services and equipment from the healthcare sector. Results of this study show that profitability and leverage give a positive impact while tangible assets give a negative impact on a firm's value, and the other factors do not affect a firm's value.

Keywords:- *Financial Ratios, Price to Book Value, Profitability, Working capital, Tangible Asset, Institutional Ownership, Leverage.*

I. INTRODUCTION

Based on Presidential Decree No. 11 of 2020, the Covid-19 epidemic started to affect Indonesia at the end of March 2020. The pandemic has hurt the Indonesian economy and stoked a growing level of corporate rivalry. Due to the pandemic, many business sectors have seen stagnation and even setbacks, but there are still some that are thriving. The health industry is still expanding despite the unstable economic conditions brought on by this pandemic. This can be seen as the rise in the health sector's Gross Domestic Product (GDP), which was 8.69% in 2019; 11.56% in 2020; and 10.61% in 2021 (Bisnis Indonesia, 2022). This strong health sector GDP should help to raise the value of businesses in the healthcare industry (Sartika, Siddik, and Choiriyah, 2019). The sectoral growth data above, however, does not reflect the PBV data for the health services business on the stock market. People's anxiety about visiting the hospital during an epidemic may be the root of this.

Given the imbalance in the phenomena in the health sector, it is critical to understand how to increase company value as one of the indicators of excellent company performance, in addition to the high level of profit and the well-being of the company's owners and shareholders (Hartati, Kurniasih, and Sihombing, 2021). Positive news about the company's success must be shared for investors to influence and raise the company's value to maximize its value. Financial managers need to make wise financial choices if they want to get good performance. Greater prosperity for shareholders will come from improved business performance and value (Aamir, Akram, Khan, Farooq, and Abbas, 2022).

The research purpose is to learn more about the variables of financial ratios that affect a company's value, particularly those that provide health services. Profitability is one of the elements that affect firm value. Businesses with higher profit levels will exhibit strong corporate performance, signal for investors to spend their funds, and raise the stock price of the business (Djashan and Agustinus, 2020). Working capital is frequently viewed as having an impact on a company's operational activities, which are crucial to effective business administration. Effective working capital management impacts profit levels, business risks, and ultimately, the company's worth (Altaf, 2018).

The tangible assets that the business owns can also be used to estimate its value. Tangible assets can be helpful in two ways: as a catalyst for creativity and the creation of new business ideas (Saleh, 2018) and as a security for credit that makes it easier to obtain loans as a source of funding (Ariyanti, 2019). The ownership of the business is another feature suspected to affect the value of the corporate. Because the institution keeps a closer eye on the business, institutional share possesion is thought to be able to raise the corporate's worth (Jentsch, 2019).

This study also looks at the ability of leverage impact on firm's value. Because it lowers the amount of taxes which must be paid and considered to be advantageous as a source of corporate financing. However, the interest cost associated with loans must still be taken into consideration (Hidayat, 2018).

The authors will examine the impact of profitability, net working capital, tangible assets, leverage, and institutional ownership on firm value considering the imbalance between the growth of the health sector and its company value on the stock exchange, inconsistency from prior studies, and the lack of research on this topic in healthcare companies.

II. LITERATURE REVIEW

A. Signaling Theory

Akerlof (1970) describes the concept of signaling theory as the owner should be informed when management has succeeded or failed. This theory explains why businesses are motivated to freely share information with the capital market despite the lack of a regulatory mandate requiring it. Management's disclosure of data seeks to keep interested investors in the business. Jogiyanto (2010) asserts that information released as a statement will serve as a cue for investors to decide whether to invest or not. Market participants will initially perceive and evaluate newly released information as either a positive signal or negative signal (Suwardjono, 2010). Investors will be motivated to put their money to use if the information is regarded as a positive indication.

B. Agency Theory

The Agency theory is a contract between the manager acting as the agent and the proprietor acting as the principal, according to Jensen and Meckling (1976). Information inequality is one reason for agency issues. Information asymmetry is an imbalance in the knowledge that principals and agents have, wherein principals lack sufficient knowledge of management's performance while managers, acting as agents, have more knowledge of the workplace, their capabilities, and the company (Parker et al, 2018). So that it operates as expected, principals must develop a system that can track the manager's success. Costs associated with this activity include those for developing operational standards, paying for government oversight, developing accounting information systems, and so forth. Agency costs are the expenses incurred because of this activity.

C. The Company Value

The firm's primary objective is to increase its value by enhancing the well-being of its owners or shareholders (Syamsudin, Setiany, and Sajidah, 2017). Therefore, it can be said that a company's shareholders will be more successful the greater its stock price. Financial ratios, of which Price to Book Value (PBV) is the one used in this research, are another method to measure company value besides stock price. PBV is a measure of how investors view a business; companies that are regarded favorably by investors are those that generate strong profits and cash flow and continue to expand. The goal of business owners is to have a company with a high PBV because it will increase shareholder wealth and send a message that the company has promising futures (Brigham and Houston, 2019).

D. Profitability

A company's product from its business operations is known as profitability. The profitability ratio refers to a firm's technical capacity to utilize its resources effectively to produce gain (Aamir, et al., 2022). Investors will value a company more if it has a greater potential for profitability, which will result in an increase in the stock price and an increase in the company's value (Ariyanti, 2019). Profitability is also referred to as the outcome of managing the money that investors have tasked you with. This is crucial so that buyers can judge the company's ability to generate returns for them (Sukmawardini and Ardiansari, 2018). According to the findings of earlier studies by Djashan & Agustinus (2020), Artamevia & Almalita (2021), Detama & Laily (2021), Putra & Putra (2021), and Aamir et al. (2022), profitability has a favorable impact on company's worth. Therefore, the following hypotheses could be developed:
H1: Profitability has a positive effect on firm value

E. Working Capital (NWC)

A significant impact on the maintenance of an appropriate level of liquidity is net working capital (NWC), which consists of current assets and current liabilities (Jędrzejczak-Gas, 2017). It's one of the most crucial aspects. Profitability and company value will be impacted by the high NWC value, determined by the inventory quantity, the value of trade payables and trade receivables (Pandiangan and Sihombing, 2022). On the inventory side, high stock levels (thus raising NWC) can increase profit by reducing supply costs and potential losses from stock depletion, as well as acting as a hedge against changes in input prices. Companies can choose to fund their current assets, such as accounts payable, with short-term or current debt to lower their average cost of capital and boost their returns (Altaf, 2018). According to research from Kasim, Saragih, and Saifannur (2021), and Senan et al. (2022), businesses with high net working capital will see a rise in their stock prices. Based on the exposure and research results, the following hypotheses can be developed:
H2: Net Working Capital has a positive effect on Firm Value

F. Tangible Assets

Everything that the business owns is appraised as an asset. Tangible assets, intangible assets, and other assets are the three categories into which assets are separated. The assets tangibility, or the percentage of fixed assets to total assets, can be used to calculate tangible or tangible assets. According to Sugiama (2013) wealth that can tangibly be perceived using the five senses is referred to as tangible assets. The findings of earlier studies by Ariyanti (2019), Djashan and Agustinus (2020), and Artamevia and Almalita (2021) demonstrate that tangible assets, or the ratio of a company's tangible assets to its total assets (asset tangibility), can increase the business esteem. Therefore, the following hypotheses could be developed:
H3: Tangible assets have a positive effect on firm value

G. Institutional Ownership

Jensen and Meckling (1976) describes the goals of management and business owners do not align. A sound ownership structure is required to ensure a positive connection between business owners and management (Setiany, Syamsudin, Sundawini, & Putra, 2020). Institutional ownership is one type of ownership arrangement (Wang & Sun, 2022). Companies with institutional equity ownership are typically more valuable because the organizations that handle investments and assets will be keeping a closer eye on them. This is consistent with the idea that institutional shareholders are better at monitoring because they have more expertise and a superior financing structure than other shareholders (Jentsch, 2019). The

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findings of studies by Purba and Effendi (2019), Sakawa & Watanabe (2020), and Putra and Putra (2021) demonstrate the beneficial influence of institutional ownership structure on company merit. Thus, the following hypotheses could be developed:
H4: Institutional Ownership has a positive effect on Firm Value

H. Leverage

According to pecking order theory, when the internal funds of a company is not sufficient to cover operational costs or investing in new assets, the next cheapest source of external funds is through debt or leverage (Myers and Majluf, 1984). One of the commonly used ratios for leverage is Debt to Asset Ratio (DAR) which measures how much of the company assets is funded through debt (Rochmatullah, Rachmawati, Probohudono, & Widarjo, 2022). The higher the ratio, the more dependent the company on debts to cover their expenses. It can cause financial distress, but if the company is able to generate more profit than the annual interest, the company will grow and be trusted by the investors (Ariyanti, 2019; Artamevia and Almalita, 2021). The findings of studies by Hidayat (2018), Harahap, Septiany, & Endri (2020), Artamevia & Almalita (2021), and Detama & Laily (2021) demonstrate the beneficial influence of leverage on company value. Thus, the following hypotheses could be developed:
H5: Leverage has a positive effect on Firm Value

III. METHODOLOGY

Before The study population consisted of all seventeen issuers that were registered on the Indonesia Stock Exchange (IDX) by the end of 2022 in the healthcare industry. The sampling of the businesses uses the purposive sampling technique, which involves taking samples based on criteria to produce a sample that is representative of the firms in question (Sugiyono, 2017).

Table 1. Sample Selection Process

Information	Amount
The total number of healthcare sector companies in the health services and health equipment sub-sector listed on the IDX	17
Companies that have just conducted an Initial Public Offering (IPO) on the IDX after the first quarter of 2020, or have been de-listed from the IDX during the research period (2020-2021)	(8)
Number of Research Samples	**9**

Nine stock issuers out of the seventeen stock issuers with population statistics fulfilled the sampling criteria, as shown in the table below:

Table 2. Sample Data

No.	Company name	Issuer Code
1	Metro Healthcare Indonesia, Tbk	CARE
2	Medikaloka Hermina, Tbk	HEAL
3	Itama Ranoraya, Tbk	IRRA
4	Mitra Keluarga Karyasehat, Tbk	MIKA
5	Prodia Widyahusada, Tbk	PRDA
6	Royal Prima, Tbk	PRIM
7	Sarana Meditama Metropolitan, Tbk	SAME
8	Siloam International Hospitals, Tbk	SILO
9	Sejahteraraya Anugrahjaya, Tbk	SRAJ

Panel data regression analysis was applied as the analytical technique to asses the relationship of the independent variables and Moderated Regression Analysis (MRA), using the Eviews 12 and Microsoft Office Excel 365 applications, in this research since cross-sectional and time series data. Quarterly data over two years, specifically from 2020 to 2021, are used as time series data. An analytical method known as inferential analysis is used to assess the degree of similarity between findings from a sample and those expected from the population at large. The significance level for hypothesis testing in this research uses = 10% or 0.1, which indicates that the error tolerance is only 10% and the findings are 90% accurate when concluding (Ghozali, 2018). The following describes the analysis model with the MRA approach used in this work:

$$\mathbf{PBV = \alpha + \beta_1 ROA + \beta_2 NWC + \beta_3 TA + \beta_4 INST + \beta_5 DAR + e}$$

Information:
α: Constant
$\beta_1 - \beta_5$: Regression Coefficient
ROA: Profitability (Return on Assets)
NWC: Net Working Capital
TA: Tangible Asset
INST: Institutional Ownership
DAR: Leverage (Debt to Assets Ratio)
e: Standard error

IV. RESULTS AND DISCUSSION

A. Descriptive Statistical Analysis

Research variables that are represented by descriptive statistics are broad examples of data. The descriptive statistical analysis results will include the research data's mean, maxim um, minimum, standard deviation, and mean. The outcomes of this study's summary statistical analysis are listed below.

Table 3. Descriptive Statistics

	PBV	ROA	NWC	TA	INST	DAR
Mean	3.612	0.042	0.203	0.491	0.664	0.299
Maximum	14.700	0.229	0.698	0.936	0.927	0.718
Minimum	0.490	-0.229	-0.336	0.029	0.319	0.043
Std. Dev.	2.903	0.073	0.2286	0.219	0.199	0.203

Source: Processed data

The PBV variable has an average of 3,612 and a standard variation of 2,903 based on the table above. In the second quarter of 2020, SAME had the lowest score, 0.49, and IRRA, in the fourth quarter of 2020, had the best score, 14.7. The ROA variable has a mean of 0.042 and 0.073 as standard deviation. In the third quarter of 2020, SAME reported the lowest value of -0.229, and in the fourth quarter of 2021, PRDA reported the highest value of 0.229.

The NWC variable as measured by the Net Working Capital Ratio (NWCR) has 0.203 mean and 0.228 standard deviation, where the lowest figure is -0.336 owned by SRAJ in the fourth quarter of 2021, and the highest NWC of 0.698 is owned by IRRA in the first quarter of 2020. The tangible asset variable is measured using the assets tangibility, which calculates the total of tangible assets compared to the total assets owned by the company, from the result it could be perceived the mean is 0.491 and 0.219 standard deviation, and the lowest value is 0.029 owned by IRRA in the second quarter of 2021, while the highest is 0,936 owned by SAME in the second quarter of 2020.

The institutional ownership variable (INST) is known to have a mean of 0.664 with 0.199 as standard deviation, the lowest ownership of 0.319 is owned by PRIM in the first quarter of 2021, and the highest is 0,927 owned by SRAJ in the fourth quarter of 2021.

The leverage variable (DAR) have a mean of 0.299 with 0.203 as standard deviation, with the lowest leverage of 0.043 owned by CARE in the second quarter of 2020, and the highest leverage is 0.718 owned by IRRA in the second quarter of 2021.

B. Panel Data Regression Equation Results

Panel data regression analysis can be executed using three models, called the common effect, fixed effect, or random effect model estimation test. To determine the most suitable model of the 3 types of panel data models above, a test was performed on each model. From the results of the Chow test, the researcher found a chi-square probability of 0.000 which is less than 0.1, so the fixed effect model is more appropriate to use. Furthermore, the Hausman test was carried out and a chi-square probability of 0.353 was obtained, which returned more than 0.1, so the random effect model is more appropriate to use than the fixed effect model. To ascertain the best model between random or common effect, the Lagrange Multiplier test is also carried out and the Breusch-Pagan cross section chi-square probability came to 0.000, which is less than 0.1, therefore the best model to use in this research is the random effect model.

Table 4. Best Panel Data Regression Test Result

Test	Criteria	Statistic	Prob.	Concl.
Chow	Cross-section F	17.337	0.000	CEM is not the best model
Hausman	Cross-section random	5.542	0.353	FEM is not the best model
Lagrange Multiplier	Cross-section chi square	63.811	0.000	REM is the best model

Source: processed data (2023)

- *Classic assumption test*

Using panel data benefits in research are the data used turn out to be more descriptive, has greater varaince, has lower collinearity, greater degrees of freedom, better efficiency. Therefore it does not require testing the classical assumptions (Gujarati, Porter, and Gunasekar, 2012).

- *Hypothesis Test Results*

After determining the best model, it is necessary to test the hypothesis through the R2 test, F test, and statistical t-test.

Table 5. Test Results Using the Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROA	8.324	3.262	2.552	0.013
NWC	-2.024	2.284	-0.886	0.379
TA	-12.400	2.609	-4.752	0.000
INST	-1.036	3.221	-0.322	0.749
DAR	6.451	1.890	3.413	0.001
C	8.523	2.922	2.916	0.005
Effects Specification				
			S.D.	Rho
Cross-section random			2.654	0.789
Idiosyncratic random			1.371	0.211
	Weighted Statistics			
Root MSE	1.318	R-squared		0.399
Mean dependent var	0.649	Adjusted R-squared		0.354
S.D. dependent var	1.713	S.E. of regression		1.377
Sum squared resid	125.108	F-statistic		8.788
Durbin-Watson stat	2.509	Prob(F-statistic)		0.000

Source: processed data (2023)

Based on the table above, the constants and coefficients of each variable that will form the model in this study are obtained as follows:

$$PBV = 8.523 + 8.324ROA - 2.024NWC - 12.400TA - 1.036INST + 6.451DAR$$

The R-squared in this study is 0.399, meaning that the dependent variable in this study will be affected by the independent variable of 39.9%, meanwhile the other 60.1% comes from the influence of other variables. The probability of the F-statistic is 0.000 <0.1, so it can be concluded the independent variables in this study will simultaneously influence the dependent variable. The probabilities of the t-statistic test results are obtained which determine the significance of each independent variable to the dependent variable. Based on the data above, it can be concluded in the random effect model that:

- *Effect of Profitability on Firm Value*

The panel data regression outcomes above appear the ROA variable has a 8.324 coefficient with probability of

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0.013. This means that the profitability variable proxied to ROA has significant positive effect, so H0 is rejected and H1 is accepted, namely, profitability positively affect firm value.
H1: Profitability has a positive effect on Firm Value.

- *Effect of Net Working Capital on Firm Value*

The results manifest that the variable NWC has -2.024 coefficient with 0.379 probability. This means that the working capital management variable which is proxied to NWC has no effect, so H0 is accepted and H1 is rejected, NWC doesn't affect on firm value.
H0: NWC does not affect Firm Value

- *Tangible Assets Effect on Firm Value*

The outcomes show that tangible asset (TA) has -12.400 coefficient with 0.000 probability . This means that tangible asset variables have an effect, even though they have a negative influence, so that H0 is rejected and H1 is accepted, namely tangible assets negatively affect firm value in this study.
H1: Tangible Assets has a negative effect on Firm Value

- *Institutional Ownership Effect on Firm Value*

The outcomes manifest that INST has -1.036 coefficient with 0.749 probability. This means that the institutional ownership variable has no effect, so H0 is accepted and H1 is rejected, that institutional ownership doesn't affect firm value.
H0: Institutional Ownership does not affect Firm Value

- *Leverage Effect on Firm Value*

The outcomes manifest that DAR has 6.451 coefficient with 0.001 probability. This means that the leverage variable has significantly positive effect, so H0 is rejected and H1 is accepted, that leverage affect firm value positively.
H1: Leverage has a positive effect on Firm Value

➢ *Effect of Profitability on Firm Value*

The results of the test show that profitability as a proxy for ROA has a positive effect on the company value of the healthcare industry listed on the IDX in 2020-2021. This is in line with research conducted by Djashan & Agustinus (2020), Artamevia & Almalita (2021), Detama & Laily (2021)54, Putra & Putra (2021), and Aamir et al. (2022). This is also in line with the theory that investors will value a company more if it has a greater potential for profitability, which will result in an increase in the stock price and an increase in the company's value (Ariyanti, 2019). Since profitability is also said as the outcome of managing the money that investors have tasked you with, the higher the profits means that the company has a high ability to generate returns for them (Sukmawardini and Ardiansari, 2018), thus increasing firm's value.

➢ *Effect of Net Working Capital on Firm Value*

The results of the test show that working capital management proxied by NWC has no effect on the company value of the healthcare sector listed on the IDX in 2020-2021. It's simillar with study conducted by Putra, et al. (2017) which states that NWC does not affect firm value. This seems to indicate that a lot of working capital to minimize operational risk is inversely proportional to the desired level of profitability. Management must consider to what extent working capital must be owned before sacrificing profitability and company value. Further studies regarding optimal working capital thresholds need to be developed (Le, 2019).

➢ *Effect of Tangible Assets on Firm Value*

The results of the test show that tangible assets are proxied for the tangibility of assets, or the ratio between tangible assets and total assets harms company merit in the healthcare sector listed on the IDX in 2020-2021. It's simillar with study conducted by Saleh (2018) which states that tangible assets negatively affect company value. It happens because investing in tangible assets or fixed assets, very large funds are needed to buy these assets. This will lead to a reduction in retained earnings by the company because these profits will be used to finance expensive fixed assets. Companies will use retained earnings because it is the cheapest source of funding. However, reduced retained earnings will reduce profits distributed to investors, so investors will be less interested in investing their money in the company, which will reduce the stock price and company value.

➢ *Effect of Institutional Ownership on Firm Value*

The test results show INST does not have effect on the company value of the healthcare sector which is listed on the IDX in 2020-2021. This is in line with research conducted by Sukmawardini and Ardiansari (2018), Setiany, et al. (2020), and Artamevia & Almalita (2021) show institutional ownership does not affect firm value. According to Artamevia and Almalita (2021), high institutional ownership does not ensure that the supervision of company management is also more effective and optimal. There is also the possibility of agency problems due to information asymmetry between investors and management which causes the oversight function of institutional investors to not be optimal.

➢ *Effect of Leverage on Firm Value*

The results of the test show that leverage proxied with debt to assets ratio positively affect company merit in the healthcare sector listed on the IDX in 2020-2021. It's similar with study conducted by Hidayat (2018), Harahap, *et al.* (2020), Artamevia dan Almalita (2021), dan Detama dan Laily (2021) which states that leverage (with its many proxies) positively affects company value. This is also in line with the theory of Modigliani and Miller (1963) which states that using debt will increase the company's profitability by utilizing tax shield. If the company can maximize its profit using debt, investors will appreciate that the company didn't rely solely on investor's funds (Harahap, *et al.*, 2020), but care should be taken to ensure proper funding structure to avoid financial distress (Detama and Laily, 2021).

V. CONCLUSION

Based on the results of this study, it can be concluded that:

- Profitability positively affects company value, since high profit will give positive signal to investors that a company is doing well.
- NWC does not affect firm value, because a high amount of working capital alone is not enough to increase company profitability.
- Tangible assets negatively affects firm value, because the costs required to invest in this type of asset are very high, if purchased using retained earnings it will reduce investor judgment.
- Institutional ownership does not affect firm value, there may still be agency problems due to information asymmetry between investors and management which causes the oversight function of institutional investors to not be optimal.
- Leverage positively affects firm value since it can reduce the tax charged to the company thereby increasing the company's income to a certain extent.

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