THE EFFECT OF COMPANY CHARACTERISTIC TOWARD FIRM VALUE IN THE PROPERTY AND REAL ESTATE COMPANY IN INDONESIA STOCK EXCHANGE

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ABSTRACT

The property and real estate companies in Indonesian are the business company especially in providing houses for citizens and other properties for supporting the business in order to develop the country as well as to assure the public welfare. Companies are compulsory to have good performance for the society and stakeholders. The purpose of this research that is entitle The Effect of Company Characteristic Toward Firm Value is to find the answers of hypothesis. Variables used to examine the characteristic of the company are Managerial Ownership, Capital Structure (Debt To Equity Ratio), Firm Size, and Profitability (Return On Asset), while variable for Firm Value uses Price to Book Value. The samples of this research consist of 30 property and real estate companies from 2010 to 2012 and still listed In Indonesia Stock Exchange. Research data sample using purposive sampling method with certain criteria to obtain accurate data. The statistical method used to test the research is multiple regressions model. This research uses four models to test hypothesis: the first model uses Managerial Ownership, the second model uses Capital Structure, the third model uses Firm Size and the fourth model uses Return on Asset as independent variables. The result of this research shows that three independent variables are Managerial Ownership, Firm Size and Return on Asset have significant effect on the Firm Value. This research supports previous research, while the Capital Structure has no significant effect. It means that capital structure is not in accordance with previous studies. This research then suggests collection of more data and variables. Data for other company exclude Property and Real Estate with the different analysis model for future researches.

Keywords: Managerial Ownership, Firm Size, Capital Structure, Return on Asset, Price to Book Value

INTRODUCTION

The property and real estate companies play an important role in Indonesian economy, especially in providing houses for citizens and other properties for supporting the business in order to develop the country as well as to assure the public welfare. Therefore, companies are obliged to run its business properly in accordance with the demands of business world. Besides, companies are compulsory to have good performance for the society and stakeholders. To meet the stakeholders' needs, the property and real estate companies must fulfill the investors' expectations. The assessment of company's achievement can be seen not only from the improvement of company profit in certain periods, but also from other factors. Company profit indicates the company's ability to fulfill its obligation to the investors, shareholders, etc. Besides that, the company's ability to show good achievement is also considered as the scoring element for the company which can show its prospect in the future. For example: The property company owned by Ciputra Group, PT Ciputra Development Tbk (CTRA) recorded the pre sales or marketing sales reached Rp 8,45 trillion until November 2013 from the target in 2014 as much as Rp 9 trillion. In accordance with the financial statement reported to Indonesia Stock Exchange (IDX), the company recorded that the revenue raised by 72.63% to Rp 3,86 trillion in the third quarter of 2013, compared to the same period in 2012 which only valued at Rp 2,23 trillion. Income for the period attributable to equity holders of parent entity grew 94,52% to Rp 702,96 billion in the third quarter of 2013, compared to the same period in 2012 which only reached Rp 361,36 billion.

Firm value represents the assets owned by the company. According to Herdinata (2007), companies in Indonesia have similar characteristics with companies in Asia generally, which are mostly owned or controlled by family. Although such companies are growing rapidly as public companies, family control is still influential. Managerial ownership is one of shareholding structures that can affect corporate management to carry out its best performance for the shareholders. Many companies allow their managers to own the company's share (insider ownership) in order to perform better. One advantage of managerial ownership is to allow managers to take decision or policy which can increase firm value. It is expected that the higher managerial ownership, the more benefit the company can receive. Firm value is considered as a crucial thing since it describes the prosperity of the company's owner. Therefore, the manager, as the representative of the company, is responsible to achieve the firm value optimally. Soliha and Taswan (2002) found the significant and positive correlation between the managerial ownership and the firm value.

A good firm value is able to attract other parties' interests to join the company. Modigliani and Miller (1958) stated that firm value is determined by company's asset earnings power. The positive impact of asset earnings power shows that if the company has higher earning powers, then the asset turnover will be more efficient and the profit will be bigger. As a result, the firm value will also increase. Besides asset and profit, the company debt policy also influences the changes of firm value. The higher the debt, the higher the stock price. However, it will be the opposite in the certain conditions because the benefit of debt utilization is less than the cost incurred. The debt policy can create the expected firm value, but it depends on the firm size and age. This means firm size and age will influence the competition in the stock exchange. The result of the research done by Sujoko and Soebiantoro (2007) showed that the firm size has positive impact on firm value. Sudarma (2003) stated that the firm size positively and significantly affects the firm value. Such finding indicates that investor considers the firm size before investing their money for stocks. The more expensive the share price, the higher the firm value.

The samples of this research are property and real estate companies in Indonesia. While the purpose of this research is to test the influence of Managerial Ownership, Firm Size, Capital Structure, as well as Return on Asset toward Firm Value. The rest of this paper is organized as follows: Section 2 provides review of literature explored in this paper. Section 3 presents the methodology employed followed by section 4 that presents the results of this study. Section 5 concludes this paper.

LITERATURE REVIEW

Firm Value

In the long term, the goal of the company is to maximize the firm value. The high firm value represents the prosperity level of the company owner. The firm value also becomes the main concern for the investors. The prosperity level of shareholders and investors are reflected from the firm value. In other words, the firm value is becomes the performance indicator for finance manager. In addition, the firm value is the investors' perception towards the company which is usually related to the stock price. High stock price will make a higher firm value as well. The main purpose of the company according to theory is to maximize the assets or firm value (Salvatore, 2005). Maximizing firm value is essential for a company because it means increasing the prosperity of shareholders as well, which becomes the company's main goal. The similar thing is also stated by Suad (2008:7) that firm value is "the price paid by prospective buyer if the company is sold", while Harmono (20009:233) defines firm value as "the objective value from public and the orientation of company's survival".

From such explanation, it can be concluded that firm value is the investors' perception towards company's success level which is often associated with stock price. Firm value is usually indicated by price to book value (PBV). The market will trust the company sustainability in the future through the high PBV. Such thing is in line with shareholders' expectation because the high firm company value indicates the high prosperity of shareholders.

Managerial Ownership

In taking decisions, managers must pay attention to the decision which can optimize the resources, so that the management will be able to fulfill company's interest. Shareholders and managers are obliged to maximize their own goals. Each party has its own risks, depends on the responsibility. Managers may lose the opportunity to be appointed again in the next period if they fail to carry out their duties. On the other hand, shareholders are at risk of losing their capital if they choose the inappropriate managers.

Jensen and Meckling in Sujoko and Soebiantoro (2007) mentioned that agency conflict occurs due to the separation of ownership and management. The main concern of this research is conflict between shareholders and management. Such conflict will not occur if the managerial ownership exists in the shareholding structure. Managerial ownership is the ownership of company's share by managers. So, the managers become shareholders as well (Christiawan and Tarigan, 2007). In the financial statement, managerial ownership is shown by the percentage of managers' stock ownership. The information of managers' stock ownership is disclosed in the notes on financial statement. In the agency theory, the correlation between managers and shareholders is described as agent and principal relationship (Rachmawati and Triatmoko: 2006).

The policy and decision of the company which has managerial stock ownership will definitely be different with the one which has no managerial stock ownership. In the company with managerial stock ownership, managers as the shareholders will obviously align both interests. On the contrary, the managers in the non managerial stock ownership company will only be responsible for their duties. Managerial stock ownership will help the consolidation of managers' and shareholders' interest, so that managers can get the benefit from their decisions as well as can bear the loss as the consequence of taking wrong decisions. Managerial ownership is calculated by comparing the number of shares owned by the manager with the whole number of outstanding shares.

Capital Structure

According to Bambang Riyanto (2001), capital structure is the ratio of long term debt and own capital. Meanwhile, Weston and Copeland (1997) define financial structure as the way company funds their assets which can be seen from the right side of the balance sheet, consisting of of short-term debt, long-term debt and shareholder capital. Based on such definition, capital structure means the ratio of long term debt and own capital. Long term debt comprises of several points, such as bonds and mortage payable, whereas own capital consists of various types of stock and retained earnings.

The capital structure of a company generally consists of several components (Bambang Riyanto, 2001), namely:

1. Foreign capital or long-term debt

Long-term debt is usually used to fund the expansion or modernization of the company as capital requirements for these purposes includes a large amount. Long-term debt is a source of funds for the company and must be paid back within a certain time period, according to the determined time and regardless the financial condition of the company at that time. It also must be parallel with the pre-calculated interest. If the company is unable to pay back the debt and interest, the creditor can force the company to sell assets which are used as collateral. Therefore, the failure to pay debt or interest will cause the company losing its control.

On the other hand, the creditor may lose control of half or even all of the loan and interest because every investment in the company always has the risk of loss. It can be concluded that the bigger foreign capital or long-term debt in the company's capital structure, the greater inability to repay long-term debt with interest at maturity. For creditors, this means the possibility of losing their invested funds in the company is increasing.

2. Own Capital

Own capital is derived from owners of the company which is invested in the company within a certain period. Own capital comes from internal and external sources. Internal source is obtained from the profits generated by the company, while the external source of capital comes from the owner of the company. The own capital component consists of: Own Capital and Retained Earnings.

Retained earnings mean the residual profit that is unpaid as dividends. The own capital component is the capital of the company which is at stake for all risks, both business risks and other risks. The own capital requires neither collateral nor obligation for repayment in any conditions as well as uncertain repayment period of own capital. Therefore, each company must have minimum amount of capital required to ensure its survival. Capital structure can be seen through the ratio of long-term debt and own capital. Both excellent and poor capital structure will have a direct impact on the financial position of the company. A company with poor capital structure (has huge debt) will be a heavy burden to the company. Capital structure is the reflection of company's policy in determining the type of securities issued. The capital structure variable is expressed by the ratio of total debt to own capital. Financial leverage describes the utilization factor of debt in the company's operations. Some researches related to financial leverage have been done. One of them was done by Pasternack and Rosenberg (2002) whose research found that leverage has negative and significant influence on incentives; positive influence but not significant on investment; and negative influence but not significant on firm value.

Firm Size

Firm size represents how big a company is. Firm size can be measured by assets, number of employees, market capitalization, etc. According to Fery and Jones (in Sujianto, 2001) firm size describes how big a company is, indicated by total assets, number of sales, average of total sales and average of total assets. So, firm size is the size or amount of assets owned by a company. Usually, the society measured the firm size from the physical form or the number of assets possessed. Such thing does not guarantee the truth. The company which has a big building may not always have abundant assets and vice versa. Brigham and Houston (2006) expressed that the firm size can be calculated from the average of total net sales of the current year up to the next few years. In accordance with Sujoko and Soebiantoro (2007), firm size is the big reflection of company size which appears in the value of company's total assets at the year-end balance sheet. The result of research done by Soliha and Taswan (2002) showed that firm size variable has positive and significant effect to firm value. A big company is able to access the capital market easily, which means the company is flexible and has an ability to obtain funds. The investors seize such facility as a positive signal and good prospect so that the firm size can contribute a positive effect to the firm value.

Profitability

Profitability is measured by Return on Asset (ROA). Brigham and Houston (2006) mentioned that ROA shows the ability of a company to gain profit from the utilized or invested assets in a period, whereas ROE is the ability of a company to gain profit from their own capital. The higher the ratio level, the bigger the profitability value of a company. As a result, such thing can be a positive sign for investors to invest their money in order to obtain certain return. The level of return obtained indicated how good the firm value from investors' point of view. If the company recorded a huge profit level, it will motivate investors to invest in the stock. So, the stock price and demand for the stock will increase as well. The stock price and the number of outstanding shares will affect the firm value which is indicated by Price to Book Value. If the stock price and number of outstanding shares increase, the firm value will also rise. Research done by Yuniasih and Wirakusuma (2008), aiming at finding out the effect of financial performance (measured by VOA variable) towards firm value, showed that ROA has positive influence to firm value.

DATA AND METHODOLOGY

We analyze the content of annual reports from the research samples, namely Real Estate and Property Company in Indonesia. The purpose of this research is to understand the factors influencing firm value. The data were gathered from Indonesia Stock Exchange. Purposive sampling is used as the data collection method as 30 companies have been chosen from the Indonesia Stock Exchange's list. The sample consists of data from financial statement. There are 4 independent variables (Ownership, Firm Size, Capital Structure, Return on Asset) and 1 dependent variable (Firm Value). The name of companies, present at table 1.

Table 1: company name

Code	Company Name
ASRI	Alam Sutera Reality Tbk
BAPA	Bekasi Asri Pemula Tbk
BCIP	Bumi Citra Permai Tbk
BKSL	Sentul City Tbk
BSDE	Bumi Serpong Damai Tbk
COWL	Cowell Development Tbk
CTRA	Ciputra Development Tbk
CTRP	Ciputra Property tbk
CTRS	Ciputra Surya Tbk
DART	Duta Anggada Realty Tbk
DILD	Intiland Development Tbk
DUTI	Duta Pertiwi Tbk

GMTD	Goa Makassar Tourism Deevelopment Tbk
GPRA	Perdana Gapura Prima Tbk
JRPT	Jaya Real Property Tbk
KIJA	Kawasan Industri Jababeka Tbk
KPIG	Global Land and Development Tbk
LAMI	Lamicitra Nusantara Tbk
LPCK	Lippo Cikarang Tbk
LPKR	Lippo Karawaci Tbk
MDLN	Modernland Realty Tbk
MKPI	Metropolitan Kentjana Tbk
MTSM	Metro Realty Tbk
OMRE	Indonesia Prima Property Tbk
PLIN	Plaza Indonesia Realty Tbk
PUDP	Pudjati Prestige Tbk
PWON	Pakuwon Jati Tbk

Descriptive statistics is used to analyze the data in order to describe research objects through samples so that the researcher is able to provide an overview regarding the data used.

RESULTS AND DISCUSSION

Table 2: result of descriptive statistics test

	N	Minimum	Maximum	Mean	Std. Deviation
F.Value	90	.04	5.77	1.3721	1.06840
MNJRL	90	.06	.93	.6167	.23317
DER	90	.07	3.53	.8864	.69940
SIZE	90	.10	18.26	3.3182	3.33778
ROA	90	.00	.20	.0588	.04173
Valid N (listwise)	90				

Table 2 provides the descriptive statistics of the 30 companies within 3 years. It shows that stock ownership by managers in the property company is still very high at 93%. Such thing indicates that the ownership of property company in Indonesia is still dominated by the manager or family. Firm debt which is calculated by DER ratio is high as well. However, the profitability, which in this case is measured by ROA, shows that some companies still have zero ROA. It means there is no profitability for the company or the company that cannot compete and gain profit from the utilization of company assets. If the minimum firm value reaches 4%, it means the performance of the property and real estate company still needs to be improved. However, if the minimum firm size achieves 10%, it indicates the company has few assets for its business operational.

Table 3: summary of regression analysis result

	B	Std. Error	t	Sig.
(Constant)	.759	0.343	2.216	0.029
MNJR	0.405	0.177	2.283	0.025
DER	-0.041	0.107	-0.385	0.701
SIZE	0.176	0.075	2.350	0.021
ROA	0.209	0.102	2.059	0.043
Dependent Variable	Firm Value			
Nilai F hitung	3.356			
Sig F	0.010			
Durbin Watson	1.797			
R Square	0.143			
Adjusted R Square	0.102			

At table 3 shows result of the research used regressions analysis, that MNJR (managerial ownership), SIZE (size company) and ROA (Return on Asset) have positive and significant impact on the firm value. Therefore, if the managerial share ownership increases, the total assets of the company will raise as well. Moreover, the increment of the profitability will also raise the firm value. This research proves that Managerial Ownership has positive and significant influence on Firm Value. It supports the research done by Soliha and Taswan (2002). Furthermore, Firm Size also has both positive and significant impact towards Firm Value. This is in line with the result of research done by Sujoko and Soebiantoro (2007). The ROA shows positive and significant impact on Firm Value and it is the same as the research done by Nilla Mardiasari (2012). However, Leverage (DER) has no significant effect on Firm Value. This is contrast with Sujoko and Soebiantoro's research. The zero influence between DER and Firm Value indicates that the increasing debt ratio causes the company to have a big obligation to pay back its debts. As a result, the firm value will decrease.

Table 4: result of multiple linear regression test
coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.759	.343		2.216	.029
	MNJRL	.405	.177	.237	2.283	.025
	DER	-.041	.107	-.039	-.385	.701
	SIZE	.176	.075	.243	2.350	.021
	ROA	.209	.102	.208	2.056	.043

a. Dependent Variable: NIPER
Source: Secondary data processed in 2014

Following is the result of regression equation which is obtained from the output presented on Table 4:

Firm Value = 0,759+0,405 MNJR - 0,041 DER +0176 SIZE +0,209 ROA

The result of regression shows if MNJR, SIZE and ROA raised by 1%, then the Firm Value will also increase as much as the increasing percentage of each variable, whereas the 1% raise of debt (DER) will decrease the Firm Value.

CONCLUSION

The purpose of this study is to analyze the effect of Managerial Ownership, Firm Size, Capital Structur and Return on Assets toward Firm Value. The sample of this study uses data from 2010 to 2012 and employs Multiple Linear Regression method.

The result of this study shows that Managerial Ownership, Firm Size, and Return on Assets effect the Firm Value. Such result supports the research done by Soliha and Taswan (2002) and also Sudarma (2003) . The portion of shares held by managerial policy will affect the company to meet the company's goal is to obtain profits for shareholder wealth, the manager should be able to avoid the risk of causing shareholders will no longer choose a manager who fails to perform its functions, the policy manager that aims to provide wealth for shareholders by itself will increase the value of the company. Total assets of the company can be used as the size of company size. The size of the assets of the company will influence the increase or decrease the value of the company. The larger company's profitability, which in turn can be a positive signal for investors to make the investment acquire a certain return. .Rate of return obtained by describing how well the company's value in the eyes of investors. However, Capital Structure has no effect on Firm Value and it is on the contrary with Sujoko Subiantoro’s research (2007). Company value is influenced by the capital structure. Size of the debt policy will greatly affect the changes in firm value. High amount of debt will affect the stock price, but at a certain point the increase in debt will lower the value of the company if the benefits obtained than costs of debt.There are a number of limitations in this paper. First, we selected the sample of Property and Real Estate company. There are different types of stock groups in Indonesia Stock Exchange but only 30 companies are chosen as samples. A larger sample may provide better insights to the issues. Second, the sample consists of four independent variables among many independent variables that can be used to measure the firm value. Future research may extend the data, samples, and different independent variables.

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