Research Article

The Impact of CEO Tenure, Capital Structure, Stock Prices on Firm Value (Empirical Study on the Automotive Industry and Components listed on the Indonesia Stock Exchange for the 2013-2019 Period)

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Abstract: The Influence of CEO Tenure, Capital Structure, Stock Price on Firm Value (Empirical Study on Automotive Industry and Components listed on the Indonesia Stock Exchange 2013-2019 Period). This study aims to examine empirically the effect of CEO tenure, capital structure and stock prices on firm value. The independent variables in this study are the effect of CEO as X1, Capital Structure as X2, and Stock Price as X3. The dependent variable is the value of the company as Y. This type of research takes time series and cross section data in the automotive industry and the 2013-2017 observation period. The number of research samples using purposive sampling technique, namely obtained 77 samples. The data analysis used was t test (partial) using Eview 10. The results showed that CEO tenure and stock prices had an influence on firm value, while capital structure had no effect on firm value.

Keywords: CEO Tenure, Capital Structure, Stock Price, Firm Value

1. Introduction

A company always has a main target in its business activities, namely to increase the prosperity of capital owners which can be defined by increasing the company's stock price (Harjito, 2012). One of the factors that can stimulate an increase in the firm stock price is an increase in firm value, because firm value is a reflection of the market price of a company. A number of statements explain that if the performance of a company increases, the company value will be even higher (Zuraedah, 2010).

An increase in company value will be appreciated by the market in the form of an increase in stock prices.Conversely, if news appears about the decline in company performance which causes a decrease in the value of the company, it will be able to push down the price of the company's stocks on the stock exchange. Firm value is one of the information used by investors in making investment decisions. One of the potential industries is the various industries in the automotive and component subsectors. The value of companies in the auto subsector and components has tended to fluctuate over the past few years due to unfavorable conditions in the world economy which affected Indonesian economic conditions, which led to a decline in company performance.

Firm value is an important matter for the company because this value is able to reflect the overall performance of the company so that it can influence investors' views of the company. A high company value illustrates the more prosperous the company owner is. With the information obtained that the automotive and component sub-sector companies have experienced a decline in the value of the company, the researchers are interested in conducting research on the factors that cause the decline in value.

Making key management decisions in overcoming problems in the company greatly affects the performance of the company. The dominance of the CEO's decision in making decisions will affect the value of the company. In this study, CEO *power is* proxied by the *ceo pay slice* (CPS) or salary.The higher the salary that is given, the greater the strength of the CEO, so that the dominance of the CEO in decision making is getting stronger because the decision making is more concentrated on the CEO, this will increase the value of the company, where the level of salary given is proven to maintain consistency in the actions of the company's key management to maintain growth in company value.

Company capital is divided into two components, namely own capital and foreign capital or debt (Riyanto, 2001: 227; Makalela & Asha, 2019). The specific combination of equity and foreign capital or debt is called the capital structure. Capital structure is one of the factors that influence firm value. The decline in the value of the company if the debt used is higher and the use of debt in the company is adjusted to the current conditions or business climate of the company, which means that debt has no influence on the high and low value of the company.

Firm value is the price a prospective buyer is willing to pay if the company is sold. The higher the value of a company, the higher the prosperity of the stockholders. For companies that issue stocks on the capital market, the price of stocks traded on the stock exchange is an indicator of the value of the company. The prosperity of stockholders will increase if the price of their stocks also increases (Agus Sartono, 2012: 8). The stock price is one of the factors that affect the value of the company. A high stock price makes the company value high, and vice versa, if the stock price decreases, the company value also decreases.

2. Literature Review Firm

Value is the price a prospective buyer is willing to pay if the company is sold. The value of the company can be measured from the high and low price of the stocks in the company concerned. The high and low stock prices are much influenced by the condition of the company itself.

Modigliani and Miller's theory states that firm value is determined by the *earning power* of the company's assets. The higher the earning power, the more efficient the asset turnover is and or the higher the profit margin the company gets. This will have an impact on company value. Firm value consists of debt value and stock value. An increasing company value is reflected in an increased stock price (Purwantini, 2011).

When a company can provide maximum prosperity to stockholders, where the company's stock price increases and market value increases, it can be said that the company value (Brigham, 2006). The policies taken by management in an effort to increase the value of the company by increasing the prosperity of the owners and stockholders are reflected in the stock price.

Firm value in this study is proxied by Tobin's Q theory. Tobin's Q theory is an indicator to regulate company performance, especially regarding company value, which shows a management performance in managing company assets (Purwantini, 2011). The model used to determine Tobin's Q is as follows:

$$\boxed{Q = \frac{(EMV + D)}{(EBV + D)}}$$

From the above formula, it can be explained that EMV is the market value of equity, EBV is defined as the book value of total assets and D is the book value of total debt. When Q as Tobin's value of Q> 1, then the stock is in an overload condition and shows good asset management performance, thus spurring high investment growth. However, if the value of Tobin's Q <1, the management is considered to have failed in managing the company's assets, so that investment growth is predicted to decline.

3. Development of The Hypothesis

CEO Tenure and Company Value

Someone who holds the highest position in the firm's operational activities, responsible for strategic plans and decisions and as a liaison between internal and external parties is The Chief Executive Officer (CEO). The CEO tenure shows how many years the CEO has served in the analyzed firm (Morellec, 2012). The term of office of the CEO is stipulated in POJK Number 33 of 2014 Article 3 paragraph 3 which explains that 1 period of a member of the board of directors is no more than 5 years or until the closing of the annual GMS at the end period. Members of the board of directors are elected for a specified period and can be re-appointed (UUPT Number 40 of 2007 Article 94).

CEO dominance shows how much the power of decision making is concentrated in the hands of the CEO. The CEO is generally considered a prime mover in the company's innovation strategy and a leader in creating value (wealth) for stakeholders or stockholders. CEOs can only influence a company if they have influence over important decisions.

The Chief Executive Officer (CEO) plays a key role in management for funding, investing and other strategic decisions. The salary received by the CEO will influence the decisions he makes so that it will have an impact on the overall value of the company (Lucian A. Bebchuk, 2011). Making investment decisions and the right strategy by the CEO has an impact on the company being more advanced, making the company bigger, increasing profits, dividends to stakeholders, raising stock prices, which has the impact of increasing company value. However, when a large number of CEOs are in the company, apart from being able to carry out their duties, it will certainly be a big burden for the company. Therefore, the existence of the CEO can be said to be in line with company values and has the best relationship with company values.

Referring to research (KwangJoo Koo, 2015) proves that CEO has a positive influence on firm value, while the results of research conducted by Sheikh (2018) state that CEO *power has* no effect on firm value.

H1: CEO Tenure effects on Firm Value,

Capital Structure and Firm Value.

Comparison between long-term debt and equity can be defined as capital structure (Husnan: 2000). Capital structure is a combination of debt and equity in funding investment of the firm (Tarus and Ayabei, 2016). The ratio between debt and equity is more commonly known as the Debt Equity Ratio (DER).

In developing a business or fulfilling its operational activities, a company can take advantage of existing resources or take financing in the form of long-term debt. Debt can be obtained from third parties such as banks or non-banks. However, it should be noted by management that choosing financing in the form of debt has a risk of repayment that has a time limit. Companies must understand the benefits of choosing debt financing and the risks that will be faced, so it is necessary to consider the right ratio of the ratio between debt and the company's own capital.

The government regulates the achievement of the company's Debt Equity Ratio. Regulation of the Minister of Finance of the Republic of Indonesia No. 169 / PMK.010 / 2015 stipulates that the DER is not more than the ratio of 4: 1. This is so that the company is always in a healthy condition.

With the value of the debt of small companies, asset growth can be maintained, so it can increase the value of the company, so that investors hope for the benefits obtained in the future. The results of empirical research show that capital structure affects firm value (Hermuningsih, 2013). This research refers to (Ni Kadek Rai Prastuti, 2016) proving that capital structure has an influence on stock value as well as research conducted by Anup Chowdhury (2010) which states that capital structure has a positive effect on firm value.

H2: Capital structure affects Firm Value

Stock Price and Company Value

Stocks are a sign of investors' equity participation in a company. The investor has a claim on the company's assets and profits. Stocks show the value of assets owned which are contained in marketable securities, namely stocks.

Stock prices reflect everything that is known about these stocks, information about stocks will quickly spread in the market so that prices will adjust accordingly (David Sukardi Kodrat, 2010). The stock price is an indicator of the company's management performance. when the stock price has increased, stakeholders and investors consider that the company is successful in managing its business (Zuliarni, 2012). Stock price changes are very fast in seconds and minutes, depending on the number of requests and offers at the time of sale and purchase of stocks (Darmadji, 2011). Research (Kurniawan, 2019) proves that stock prices have an influence on firm value.

H3: Stock Price affects the Company Value

4. Methodology

5.

The sample used in this study comes from the automotive industry and components listed in the Indonesia Stock Exchange sourced from www.idx.co.id.The total automotive industry and components that are registered are 13 industries. By using purposive sampling with criteria including 11 companies that have complete data and publish their financial reports during the 2013-2019 period, the sample obtained is 77 research samples. The data used in this research is quantitative data. The use of time series and cross section data in other terms is panel data which is an amalgamation of the number of companies in the automotive industry and the 2013-2017 observation period.

Variable measurement is done by measuring the indicators of each variable. CEO tenure is defined as a person who has a role in the company to make funding, investment and other strategic decisions. CEO tenure is measured by the total CEOs in the company (Lucian A. Bebchuk, 2011). Capital structure is measured using the Debt Equity Ratio (DER), which is the ratio between long-term debt and equity (Martono, 2014).

The stock price is the value formed on the stock market. The value used is the annual average value at the closing price (Benjamin Graham in (David Sukardi Kodrat, 2010)). Firm value is measured by the Tobin's q concept, where the present value of the expected income or cash flows will be received in the future (Sudana, 2011).

Table 1
Research Variables, Symbol and Measurements

Variable	Symbol	Measurements
Firm Value	FV	Tobin Q
CEO Tenure	CEOT	The amount of years as CEO in the firm
Capital structure	CAPS	Long term debt / total equity
Stock Price	STOP	Price closing

Data analysis techniques performed in this study , first doing a descriptive analysis. Descriptive analysis was conducted to obtain an overview of the conditions or characteristics of the research data related to the CEO tenure, structure, stock price and firm value variables. Descriptive analysis is based on the mean, median, maximum value, minimum value and standard deviation. Before determining the results of the hypothesis, first perform the Chow Test, Hausman Test and Lagrange Multiplier (LM) Test to determine the appropriate estimation model in this study. The results of this test resulted in the Random Effect Model (REM) which is the right model to be used in this study.

Hypothesis testing using t test with a significance level of 5%, and panel data regression. The panel data regression model used to answer the research hypothesis is described as follows:

$$FV = a + \beta 1CEOT + \beta 2CAPS + \beta 3STOP + e \text{ The}$$

Research data used is first tested classical assumptions. The classical assumption test is carried out, the first is the normality test of the data using the *Jarque-Bera.* Second, the heteroscedasticity test uses the Glejser test, third, the multicollinearity test and finally the autocorrelation test using the Durbin-Waston test. This data processing uses Eview 10.

6. Result and Discussion

1.1. Result

Table 2
Statistical Descriptive

Variable	N	Mean	Median	Maximum	Minimum	Std Dev.
Firm Value	77	1.262	1.05	4.25	0.34	0.801227
CEO Tenure	77	1.689685	1.609438	3.526361	0	1.027.340
Capital Structure	77	0.584444	0.48	3.75	0.07	0.617143
Stock Price	77	7,425049	7,56008	9,852194	4,828314	1,207,592

The results of descriptive test using a research sample of 77 samples, obtained the mean value for the firm value of 1.262. A company value of more than 1 indicates a good company value, where the stock is in an overload condition and shows a good company asset management performance, thus spurring high investment growth. The mean value of the CEO tenure is 1.689. The results showed that on average each company had 9 CEOs, this of course a large number. With a large number of CEOs, it is hoped that the company will be more strategic in making decisions.

The capital structure obtained an average value of 0.48 during the observation period. The average capital structure value of 0.48 indicates that the DER value is still below 1, still in good condition, meaning that the value of capital is still greater than the value of the company's debt. However, there are some companies that have a DER above 1. This should be of particular concern.

During the observation period, the stock price fluctuated greatly. Company performance, political economy situation and stock purchase sales transactions that occur on the stock exchange market greatly affect stock prices.

Furthermore, testing the classical assumptions. The results of the classical assumption test on data normality using the *Jarque-Bera* show a prob value of 0.408 and more than 0.05, so the data can be said to be normal.

Furthermore, the multicollinearity test using the correlation model obtained results between -0.7 - 0.7, indicating that there was no multicollinearity. Heteroscedasticity test using the Glejser test results in probability values of more than 0.05 for each variable. This shows that there is no heteroscedasticity. The Durbin-Watson stat method. used to test autokolerasi. The results of this test indicate that the data does not occur autocorrelation.

Table 3
Analysis of Panel Data Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Firm Value	0.152834	0.413844	0.369303	0.713
CEO Tenure	-0.098078	0.044398	- 2.209.051	0.0303
Capital Structure	0.059246	0.055048	1.076.246	0.2854
Stock Price	0.166576	0.04657	3.576.901	0.0006
R-squared				0.208913
Adjusted R-squared				0.176402
F-statistic				6.426.015
Prob(F-statistic)				0.000636
Durbin-Watson stat				1.582.020

Panel data regression analysis using the Random Effect Model resulted in the following equation:

FV = 0.152834 - 0.098078CEOT + 0.059246CAPS + 0.0166576STOP + e

Table 4
Hypothesis testing

Variable	Coefficient	t-Statistic	Prob.	Result
Firm Value	0.152834	0.369303	0.713	
CEO Tenure	-0.098078	2.209.051	0.0303	Effect
Capital Structure	0.059246	1.076.246	0.2854	No effect
Stock Price	0.166576	3.576.901	0.0006	Effect

CEO tenure prob value of 0.0303 and 0.0006 total stock price, both < 0.05, it is stated that CEO tenure and stock prices have an effect on company value. However, the value of the capital structure obtained is 0.2854 and> 0.05, so the capital structure has no effect on stock value. The results of the adjusted R squared obtained a value of 0.176402, this proves that the value of the company is influenced by the CEO tenure variable, capital structure and stock price of only 17.64%, the difference is another influence variable that was not examined in this study.

1.2. Discussion

Based on data during the observation period and statistical tests have been carried out, the results of hypothesis testing are obtained which prove that CEO tenure has an influence on firm value. The CEO is the key to success in the company in decision making, strategic planning, developing business innovation, so that the CEO's expertise in managing the company has an impact on the progress of the company. Stakeholders will see that when the CEO is able to manage his business, the company will develop, assets can be managed and will increase investment, so that the company value will increase. This is in line with research ((KwangJoo Koo, 2015) which states that CEO tenure has an effect on firm value.

Hypothesis testing proves that capital structure has no effect on stock value. The average DER value in the observation period is 0.48 and <1, this is This indicates that the DER is in good condition. However, with DER <1 it means that the company has a small debt compared to its capital, so that there is still a big opportunity for the company to take advantage of taking more debt for business development. Investors will see when the company has large debts but it is used for business development, then there is a big chance that the company will get a bigger profit, so that it can increase the value of the company.

The probability value of the stock price obtained is 0.0006 and <0.05 proves that the stock price has an influence on the stock value. The stock price often increases and decreases when the price stocks rise, meaning investors trust the company aan. Investors entrust a certain amount of money to the company by buying stocks, when investors buy stocks of the company, it means that investors believe in good company management, so that they can provide large profits for investors. The impact of investor confidence in stock prices will increase and the value of the company will increase. This is supported by research (Kurniawan, 2019), which states that stock prices affect firm value.

7. Conclusion

Research results illustrate that stock prices often experience changes, the same thing that is found in this research data. CEO tenure in the company is obtained in sufficient numbers so that the company is able to carry out strategic development of its business, while the capital structure proxied using the Debt Equity Ratio gives good results.

Based on the research results, it is concluded that CEO tenure and stock prices have an influence on firm value, while capital structure has no effect on firm value.

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