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**UNCOVERING THE SECRETS OF FINANCIAL SECTOR COMPANY VALUES: A  
STUDY OF THE INFLUENCE OF INSTITUTIONAL OWNERSHIP, OPERATING CASH  
FLOW, AND LEVERAGE ON THE INDONESIA STOCK EXCHANGE (2020-2024)**

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**ABSTRACT**

This study aims to obtain empirical evidence on the effect of institutional ownership, operating cash flow, and leverage on firm value. This study uses quantitative research. The sample in this study consists of 70 financial sector companies listed on the Indonesia Stock Exchange in 2020-2024. The analysis technique used to test the hypothesis is multiple regression analysis using Eviews 9 software. The results of this study found that institutional ownership has a negative effect and is statistically insignificant on firm value, while operating cash flow has a negative effect and is statistically significant on firm value. Meanwhile, leverage has a negative effect and is statistically insignificant on firm value. This study discusses firm value and other factors such as institutional ownership, operating cash flow, and leverage, focusing on the financial sector.

**Keyword:** *Institutional Ownership, Operating Cash Flow, Leverage Firm Value.*

**1. INTRODUCTION**

Indonesia is one of the largest developing economies in Southeast Asia. Over the past few decades, Indonesia has shown fairly stable economic growth despite facing various global challenges, such as commodity price fluctuations, financial crises, and the impact of the COVID-19 pandemic. Based on data from the Central Statistics Agency (BPS), Indonesia's economic growth in the first quarter of 2025 reached 4.87% year-on-year [www.bps.go.id](http://www.bps.go.id). This reflects the structural strength and resilience of the national economy in the face of global uncertainty. This maintained economic

stability has encouraged increased business activity and investment in various sectors. This condition presents a great opportunity for companies to grow and strengthen their position in the domestic and international markets.

In line with these developments, the Indonesian capital market has also experienced significant growth. The Indonesia Stock Exchange (IDX) as a stock trading platform has recorded an increase in the number of companies going public every year. As of May 2025, there were 956 companies listed on the Indonesia Stock Exchange (IDX), divided into 12 sectors

based on the Industrial Classification (IDX-IC). These sectors include energy, raw materials, manufacturing, primary consumer goods, non-primary consumer goods, health, finance, property, technology, transportation, infrastructure, and investment products from [sahamu.com](http://sahamu.com).

Of all these sectors, the financial sector plays a very important role in supporting national economic growth. The financial sector includes banking, insurance companies, financing companies, investment companies, and holding companies that function as drivers of fund circulation in the economy. This sector is also one of the sectors with the largest market capitalization on the Indonesia Stock Exchange. Based on data from the Indonesia Stock Exchange until mid-2025, the financial sector contributes significantly against the total market capitalization value with a trend that continues to increase from year to year [www.kabarbursa.com](http://www.kabarbursa.com). The financial sector on the Indonesia Stock Exchange, which includes banking, insurance, financing, investment services, and holding companies, remains superior in market capitalization compared to other sectors such as property, technology, and infrastructure. For example, the banking sector

stock index recorded promising performance in 2025, on par with the property and technology sectors, which also showed positive potential [www.kabarbursa.com](http://www.kabarbursa.com). Compared to the consumer goods or energy sectors, the financial sector has successfully attracted investors due to its surge in profitability and long-term stability.

The financial sector has always been at the top of the graph, above the property, transportation, and healthcare sectors. With a wide range of sub-sectors and industries, including banking, non-bank financial services (leasing, insurance, securities), holding companies, and investment. The financial sector represents more important and active entities than the property, transportation, and healthcare sectors, which have narrower sub-industry coverage and smaller market capitalization. It is always at the top of the market capitalization chart, given that the majority of banks and finance companies act as drivers of liquidity in the stock market and the national economy. Compared to the property, transportation, and healthcare sectors, which tend to be segmented and volatile, the financial sector encompasses a broad network and products that directly influence people's investment and consumption activities. [sahamu.com](http://sahamu.com).

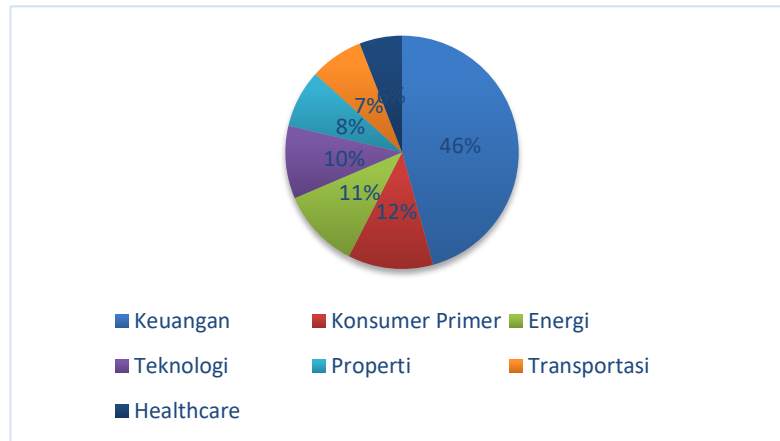


Figure 1. Sector classification structure on the Indonesia Stock Exchange

Source: Sahamu.com, IDX-IC, and Investor.id (2025), processed

The dominance of the financial sector in market capitalization has a strong correlation with firm value, where companies in the financial sector generally show higher firm value than other sectors. This is due to the market perception that companies in the financial sector have lower risk levels and more stable profit prospects, thereby driving higher valuations such as price to book value (PBV) and Tobin's Q. (Maharani & Widiatmoko, 2024).

Firm value is not only influenced by internal factors such as profit, capital structure, and operational efficiency, but also by external factors such as industry conditions, economic stability, and market sentiment. In this context, a deep understanding of the factors that shape firm value is crucial, especially in sectors that contribute significantly to the national economy. One sector that stands out in this regard is the financial sector, which not only plays a major role in driving the circulation of funds, but also

has a strong dominance in market capitalization on the Indonesia Stock Exchange. The sector's broad access to liquidity and its ability to drive the circulation of funds in the financial market gives investors more confidence to invest their capital. (Hamdun et al., 2024). This makes financial sector companies more attractive to investors, as they are able to provide competitive returns with relatively controlled risks. With these advantages, the financial sector not only dominates market capitalization but also contributes significantly to shaping firm value in the Indonesian stock market.

In the context of modern corporate management, institutional ownership plays an important role in strengthening corporate governance. Institutional investors, such as pension funds, insurance companies, and other financial institutions, generally have greater resources, experience, and long-term interests than individual investors. (Cristofel &

Kurniawati, 2021). With significant share ownership, institutional investors can exercise stricter oversight of management policies and performance, thereby reducing potential agency conflicts between managers and shareholders. Their presence not only serves as a source of funding, but also as a party that can encourage more transparent, accountable business practices oriented towards increasing long-term firm value. (Murti et al., 2024).

Based on the explanation above, one of the factors that influence firm value is institutional ownership. Several previous researchers have come to similar or accepted conclusions, namely that (Jullia & Finatariyani, 2024) in non-cyclical consumer companies listed on the Indonesia Stock Exchange during the period 2018-2022 states that institutional ownership has a positive and significant effect on firm value. Researchers (Murti et al., 2024) Research conducted on healthcare companies listed on the Indonesia Stock Exchange during the period 2018-2022 states that institutional ownership has a positive and significant effect on firm value. The same research also by (Nur et al., 2025) in manufacturing companies listed on the Indonesia Stock Exchange in 2021–2023 states that institutional ownership has a positive and significant effect on firm value. (Cristofel & Kurniawati, 2021) who conducted research on LQ-45 companies during the 2016-2018 period,

with the results showing that institutional ownership has a positive and significant effect on firm value.

However, other researchers have come up with different results, namely researchers Adrian & Dini (2024) In food and beverage companies listed on the Indonesia Stock Exchange from 2020 to 2023, institutional ownership had a negative and insignificant effect on firm value. Researcher Ichwan (2024) in food and beverage manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021 indicates that institutional ownership has a negative and insignificant effect on firm value. Setyabudi (2022) in manufacturing companies listed on the Indonesia Stock Exchange from 2016 to 2018, with institutional ownership having no effect on firm value. And researchers Alda & Prastiwi (2021) In consumer goods companies during the 2015-2019 period, institutional ownership was found to have no effect on firm value.

On the other hand, a company's ability to generate strong operating cash flow is also an important indicator in assessing its financial health and operational effectiveness. Stable and positive operating cash flow indicates that the company is able to manage its business activities well and has the ability to generate cash from its main activities without having to rely on external financing or investment returns. Amin (2021). A

healthy cash flow provides room for the company to invest, pay dividends, settle obligations, and expand its business. This indirectly boosts investor confidence, as the company is considered to have good sustainability prospects and a relatively low risk of bankruptcy Krisdiyanto & Riwoe (2022).

Based on the explanation above, other factors that affect firm value and the results obtained are also found in several previous researchers who have results aligned with the impact of operating cash flow on firm value, as follows. Amin (2021) consumer goods industry companies listed on the Indonesia Stock Exchange from the period 2014-2018 with the results obtained showing that operating cash flow has a positive and significant effect on firm value. Other researchers also found the same results, namely Fadhil (2023) With research objects in manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange from 2019-2021, it stated that operating cash flow has a significant positive effect on firm value. The researcher Mukti (2022) In plantation sector companies on the Indonesia Stock Exchange during the 2016-2017 period, the results showed that operating cash flow has a positive and significant effect on firm value. Other researchers with similar results also studied retail trade sector companies on the Indonesia Stock Exchange during the 2015–

2019 period, showing that operating cash flow has a positive and significant effect on firm value. (Krisdiyanto & Riwoe, 2022).

Some researchers disagree with previous researchers, the researchers Rangkuty (2023) The infrastructure sector listed on the Indonesia Stock Exchange in 2018–2021 yielded results showing that operating cash flow has a negative and insignificant effect on firm value. Researchers (Hamdun et al., 2024) In conventional banking companies listed on the Indonesia Stock Exchange during the 2020-2022 period, operating cash flow was found to have a negative and insignificant effect on firm value Suwandhi & Puspasari (2021) at plantation companies listed on the Indonesia Stock Exchange between 2015-2017 stated that there is no significant effect of operating cash flow on firm value. And the researcher Sitorus & Syahputra (2023) in food and beverage sector companies for the 2019-2021 period, with the results showing that operating cash flow has a negative and insignificant effect on firm value.

In addition, the optimal use of leverage becomes one of the important signals that can influence the market's perception of a company's performance and risk. A proportional and efficient debt structure can enhance returns for shareholders as long as the company is able to manage interest burdens and financial risks well (Nadhilah et al., 2022). Measured leverage

reflects management's courage in taking calculated risks, which is often considered a positive signal by investors that the company is confident in its future revenue stability. However, excessive leverage can increase the risk of bankruptcy and lower firm value, making balance in the capital structure crucial.

The researchers who agree with the above explanation are the following researchers (Munzir et al., 2023) in consumer goods companies listed on the Indonesia Stock Exchange according to the 2019-2021 Indonesian Capital Market Directory (ICMD) publication, with the result that leverage has a positive but insignificant effect on firm value, researchers (Nadhilah et al., 2022) in property and real estate companies listed on the Jakarta Islamic Index (JII) for the period 2014-2020, which states that leverage has a significant effect on firm value. Researchers (Maharani & Widiatmoko, 2024) In banking companies listed on the Indonesia Stock Exchange from 2018 to 2022, it is explained that the results obtained show that leverage has a positive and significant effect on firm value. Researchers (Carolin & Susilawati, 2024) on transportation and logistics companies listed on the Indonesia Stock Exchange from 2018 to 2022, with leverage affecting firm value.

Previous researchers have produced conflicting results regarding the effect of

leverage on firm value, namely researchers (Rahmi & Wijaya, 2022) in consumer goods companies listed on the Indonesia Stock Exchange from 2016 to 2019 explains how leverage does not significantly affect firm value. (Nabila & Hapsari, 2023) At PT. Kalbe Farma Tbk, which is listed on the Jakarta Islamic Index (JII) in the 2015-2021 period, the results show that leverage does not have a positive effect on firm value. Researcher (Carissa & Arieftiara, 2024) for food and beverage companies listed on the Indonesia Stock Exchange during the 2020-2022 period, it explains that leverage has no effect on firm value.

The synergy between institutional ownership, strong operating cash flow, and optimal leverage forms an important foundation for sustainably increasing firm value. Institutional ownership plays a role in improving the effectiveness of supervision and governance, operating cash flow reflects the company's operational strength and liquidity, while appropriate leverage can increase the efficiency of capital structure and potential return on investment. These three factors interact with each other in shaping investor perceptions of firm value, particularly in the financial sector, which is the center of fund circulation and plays a strategic role in driving national economic growth. In this sector, a company's success in maintaining a balance between governance, cash

flow, and financial structure will determine its competitiveness and market value in the eyes of shareholders and global investors.

The financial sector is one of the strategic and dominant sectors on the Indonesia Stock Exchange, consistently ranking at the top in terms of market capitalization. Companies in this sector play an important role in driving the national economy as they function as centers of fund circulation, providers of financing, and managers of financial risk. The dominance of the financial sector holds particular appeal for investors and makes this sector highly sensitive to various financial factors, governance, and corporate cash flows. For this reason, the researchers chose institutional ownership because the majority of companies in this sector have a significant institutional ownership composition, whether from banks, pension funds, insurance companies, or other institutional investors. The role of institutional investors is very important in improving the effectiveness of supervision and corporate governance in this sector. However, previous studies still show varying results regarding the effect of institutional ownership on firm value, so it needs to be studied further in the context of financial companies that have stricter governance expectations. From the perspective of operating cash flow, the ability of financial companies to generate cash flow from

operational activities is very important to ensure business sustainability and measure performance efficiency. However, not all companies in this sector are able to maintain healthy operating cash flow consistently. With the sector's character of being dependent on liquidity, the effect of operating cash flow on firm value is an interesting issue to study, given the differences in findings in several previous studies. The leverage variable in financial sector companies generally has a complex debt structure, and high leverage usage is a common characteristic in this sector. However, the effect of leverage on firm value in the financial sector is not always linear, depending on how companies are able to manage financial risk and interest expenses. This makes research on leverage in the financial sector relevant to determine whether the use of debt actually strengthens or weakens firm value.

## **2. LITERATURE REVIEW**

### **a. *Agency Theory***

Agency theory was popularized by Jensen and Meckling in 1976. Agency theory is an idea based on contractual relationships in which one or more parties (principals) assign tasks and authority to another party (agents) to carry out responsibilities and make decisions. This concept explains that shareholders act as principals, while management acts as agents.

Agency theory is a fundamental concept that is very important for corporate governance. The component of Good Corporate Governance (GCG) in this study is institutional ownership, which certainly has a role and relationship with agency theory (Setyabudi, 2022). In this case, institutional ownership serves as an effective monitoring mechanism for every decision made by management. It can be a mechanism to prevent agency problems and institutional ownership, and it will play a role in strengthening the relationship with management performance, which will have an impact on increasing firm value in the eyes of investors.

**b. *Signaling Theory***

*Signaling Theory was proposed* (Spence, 1973) is a theory used to understand actions taken by management in conveying information to investors, which may ultimately change investors' decisions in assessing the company's condition. Signal theory explains that company managers have better information about the company's internal condition and future prospects than external parties, such as investors or creditors. In this case, cash flow from operating activities plays an important role as a form of financial signal conveyed by management to external parties, particularly the market. According to the signaling theory, companies with positive cash flow and profits will send a signal to the market. Companies with

positive signals and stable profits will send a good or positive signal regarding firm value. Operating cash flow can be used as alternative information in assessing a company's performance and prospects, especially when profits are highly susceptible to manipulation. If the reported profits are positive, investors will certainly consider this a positive signal for the company, with the certainty that the company has sufficient funds to support its operational activities and investments for future growth (Amin, 2021). In this situation, financing decisions, particularly the use of debt (leverage), can be used as a signal to convey this information to the market. When a company chooses to increase leverage (for example, by issuing debt rather than new shares), this can be interpreted as a positive signal that management is confident about the company's future cash flows and its ability to meet its debt obligations. Investors then interpret this decision as a sign that the company has good prospects, so that firm value tends to increase (Nabila & Hapsari, 2023).

**c. *Stakeholder Theory***

The theory first proposed by (Holder & Freeman, 1984) related to corporate social responsibility, known as stakeholder theory. This theory states that a company's success can be measured by its ability to align the interests of stakeholders in order to achieve

organizational goals. Stakeholders are individuals or groups that can influence and be influenced by the company's operational activities. In other words, stakeholder theory believes that the more optimally a company fulfills the rights and expectations of stakeholders, the greater the firm value that can be achieved. Therefore, from the perspective of stakeholder theory, firm value is created through synergy between the company and all interested parties (Sari & Wahidahwati, 2021).

**d. *Institutional Ownership***

Institutional ownership is a condition in which a company's shares are owned by institutions or organizations, such as insurance companies, banks, pension funds, mutual funds, foundations, foreign investors, governments, and other financial entities. Institutional ownership plays an important role in a company's ownership structure because institutions generally control a significant portion of shares, giving them considerable influence in the company's strategic decision-making. The presence of institutional investors is considered to be an effective mechanism for monitoring company management. With their large shareholdings, institutions have the power to control the company's financial policies, business strategies, and operations.

**e. *Operating Cash Flow***

Operating cash flow is cash flow generated

from a company's main activities, such as receipts from sales of goods and services and payments to suppliers and employees. This cash flow reflects the company's ability to generate cash from day-to-day operations and is an important indicator in assessing the company's financial health and investment capacity. Operating cash flow can be compiled using two methods, namely the direct method, which examines cash receipts and expenditures in detail, and the indirect method, which reconciles net income with non-cash components. Positive operating cash flow indicates the company's ability to generate cash from its main activities, which can be used to finance future investments and business development. Thus, operating cash flow plays a strategic role in the company's financial decision-making.

**f. *Leverage***

Leverage is a financial ratio that describes the extent to which a company uses debt-financed funds to finance operations and investments with the aim of increasing potential profits for shareholders. Leverage is an important indicator that shows the ratio between internal funds (own capital) and external funds (debt). The use of leverage benefits companies because it allows them to increase their sources of funds without having to reduce their ownership or control of the company. However, leverage also carries financial risks that need to

be considered, because the higher the level of leverage, the greater the company's obligations in paying fixed costs such as interest on debt. Therefore, in the author's view, financial managers must be wise and careful in managing the use of leverage so that the expected profit potential can be achieved without jeopardizing the company's financial stability.

### **3. METHODS**

This study uses secondary data, where the data sources used in this study are derived from financial reports and annual reports of financial sector companies listed on the Indonesia Stock Exchange that have been audited by independent auditors for the research period 2020–2024. The data can be accessed through the official website of the Indonesia Stock Exchange at [www.idx.co.id](http://www.idx.co.id). Some of the data was also obtained from the official websites of each company. The population used in this study consisted of 107 companies in the financial sector. The sampling method was based on considerations in this sampling technique, and the author used purposive sampling. The criteria for the data to be used as samples in this study

are (1) The study was conducted on all companies in the financial sector listed on the Indonesia Stock Exchange from 2020 to 2024. Companies in the financial sector that have published complete annual financial reports for the 2020–2024 period. Based on the above criteria, there were 70 companies out of 107 companies in the financial sector over the 5-year period from 2020 to 2024 that met the requirements for this study, yielding a total of 350 data observations. The measurement of the institutional ownership variable, as stated by Bradley et al., (1984), Variable Operating Cash Mills, J. & Yamamura, (1998), variable leverage as in the study Modigliani & miller (1958) dan variabel Firm value R.C Higgins (1995).

### **4. RESULTS AND DISCUSSIONS**

#### **a. Descriptive Statistics**

The results of the study will reveal the minimum, maximum, average, and standard deviation of each variable used in the observation period from 2020 to 2024. The following table shows the descriptive statistics results:

**Table 1. Descriptive Statistics**

Variable	N	Min	Max	Mean	Std. Dev
IO	350	0.205	0.999	0.761	0.175
OCF	350	0.003	11.328	3.228	0.915
LEV	350	-16.331	7.195	0.106	-1.962
FV	350	0.203	21.849	1.287	1.722

IO = Institutional Ownership, OCF = Operating Cash Flow, LEV= Leverage, FV = Firm Value

Source: Processed data (2025)

**b. Model Testing**

The table below presents a summary of the descriptive statistical test results used to determine the best estimation model in panel data analysis. There are three main tests performed, namely the Chow Test, Hausman Test, and Lagrange Multiplier Test, with the aim

of comparing three estimation models: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Based on the results of a step-by-step comparison, the selection of the best estimation model will be presented in the conclusion of this table.

**Table 2 Descriptive Statistics**

No.	Test	Measurement	Result
1	Chow Test (0,0000<0,05)	CEM vs FEM	FEM
2	Hausman Test (0,8070 >0,05)	FEM vs REM	REM
3	lagrange multiplier (0,0000<0,05)	CEM vs REM	REM

Source: Processed data (2025)

Based on the results of the Chow test conducted using E-Views 9, a cross-section F probability value of 0.0000 was obtained, which is smaller than the significance level of 5% ( $\alpha = 0.05$ ). This result indicates that the most appropriate model is the Fixed Effect Model (FEM). Therefore, a Hausman test needs to be conducted to determine the more appropriate model between the Fixed Effect Model and the Random Effect Model. Based on the Hausman

test results, the probability value is 0.8070, which is greater than the significance level ( $\alpha = 0.05$ ). In this case, it means that the best model is the Random Effect Model (REM). Based on the results of the Lagrange multiplier test, the Breusch-Pagan probability value is 0.0000, which is less than the significance level ( $\alpha = 0.05$ ). In this case, it means that the best model is the Random Effect Model (REM)

**c. The Hypothesis Test**

The hypothesis test with the variables *Institutional Ownership, Operating Cash Flow,*

and variable *Leverage*, against *Firm Value* as shown in the following table

**Table 3. Hypothesis Results**

Variable	Prediction	Coefficient	T- Statistics	Prob.
<b>Model I</b>				
IO	+	-0.262	-0.344	0.7304*
OCF	+	-0.143	-3.369	0.0008*
LEV	+	-0.029	-0.560	0.5755*
<i>R-Square</i>			0.0350	
<i>Adjusted R-Square</i>			0.0267	
F-Statistic			4.1915	
Prob (F-statistic)			0.0062	

\* = Significance 5%

**Description :**

IO = *Institutional Ownership*, OCF = *Operating Cash Flow*, LEV= *Leverage*, FV = *Firm Value*

*Source: Processed data (2025)*

***Institutional Ownership on firm value***

The results of the first hypothesis test (H1) indicate that the institutional ownership variable has a negative effect on firm value and is not statistically significant, so hypothesis (H1) is rejected. Jensen & Meckling, (1976) states that agency relationships arise when one or more shareholders use other people or management to run the company's activities. However, this study found that changes in institutional ownership percentages had no impact on firm value. One reason for this is that institutional shareholders, who have a better understanding of business and finance, are often not actively

involved in strategic decision-making Adrian Maulana & Dini Widyawati, (2024). Shareholders tend to entrust management with running the company's operations, which can result in a lack of effective oversight. This inactivity can certainly cause management to make decisions that are not always in line with the interests of shareholders, thereby preventing an increase in firm value.

In the context of institutional ownership, a significant increase in the number of shares has the potential to cause dilution of institutional ownership if institutions do not participate in the corporate action. This condition can reduce the

effectiveness of institutional oversight of company management, which, according to agency theory, will increase the risk of conflicts of interest between management and shareholders. As a result, firm value could be negatively affected because investors view weak control by institutional shareholders as a signal of declining corporate governance.

In addition, excessive control by certain institutions has the potential to create conflicts of interest, especially if strategic decisions are made that benefit the interests of the owning institution rather than the long-term interests of the company or minority shareholders. In some cases, high institutional ownership can also cause the market to be less responsive to the company's performance dynamics because concentrated share ownership reduces stock liquidity. This can narrow public investors' access to these shares and limit the growth potential of the market. In addition, high levels of institutional ownership can create the potential for abuse of rights by shareholders, where shareholders prioritize short-term interests rather than considering the long-term impact on the company. The lack of effective supervision from institutional shareholders can cause management to make decisions that are more beneficial to themselves, such as taking unnecessary risks or inefficient expenditures, rather than the interests of the company as a

whole. These decisions, which do not reflect the interests of all stakeholders, including minority shareholders, employees, and customers, can lead to dissatisfaction among the various parties involved.

This dissatisfaction not only damages the company's reputation, but also shows that the company is unable to demonstrate sustainable growth and good performance in the long term. Therefore, if the company fails to meet stakeholder expectations, it will certainly reduce investor confidence and have a negative impact on the company's share price.

Institutional ownership is not the only dominant factor in determining firm value. This result is in line with agency theory, which states that managers are rational individuals who tend to be influenced by personal desires. Even with institutional ownership, managers will still engage in opportunistic behavior. High levels of institutional ownership can cause concern for investors who want to invest in a company. This is because the greater the percentage of institutional ownership, the greater the voting rights of institutional owners at the General Meeting of Shareholders (GMS). Thus, the majority shareholders will become the controllers, which means that institutional owners will have an influence on decisions related to the company. Therefore, there is a possibility that institutional owners will abuse

their rights to maximize their personal welfare by distributing wealth from other parties, also known as expropriation. This expropriation can occur if the controlling shareholders decide not to distribute dividends so that their ownership percentage remains the same. This will certainly benefit the controlling party, but it will be detrimental to other parties (non-controlling) because they cannot obtain their rights as shareholders.

These findings are consistent with research conducted by researchers Adrian & Dini (2024) In food and beverage companies listed on the Indonesia Stock Exchange from 2020 to 2023, institutional ownership had a negative and insignificant effect on firm value. Researcher Ichwan (2024) in food and beverage manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021, institutional ownership has a negative and insignificant effect on firm value. Setyabudi (2022) in manufacturing companies listed on the Indonesia Stock Exchange from 2016 to 2018, with institutional ownership having no effect on firm value. And researchers Alda & Prastiwi (2021) In consumer goods companies during the 2015-2019 period, institutional ownership was found to have no effect on firm value. This means that a higher percentage of institutional ownership will actually cause managers to take actions that benefit themselves or create

conflicts of interest in decision-making. Lack of active involvement in the decision-making process causes management to act in their own interests. Thus, the supervisory function of institutional ownership has not been optimal and has had a negative impact on firm value.

#### ***Operating cash flow on firm value***

The results of the second hypothesis (H2) testing indicate that operating cash flow has a negative and statistically significant effect on firm value, thus rejecting hypothesis (H2). This means that an increase in operating cash flow does not contribute positively to firm value, but rather indicates that the company is experiencing problems in managing its cash flow. Negative or low cash flow may reflect the company's inability to generate sustainable profits, which will affect investors' perceptions of firm value. When investors see that a company is unable to generate adequate cash flow, they will become skeptical about the company's growth and profitability, which will certainly have a negative impact on firm value.

*Signaling theory* Michael Spence, (1973) explains how companies use certain information to signal to the market and investors about their financial condition and future prospects. However, in this study, operating cash flow increased but had a negative impact on firm value, which was interpreted negatively by the market. These results indicate a discrepancy

between the signals sent by companies through their operating cash flow statements and the interpretation received by investors, suggesting that the signals received are not considered good indicators of long-term performance.

The results of the study show that operating cash flow has a negative and insignificant effect on the value of companies in the Indonesian financial sector during the period 2020–2024. This reflects the complex dynamics of economic recovery after the COVID-19 pandemic, in which many financial companies experienced liquidity pressures due to an increase in non-performing loans and a decline in demand for new loans. Although the credit restructuring policy implemented by the government through the Financial Services Authority provided temporary relief, this condition does not reflect long-term financial health. Investors tend to be cautious, realizing that the recorded cash flow does not entirely originate from solid operational activities, but is temporary and risky.

This temporary credit restructuring policy helps stabilize operating cash flow, but does not reflect actual financial quality. In a challenging macroeconomic context, such as high inflation and rising interest rates, investors place greater emphasis on fundamental factors such as asset quality and risk management rather than relying solely on operating cash flow. As a result, market confidence in cash flow as an indicator

of company value has declined, which is not reflected in a significant increase in firm value. This study confirms that in the post-pandemic recovery period, operating cash flow has become a distorted indicator, influenced by policy interventions rather than the fundamental performance of companies.

The negative but significant effect of operating cash flow on firm value indicates that an increase in operating cash flow does not always reflect good company performance. In this context, even though operating cash flow increases, it may be caused by factors that do not support long-term growth, such as excessive cost reductions or delays in investments necessary for expansion. When investors see high cash flows that are not supported by revenue growth or innovation, they may doubt the sustainability of the company's future performance. As a result, this negative perception can lead to a decline in firm value in the market, even though statistically the relationship between operating cash flow and firm value shows significance. In other words, the results of this study highlight the importance of the quality of operating cash flow, where its source, consistency, and contribution to long-term business strategy are key in shaping investor perceptions. Without support from fundamental performance, high cash flow can actually be a signal of caution or even a lack of growth, which has a negative

impact on the market's assessment of firm value.

This explanation is consistent with research conducted by several researchers. Some researchers disagree with other earlier researchers Rangkuty (2023) The infrastructure sector listed on the Indonesia Stock Exchange from 2018 to 2021 showed that operating cash flow had a negative and insignificant effect on firm value. Researchers (Hamdun et al., 2024) Conventional banks listed on the Indonesia Stock Exchange during the 2020-2022 period experienced negative operating cash flow results that had no significant impact on firm value. Suwandhi & Puspasari (2021) on plantation companies listed on the Indonesia Stock Exchange between 2015 and 2017 stated that there was no significant effect of operating cash flow on firm value. And researchers Sitorus & Syahputra (2023) in food and beverage companies during the 2019-2021 period, with operating cash flow having a negative and insignificant effect on firm value, explaining that an increase in cash flow from operating activities was actually followed by a decline in firm value. This may mean that even though companies recorded high cash inflows from operating activities, this did not necessarily reflect good financial performance or growth prospects. As a result, investors or the market view this condition as an indication of the company's weak growth strategy, thereby lowering the company's

valuation in the market.

Leverage on firm value Testing of the third hypothesis (H3) indicates that the leverage variable has a negative effect on firm value and is not statistically significant, thus rejecting the third hypothesis (H3). This shows that there are indications that an increase in leverage can reduce firm value. When a company has a high level of leverage, it will face greater interest and principal debt payments, which can certainly burden cash flow and reduce financial flexibility.

The results of this study are consistent with signaling theory, which explains that the higher a company's debt, the worse the signal received by investors. When a company has a high level of debt, investors will tend to worry that this could lead to a decline in the company's profits and reduce the dividends received by investors Nabila & Hapsari, (2023). Increased debt will add to the fixed costs that must be paid regardless of how much revenue is generated. Thus, the greater the debt, the higher the risk of loss faced by the company, especially if the company is unable to pay the interest and principal on the debt. Therefore, company management needs to pay close attention to the use of debt. If the company is unable to manage borrowed funds properly, high debt accumulation can have a negative impact on firm value.

Based on the distribution of companies in various leverage intervals sourced from a sample of 70 companies, it can be seen that the majority of companies are in the very high leverage category (more than 2.5), namely 42 companies. This reflects that most companies are highly dependent on debt financing compared to their equity. This high dependence on debt indicates high interest expenses and financial risks borne by companies, especially if not offset by stable operating cash flows.

Conversely, only five companies were in the low leverage category and seven companies in the healthy category, indicating that only a small number of companies implemented conservative or balanced financing strategies. This reinforces the assumption that an excessively high debt capital structure tends to have a negative effect on firm value. Investors tend to view highly leveraged companies as risky entities, which can lower their perception of the company's long-term prospects. Thus, this distribution reinforces that high leverage does not always support an increase in firm value, especially when accompanied by the company's inability to manage financial risk effectively.

Leverage with a negative but insignificant effect on firm value indicates that an increase in the use of debt in a company's capital structure tends to be followed by a decline in firm value, but the relationship is not statistically strong

enough to be considered valid or generally applicable. In other words, a company's leverage level is not a major determining factor that influences investors' perceptions of firm value. The reasons for this include stable company financial conditions despite debt, varying efficiency in debt utilization, or industry characteristics that are tolerant of debt-based financing. Therefore, companies need to pay attention to the quality of their debt management, not just the amount of leverage, in order to maintain firm value on a sustainable basis.

These findings are consistent with previous research, namely researchers Rahmi & Wijaya (2022) in consumer goods companies listed on the Indonesia Stock Exchange from 2016 to 2019 explains how leverage does not significantly affect firm value. Nabila & Hapsari (2023) at PT. Kalbe Farma Tbk, which is listed on the Jakarta Islamic Index (JII) in the 2015-2021 period, the results show that leverage does not have a positive effect on firm value. Researchers Carissa & Arieftiara (2024) In food and beverage companies listed on the Indonesia Stock Exchange during the 2020-2022 period, leverage has no effect on firm value, which explains that an increase in company debt does tend to reduce firm value. This may occur because companies still use debt cautiously, so that the resulting financial risks are not

considered a threat to the company's sustainability. In addition, companies may rely more on their own capital for funding, and other factors such as company size and profitability play a more dominant role in determining firm value. Therefore, although there is a tendency for leverage to reduce firm value, its insignificant effect shows that leverage is not a major concern for investors in assessing firm value under these conditions.

## 5. CONCLUSIONS

Overall, the regression model shows that, when tested together, the variables of Institutional Ownership, Operating Cash Flow, and Leverage have the ability to significantly explain company value. However, when viewed separately, only the Operating Cash Flow variable is proven to have a significant effect on company value. Interestingly, the effect of this variable is contrary to the initial prediction, indicating that an increase in Operating Cash Flow is actually associated with a decrease in company value. Meanwhile, neither Institutional Ownership nor Leverage showed a significant effect on company value, although the direction of the relationship found was also contrary to predictions.

Theoretically, these findings challenge the basic premise of *signaling theory*, which typically assumes that strong operating cash

flows provide positive signals to investors regarding a company's financial health. The fact that operating cash flows are negatively correlated with the value of the company indicates the existence of certain market anomalies or conditions in which the market may perceive high cash accumulation as a form of inefficiency in capital allocation or a lack of profitable investment opportunities. In addition, the insignificance of institutional ownership and *leverage* indicates that in this context, ownership structures and debt policies have not been able to become effective control mechanisms or funding instruments to increase the value of companies in accordance with *agency theory predictions*.

In the realm of practicality and policy, company management needs to re-evaluate their cash management strategies so that they focus not only on liquidity, but also on asset productivity to avoid depreciation in the eyes of investors. For investors, this result is a reminder to be more critical in looking at cash flow statements and not necessarily consider large cash as an indicator of success without considering the company's expansion plans. Finally, for regulators or policymakers, it is necessary to strengthen the standards of disclosure of information related to the use of cash flow and the management of capital structures, to ensure that stakeholders get a more

transparent picture of how these financial decisions contribute to the sustainability of the company's value in the market.

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