

DO KEY PERFORMANCES AND OTHER FACTORS EFFECT TO FIRM VALUE

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ABSTRACT

The purpose of this study is to obtain empirical evidence regarding the key performances as independent variables whether they have an influence on firm value. The key performances are firm size, firm growth, profitability, asset structure, capital structure, managerial ownership and liquidity. In this study, the sample used was manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2018 to 2020. Sample selection method was used by purposive sampling. There were 47 manufacturing companies that met the criteria, resulting in 141 data are taken as sample of this study. The data was analyzed using multiple regression methods using the Price Book Value (PBV) measurement. The results explain that firm size, firm growth, profitability and asset structure have influence on firm value whereas, others have no influence on firm value. The 4 variables of key performance are useful to determine the firm value for investors in selection on their investments.

Keywords: Firm Value, Firm Size, Firm Growth, Profitability, Asset Structure

INTRODUCTION

As impacted by pandemic Covid-19, the financial performance was deteriorated. Investors must evaluate their investment whether it has an effect to return on investment or whether it has an effect on decreasing firm value.

Firm value is the selling price of a company that is considered appropriate for investors. Firm value is very important for the company because it will be a consideration for investors in making investment decisions. can reflect the performance of a company which can influence investors' views of the company.

Firm value is investors' perception of the level of success of a company which is related to its share price. High share prices can increase firm value and increase market confidence (Rasyid 2015). The price of a share can reflect the value of the firm. Maximizing firm value is very important for a company. Maximizing firm value means how is the company to maximize shareholder prosperity, which is the company's main goal (Fujianti et al. 2020)

This study is a development from the previous study conducted by (Naning Tri Rahayu and Abu Darim 2020). The difference of study is the collecting period of data based on the normal period in 2008 and the period of pandemic Covid-19 from 2019 to 2020, whereas previous research used periods from 2010 to 2016. The study aims to determine whether key performances and other factors which have effect to firm value. The key performances include the independent variables such as: company size, company growth, profitability, structure assets. Other factors consist of capital structure, managerial ownership and liquidity. The research question is if there is an effective association between firm value and indicators of the company's key performance. Since many Indonesian enterprises suffered a substantial decline in firm value during the COVID-19 pandemic, this study is applied to a sample of Indonesian companies. Consequently, the objective of this study will have an impact on it or not.

LITRATURE REVIEW

AgencyTheory

Jensen and Meckling initially introduced the idea of agency theory, which explains the relationship between agents and principals (Dobbin and Jung 2010). Principals use agents to fulfill their responsibilities and interests, and they will provide the agents decision-making authority.

When two or more principals assign a service to an agent and give the agent the authority to decide what is best for the principle, this is known as an agency relationship. It is thought that the agent will behave in a manner that is consistent with the principal's goals if they both want to maximize the firm value.

When the interests of the agent (such as management) and the principal (such as shareholders or investors) differ, conflicts in agency theory occur. Conflicts of interest, information asymmetry, agency costs, ineffective decision-making, and loss of trust are a few examples of frequent conflicts. Companies can use a variety of strategies, including honest communication, monitoring and oversight, and performance-based rewards, to lessen these conflicts.

As investors evaluate the key performance indicators for management's ability to meet shareholder or investor expectations in sustaining a high company value, agency theory may have an impact on firm value.

Signalling Theory

According to (Godfrey et al. 2010), signalling theory explains that managers use accounts in financial reports to signal a company's future hopes and goals. Companies can release information that can be a signal for parties outside the company, especially for investors, namely financial reports. Financial reports can provide signals to external parties, in the form of reliable information and can reduce uncertainty regarding the company's prospects in the future.

Signalling theory explains how a company gives signals to users of financial reports. This signal is in the form of information about what management has done to realize the owner's wishes (Paminto, Setyadi, and Sinaga 2016). Investors can be interested in a company because the information in the company's financial reports shows that the company has good prospects in the future.

Published financial reports show the role of signalling theory. It can be concluded that from the above theory, signalling theory is a guide or signal aimed at investors which contains information about the key performance indicators, which aims to enable investors to determine to invest or not in the company.

Firm Value

Company value is investors' perception of the level of success of a company which is related to its share price. High share prices can increase firm value and increase market confidence (Rasyid 2015). The price of a share can reflect the value of the firm. Maximizing company value is very important for a company, maximizing company value means the company is maximizing shareholder prosperity, which is the company's main goal (Fujianti et al. 2020)

Firm Size

(Sri, Dewi, and Wirajaya 2013) explained that firm size is one of the signs for managing a company's performance. Companies are categorized into two types, namely small-scale companies and large-scale companies (Godfrey et al. 2010). A large firm size reflects that the company has a low bankruptcy rate and is well established so that it can attract investors to invest in the company (Junitania and Prajitno 2019). Determining how big or small a company is can be determined based on total sales, total assets, and average sales level (Seftianne 2011).

H₁: There is a significant influence of firm size on firm value.

Firm Growth

(Saraswathi, Ida, I Gst. Bgs Wiksuana 2016) explains that growth is a change in the form of a decrease or increase in the total assets owned by a company. The growth of a company that continues to grow will usually have good prospects, so that it will be assessed positively by investors which will influence the increase in share prices (Suastini, Ida, and Henny 2016). Firm growth can influence company value, information about firm growth is often responded positively by investors, so information about firm growth will increase the price of a share. An increase in share prices means an increase in the value of a company. In general, companies with fast firm growth obtain positive results in strengthening their position in the competitive era.

H₂: There is a significant influence of firm growth on firm value.

Profitability

Profitability is a company's ability to generate profits in the future, and profitability can be used as an indicator of a company's operational success (Rasyid 2015). Company profitability is one way to assess the level of return that will be obtained from investment activities. Investors will invest their money in a company that has the potential to be profitable or promises profits in the future. This will of course push the company's share price to rise even higher. Profitability is the level of net profit that can be achieved by a company when carrying out company operations (Debby et al 2014). Return on equity (ROE) is an important indicator that is often used by shareholders to assess the level of company profitability before investing (Sri, Dewi, and Wirajaya 2013).

H₃: There is a significant influence of profitability on firm value.

Asset Structure

Asset structure is the elements of a company's assets that can explain the proportion of a company's assets (Putri Kartika Sari and Sanjaya 2018). The asset structure can be used to describe the size of assets that can be used as collateral when a company makes credit with creditors (Widyastuti et al 2019).

According to (Setiadharna and Machali 2017), the asset structure explains the amount of funds allocated to each part of the assets. This allocation is important because it relates to the amount of funds needed by the company for the company's long-term goals which aim to determine shareholder perceptions of the company.

H₄: There is a significant influence of profitability on firm value

Capital Structure

According to (Thaib and Dewantoro 2017), capital structure is a very important issue for every company, because whether the capital structure is good or bad will have a direct effect on the company's financial position. An optimal capital structure is a capital structure that optimizes the balance between risk and return so that it can maximize share prices (Naning Tri Rahayu and Abu Darim 2020). Research conducted by (Ramdhonah et al 2019) stated that capital structure has a positive effect on company value

H5: There is a significant influence of capital structure on firm value.

Managerial ownership

Managerial ownership is shareholders who are people in the company who are actively involved in company activities, such as the board of directors and managers (Fujianti et al. 2020). As equity owners, managers have an incentive to monitor the company carefully to ensure returns from their holdings.

H6: There is a significant influence of profitability on firm value.

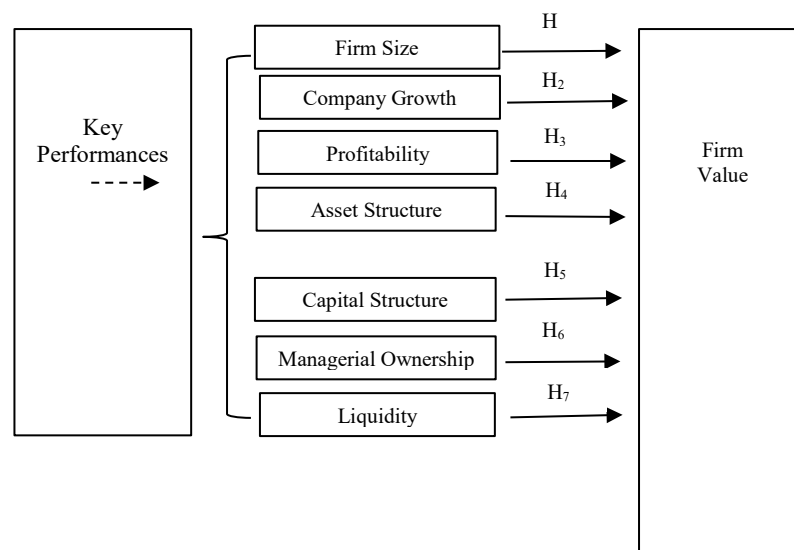
Liquidity

Liquidity is the company's ability to finance and fulfil obligations when they are billed (Markonah, Salim, and Franciska 2020). Liquidity is focused on the company's ability to pay its current obligations so that in this case the company has sufficient internal funds to finance its operational costs. According to (Zuhroh 2019) a company's liquidity is shown by the amount of current assets, namely assets that are easily converted into cash, such as cash, securities, credit and shares.

The higher the company's liquidity ratio, the higher the company's ability to fulfil its obligations. Company which has a high level of liquidity is a good prospect for shareholders to invest

H7: There is a significant influence of liquidity on firm value

Figure 1: Research Framework



Source: Data Processing

RESEARCH METHOD

This study is to determine the effect of key performances as independent variables which consist of company size, company growth, profitability, asset structure, capital structure, managerial ownership, and liquidity. The population used in this study were manufacturing companies listed on the Indonesian Stock Exchange from 2018 to 2020 which covered the Covid-19 periods from 2019-2020. The sample data in this study was a secondary data which sourced from financial reports and/ or annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) website namely www.idx.co.id during 2018 to 2020.

As described in Table1, the sample selection in this study excludes companies that do not consistently publish financial reports, do not use financial reports in Rupiah currency, do not close financial reports as of 31 December, no shares owned by management, and no performing profit for this period. Based on the sample criteria mentioned, only 141 companies passed with the criteria and there are 609 sample data used in this study.

Table 1: Sample Selection

No	Description	No of Company	No of Sample
1.	Manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018-2020	203	609
2.	Companies that do not consistently publish financial reports from 2018-2020	(44)	(132)
3.	Companies that do not use financial reports in Rupiah currency from 2018-2020	(31)	(93)
4.	Companies that do not close financial reports as of 31 December from 2018-2020.	(2)	(6)
5.	Companies that management do not have share ownership from 2018-2020	(54)	(162)
6.	Companies that do not have profit from 2018-2020	(25)	(75)
	Total	47	141

Source: Data Processing

Firm value (FV) in this study is measured by Price Book Value, which is calculated by stock market price divided by book value of shares. Firm size (FZ) is measured by total sales which is calculated using the logarithm of the total sales. Firm growth (GR) is measured by assets growth. These are refers to the study was conducted by (Naning Tri Rahayu and Abu Darim 2020), which is calculated using the following formula:

$$GR = \frac{\text{Total asset } (t) - \text{Total asset } (t-1)}{\text{Total asset } (t-1)}$$

Profitability is measured by Return on Equity (ROE) which refers to study conducted by (Naning Tri Rahayu and Abu Darim 2020), which is calculated using net income divided by owner's equity. The asset structure (SA) is measured by comparing the number of fixed assets with total assets (Setiadharm and Machali 2017). Capital structure (DER) is measured by total debt to equity ratio which is calculated by long-term debt divided by own capital (Naning Tri Rahayu and Abu Darim 2020). Managerial ownership (KM) is measured using number of shares owned by management divided by total outstanding stock as studied by (Fujianti et al. 2020). Liquidity (CR) is measured using the current ratio which refers to research conducted by (Markonah, Salim, and Franciska 2020) which is calculated using current asset divided by current liabilities.

RESULT AND DISCUSSION

The results of descriptive statistics described in below Table 2, the average Price Book Value (PBV) is 2.89 times of the book value of equity with the maximum PBV for the sample companies of 60.67 times of the book value of equity. In this situation, the manufacturing companies as sample of study still demonstrate the good performance record, maintain business growth around 10%, average profitability of 13%, hold the fixed asset of 52%, small portion of debt around 26% compared to the equity, less managerial ownership around 9% and maintain liquidity with current ratio around 432%.

Table 2: Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
PBV	141	0.24	60.67	2.8981	7.82768
FZ	141	25.29	33.11	28.6882	1.62282
GR	141	-0.31	1.13	0.1010	0.15954
ROE	141	0.00	1.45	0.1306	0.19664
SA	141	0.05	0.97	0.5180	0.19333
DER	141	0.00	1.70	0.2638	0.29941
KM	141	0.00	0.48	0.0920	0.12547
CR	141	0.44	208.44	4.3234	17.54967

Source: Data Processing using SPSS

This study's research methodology includes the following tests: autocorrelation testing by Uji Bruesch-Godfrey; heteroscedasticity testing by Glejser; multicollinearity testing by Tolerance Value and Variance Inflation Factor (VIF); fit testing of the multiple regression model by F-test; analysis of the determination coefficient by Adjusted R-squared (ADJ R²); and hypothesis testing by T-test.

As examined, there are no problems with heteroscedasticity, multicollinearity and autocorrelation.

Table 3: Hypothesis Testing Results

Variable	β	Sig
Constant	12.548	0.000
FZ (H ₁)	-0.454	0.000
GR(H ₂)	-5.819	0.000
ROE(H ₃)	39.849	0.000
SA(H ₄)	-2.604	0.010
DER(H ₅)	0.829	0.209
KM(H ₆)	-1.443	0.303
CR(H ₇)	0.002	0.847
F		0.000
ADJ R ²		0.937

Source: Data Processing using SPSS with t-test

As shown in Table 3 results of hypothesis testing by T-test, show that firm size, firm growth, profitability and asset structure as key performance variables has Sig value of 0.000 to 0.010. Thus, (H₁ - H₄) are acceptable and these variables influence on firm value.

Firm size has a negative effect on firm value. The result is consistent with research conducted by (Salim and Susilowati 2020). Meanwhile, research by (Yulia Agustina and Lie Sha 2020) show that firm size has a positive effect on firm value.

Firm growth has a negative effect on firm value. The result is consistent with research conducted by (Suwardika and Mustanda 2017). However, this is not consistent with research conducted by (Junitania and Prajitno 2019), which states that firm growth has no effect on firm value. Meanwhile, research by (Syardiana et al 2016) shows that firm growth has a positive effect on firm value.

Profitability has a positive effect on firm value. The result is consistent with research conducted by (Putri Kartika Sari and Sanjaya 2018). However, this is not consistent with research conducted by (Sukmawardini and Ardiansari 2018) which stated that profitability has no effect on firm value. Meanwhile, research by (Saraswathi, Ida, I Gst. Bgs Wiksuana 2016), shows that profitability has a negative effect on firm value.

Asset structure has a negative effect on firm value. The result is consistent with research conducted by (Setiadharmas and Machali 2017)). However, this is not consistent with research conducted by (Nyamasege et al. 2014) which states that asset structure has a positive effect on firm value.

Other variables such as capital structure, managerial ownership and liquidity which do not influence to firm value since the Sig value > 0.05 and accordingly (H₅ – H₇) are not acceptable and these variables have not influence to firm value.

In performing the measurement of firm value, the variables such as firm size, firm growth, profitability and asset structure will be used as key performance for investors to determine the value of firm before there buy or sell their investment.

Large scale, the extensive growth and high fixed asset financing companies are often faced with high overhead and interest costs on debts and they are in-efficient and relatively less profit and PBV will be assessed as low.

Companies that have a high level of profitability will increase the company's equity value so that PBV will be assessed as high.

Based on the above consideration, the investors will tend to look for the companies with high profitability which will generated high PBV in future.

CONCLUSION AND RECOMMENDATION

This study examines effect of key performances variables on firm value during in the normal period for 1998 and Covid-19 pandemic periods from 2019 to 2020. The influenced variables are firm size, firm growth, profitability, asset structure. By analysis of this key performance variables, investor able to select the prospective firm value. Companies with stability and highly increasing of profit will be interested by investors. This paper will recommend to investors that 4 variables of key performance are useful to evaluate the prospect of investment through PBV.

This study is still subject to limitations. the sample of companies are limited to the manufacturing companies. It will be a different effect if apply to other business or non-manufacturing companies.

The valuation of firm is not only using Price Book Value (PBV) which is based on the historical value of financial statements. It will be difference if using financial statements measured at market value.

Sample using in this study is companies listed Indonesian Stock Exchange. In future, it will be comprehensive to use the sample of study from various countries and the combined results will more accurately.

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