

Determinants of Firm Value: Property, Real Estate and Building Construction Companies (IDX)

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Abstract

This research aims to obtain empirical evidence regarding the factors on firm value for property, real estate and building construction companies listed in Indonesia Stock Exchange. The independent variables used in this research are firm size, capital structure, firm sales, profitability and liquidity. In this research, 11 property, real estate and building construction companies were used as samples listed on the Indonesia Stock Exchange with a total 8 years ranging from the period of 2013-2020. The sample was selected based on purposive sampling technique. The data analysis method that were used in this research is descriptive statistics, panel data analysis model, data quality test, classic assumption tests, coefficient of correlation, coefficient of determination, multiple linear regression, goodness-of-fit test, and hypothesis test. The results of this research shows that firm size has a negative impact on firm value and profitability has a positive impact on firm value. Whereas for capital structure, firm sales and liquidity has no impact on firm value.

Keywords firm value, firm size, capital structure, firm sales, profitability, liquidity.

1. Introduction

In this growing world, business competition is getting tougher. Because of that matter, one of the firm's objectives is to increase and maximize the firm's value. According to Zutter & Smart (2022) the primary goal of firm should be to maximize the wealth of the firm's owners—the stockholders or shareholders. A firm must work optimally in order to compete, survive, and reach the main objective of the firm which is shareholder welfare maximization. The higher the level of welfare, the higher the value of the firm. A high level of welfare reflects good company performance and provides a good image for investors of the firm, so that firm value has an important role for the company.

Every company was established with the aim of gaining profit. Meanwhile, investors aim to make profit from dividends and capital gains obtained from the company's good performance. According to Kustina et al. (2019), shares have a high level of risk, but investors are more interested in investing their funds in the form of shares because there will be two benefits that will be received by shareholders in the form of capital gains and dividends. The presence of investors can improve the company's performance. In the annual financial report, it can be seen whether the company has an effective and efficient performance in managing funds sourced from within or outside the company.

This research is a replication of the journal Nguyen et al. (2021). the purpose of the study is to obtain empirical evidence regarding the effect of firm size, capital structure, firm sales, profitability and liquidity on firm value. This research is expected to provide useful benefits for stakeholder, shareholder as well as next research.

2. Literature Review

2.1. Agency Theory

According to Jensen & Meckling (1976), agency theory is a form of contract between a company's owners and its managers, where the owners (as principal) appoint an agent (the managers) to manage the company on their behalf. The owner of the company (principal) is the party that gives authority to the agent. Meanwhile, the company management (agent) is the party that receives the authority from the principal.

According to Sa'adah (2021), agency theory is the separation between owners as principals and managers as agents who run the company, then agency problems will arise because each party will try to maximize its utility function. This agency problem also occurs because of the unequal information (asymmetry) owned by the principal and agent. With the unequal ownership of information, the management (agent) of the company tends to do moral hazard and adverse selection (Destriana, 2015).

2.2. Signaling Theory

According to Zutter & Smart (2022), signaling theory is a financing action by management that reflects its view of the firm's stock value; generally, debt financing is a positive signal that management believes the stock is undervalued, and a stock issue is a negative signal that management believes the stock is overvalued.

Signaling theory explains that if the company's management has information that will benefit the company in the future and for that additional capital is needed, then management will finance the company with debt because management gains confidence to earn profits which will later (Suweta and Dewi, 2016). Signaling Theory states the assumption of asymmetric information between investors and company managers. Based on this signal theory, the company shows an optimistic attitude by using more debt which indicates that in the future the company's prospects will be bright (Deviani and Sudjarni, 2018).

2.3. Firm Size and Firm Value

The size of a company can be seen from the assets it has. Larger companies are considered to tend to have better conditions. According to (Indriyani, 2017), the size of the company is considered to affect the value of the company because the larger the size of the company, the easier it is for the company to obtain sources of funding that can be used to achieve company goals.

The higher the size of the company will be closely related to the funding decisions. According to (Pramana & Mustanda, 2016), generally large-sized companies tend to be easier to gain the

trust of creditors to obtain sources of funding so as to increase the firm value. The larger the size of the company, it means that the assets owned by the company are even greater and the funds needed by the company to maintain its operational activities are also increasing, as well as influencing management decisions in deciding what funding is used by the company so that funding decisions can optimize the value of the company.

H_1 Firm size has an effect on firm value.

2.4. Capital Structure and Firm Value

Capital structure is simply the mix of long-term debt and equity securities that a firm uses to finance its activities, but what determines that mix is far from basic (Zutter & Smart, 2022). The greater the capital structure, the greater the firm value, because the company can maximize the capital structure. Therefore, the more maximization of the capital structure, the more profit will increase. If the profit increases, the share price will increase too and firm value will also increase (Sari and Siswanto, 2022). According to Maryanti (2016) capital structure is combination of liabilities and equity that are contained in financial statements. This variable is measured by debt to total equity ratio. According to Sari and Siswanto (2022), the bigger ratio of DER, the greater risk faced by a company because the company will pay bigger interest. The correlation between capital and interest has a positive effect, when the capital of the company is higher by using the debt, it affects the higher payment of interest. The higher payment of the interest, it will decrease generated profit.

H_2 Capital structure has an effect on firm value.

2.5. Firm Sales and Firm Value

Sales are activities carried out by companies to generate profits. Sales are an instrument of the company's marketing program to achieve its goals (Arief, 2017). The sales role that is carried out together with the distribution function provides encouragement and convenience for potential consumers to find out, try, and enjoy the product from time to time. By sales, the company will create business activity and carried out the business move forward (Kusiyah and Arief, 2017)

Sales is one of the source of revenue in the company. Every company wants the sales of its product stable or even increase over time (Sukadana and Triaryati, 2018). According to Alfinur and Hidayat (2021), the bigger value of the sales, the higher degree of the company's debt. The higher sales generated by a company will increase the firm value. Increasing sales period to period is called sales growth. Sales growth reflects past investment success and can be used as a predictor of future growth. If sales growth increases, it indicates a large company value and is an expectation for company owners (Hidayat and Yuliah, 2018).

H_3 Firm sales has an effect on firm value.

2.6. Profitability and Firm Value

Profitability is a measurement to evaluate the firm's profits with respect to its sales, assets, or

the owners' investment, and they are among the most closely scrutinized of all financial ratios (Zutter & Smart, 2022). According to Sembiring and Trisnawati (2019), Profitability is a company's ability to generate income in the future and is one indicator of a company's success.

Return on assets is the ratio used to measure the company's profitability. The greater the value of the return on assets of a company, the greater the level of profit achieved by the company and the better the company in terms of asset use. (Margaretha, 2020). According to Nastir and Yusbardini (2019), ROA growth shows that the company's prospects are getting better, because it means there is potential for increased profits by the company.

H_4 Profitability has an effect on firm value.

2.7. Liquidity and Firm Value

According Zutter & Smart (2022), the liquidity of a firm reflects its ability to satisfy its short-term obligations as they come due. The current ratio measures liquidity by comparing a firm's current assets to its current liabilities. According to Sari and Sedana (2020), Corporate liquidity is the company's ability to fulfill its short-term obligations on time. The current ratio can be used to measure the company's ability to pay short-term obligations or debts that are due immediately when billed in their entirety. In other words, how much current assets are available to cover short-term obligations that are due soon.

A high level of liquidity can reduce the risk of company failure in meeting short-term financial obligations to creditors. The level of the liquidity ratio will affect the interest of investors to invest their funds in a company. The higher the liquidity ratio, the more efficient the use of the company's current assets (Afifah and Susanty, 2018). Current ratio is a tool to measure a company's ability to meet short-term obligations with existing assets. Resources to settle mandatory obligations come from cash or conversion to cash from other sources of current assets (Ismiyatun et al., 2021).

H_5 Liquidity has an effect on firm value.

3. Research Method

The object used for this research is property, real estate and building construction companies that are listed on the Indonesia Stock Exchange and meet the research criteria in the 2013-2020 period. There are a total of 103 companies in the property, real estate and building construction companies sector that are listed in IDX, after conducting the sampling procedure, 11 property, real estate and building construction companies will be used for this research. The sample selection procedure is as follows:

Table 1. Sampling Procedure

Sampling Criteria	Total
Property, real estate and building construction companies listed on the Indonesia Stock Exchange the period 2013-2020.	103
Property, real estate and building construction companies that publish complete financial statements during the research period.	45
Property, real estate and building construction companies that present financial statements in rupiah (Rp) during the research period.	45
Property, real estate and building construction companies that experience profits for the period 2013-2020.	19
Companies with outlier data	(8)
Companies used as research objects	11
Number of research periods	8
TOTAL NUMBER OF OBSERVATIONS	88

Firm value is the present value of a series of incoming cash flows that the company will produce in the future (Daelli and Endri, 2018). Firm can be measured by the Tobin's Q ratio. Tobin's Q ratio is a comparison between the market value used between the market value of the company's shares and the book value of the company's equity or the replacement value of the company's assets (Endri and Fathony, 2020). The calculation is as follows:

$$Tobin's Q = \frac{MVE + Liabilities}{Total Assets}$$

Firm size can be measured by the total assets, sales or capital of the company (Mutmainah, 2015). Companies that have great total assets indicate that they have reached the maturity stage and considered to have good prospects in a relatively stable period and been able to generate profits compared to companies that have small total assets (Husna and Satria, 2019). According to Nguyen et al., (2021) the measurement of firm size is as follows:

$$Firm Size = Ln (Total Assets)$$

Capital structure is measured by using debt to equity ratio (Zeb and Rashid, 2016). Debt to equity ratio explains the proportion of debt and equity in the company. According to Nguyen et al. (2021), capital structure is determined by:

$$Debt to Equity Ratio = \frac{Total Debt}{Total Equity}$$

Firm sales is measured as the natural logarithm of total sales revenue (Mule et al., 2015). According to Nguyen et al., (2021) firm sales is determined by:

$$\text{Firm Sales} = \ln (\text{Revenue})$$

Profitability is the company's ability to generate profits in the future and the company's ability to achieve revenue related to sales, the company's total assets per capita at the time of its operations (Putri and Sha 2022). In this research, profitability measured by Return on Assets (ROA). The following formula will be:

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Liquidity explain cash and its equivalent adequacy own by firm to cover its short - term debt which expressed by the total amount available of current asset to fulfill its short- term debt (Surjandari et al., 2020). Liquidity could be measured by current Ratio, quick ratio and operating cash flow ratio. The measurement used are based on the research of Nguyen et al., (2021) is as follows:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilitis}}$$

4. Finding and Discussion

The results of descriptive statistical tests and the results of hypothesis testing are as follows:

Table 2. Descriptive Statistics Result

	N	Mean	Maximum	Minimum	Std. Dev
VAL	88	1.108182	2.036191	0.318105	0.409226
SIZE	88	30.17333	31.85213	28.11673	1.014863
CS	88	1.033076	3.088818	0.209178	0.639780
SALES	88	28.85068	31.07010	26.52026	0.980238
ROA	88	0.055927	0.154981	0.004101	0.037174
LIQUID	88	1.970943	3.938135	0.789954	0.804010

Table 3. T-Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.81853	2.838427	4.868374	0.0000
Firm Size	-0.414354	0.128363	-3.227987	0.0019
Capital Structure	0.015088	0.103614	0.145617	0.8846
Firm Sales	-0.013044	0.156877	-0.083145	0.9340
Profitability	3.721200	1.108398	3.357276	0.0013
Liquidity	-0.028059	0.065012	-0.431596	0.6673

Based on Table 8, the multiple regression equation model in this study can be formulated as follows:

$$\text{VALUE} = 13.81853 - 0.414354 (\text{SIZE}) + 0.015088 (\text{CS}) - 0.013044 (\text{SALES}) + 3.721200 (\text{ROA}) - 0.028059 (\text{LIQUID}) + \varepsilon$$

From the research that has been done, several conclusions can be drawn, namely as follows:

The results of testing hypothesis 1 show that H_a can be accepted. Firm Size has an effect on the firm value of property, real estate and building construction companies listed in Indonesia Stock Exchange for the period 2013 – 2020. It is in line or consistent with the research result conducted by Natsir and Yusbardini (2020), Halfiyyah and Suriawinata (2019), Alfinur and Hidayat (2021), Wijayaningsih and Yulianto (2021), Nursetya and Hidayati (2021), Hirdinis (2019), Handayani et al. (2022), Pratama and Wiksuana (2018), Reschiwati et al. (2020), Sondakh (2019), and also, Ha and Minh (2020). However, the results of this study contradict with the previous research conducted by Noviana and Nellyana (2017) and Gusni et al. (2021)

The results of testing hypothesis 2 show that H_a can't be accepted. Capital Structure has no effect on the firm value of property, real estate and building construction companies listed in Indonesia Stock Exchange for the period 2013 – 2020. It is in line or consistent with the research result conducted by Nursetya and Hidayati (2021) and Putro and Risman (2021). However, the results of this study contradict with the previous research conducted by Natsir and Yusbardini (2020), Halfiyyah and Suriawinata (2019), (Pramesti et al. 2021), Wijayaningsih and Yulianto (2021), Hirdinis (2019), Handayani et al. (2022), Nugroho and Patrisia (2021), Ismiyatun et al. (2021), Pratama and Wiksuana (2018), Reschiwati et al. (2020), Rizki et al. (2018), and Ha and Minh (2020).

The results of testing hypothesis 3 show that H_a can't be accepted. Firm sales has no effect on the firm value of property, real estate and building construction companies listed in Indonesia Stock Exchange for the period 2013 – 2020. It is in line or consistent with the research result conducted by Margono and Gantino (2021). However, the results of this study contradict with the previous research conducted by Ha and Minh (2020) and Hashmi et al. (2020).

The results of testing hypothesis 4 show that H_a can be accepted. Profitability has an effect on firm value of property and real estate and building construction companies listed in Indonesia Stock Exchange for the period 2013 – 2020. It is in line or consistent with the research result conducted by Natsir and Yusbardini (2020), Halfiyyah and Suriawinata (2019), Noviana and Nellyana (2017), Alfinur and Hidayat (2021), Wijayaningsih and Yulianto (2021), Nursetya and Hidayati (2021), Handayani et al. (2022), Ismiyatun et al. (2021), Rohim and Satriawi (2020), Pratama and Wiksuana (2018), Sutrisno and Panuntun (2020), Ha and Minh (2020), and also Margono and Gantino (2021). However, the results of this study contradict with the previous research conducted by Hirdinis (2019), Reschiwati et al. (2020), Sondakh (2019), and Rizki et al. (2018),

The results of testing hypothesis 5 show that H_a can't be accepted. Liquidity has no effect on

firm value of property and real estate and building construction companies listed in Indonesia Stock Exchange for the period 2013 – 2020. It is in line or consistent with the research result conducted by Putro and Risman (2021) and Sutrisno and Panuntun (2020). However, the results of this study contradict with the previous research conducted by Handayani et al. (2022), Ismiyatun et al. (2021), Reschiwati et al. (2020), Sondakh (2019), Rizki et al. (2018), and Ha and Minh (2020).

5. Conclusion

The purpose of this research was to determine the impacts of Firm Size, Capital Structure, Firm Sales, Profitability, and Liquidity with Firm Value of property and real estate and building construction sector listed in Indonesia Stock Exchange for the period 2013 – 2020. Based on the results of the research that has been done, it can be concluded that firm size and profitability have effect on firm value. This is in line with signalling theory, where companies with high profitability give positive signals to external parties. Companies which have high profitability show good performance and be able to generate profits consistently. Therefore, investors and creditors will give a higher expectation of the firm value. In addition, the bigger size of the firm is considered to have stability and better reputation which it gives a positive signal to external parties about the quality and firm value. Meanwhile capital structure, firm sales and liquidity have no effect on firm value. This research still has several shortcomings caused by several limitations, including, (1) The sample used in this study was only based on the criteria determined by the researcher, so that the number of samples in this study was only 88 samples or there were only 11 companies that could be sampled. This research samples is limited to the property, real estate and building construction companies, which couldn't represent the overall emitters listed in Indonesia Stock Exchange. (2) This research only used 5 independent variable which are firm size, capital structure, firm sales, profitability and liquidity. While there are still plenty of other variables that could have an influence towards firm value. Based on the limitations of this study, there are several recommendations that can be used by further studies regarding firm value, which are, (1) The number of samples used in the study can be expanded either by adding the number of sample companies or by extending the study period. (2) Using other independent variables such as dividend policy, leverage and company growth as additional variables that are not used in this study which might affect firm value.

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