

THE FACTORS EFFECTING FIRM VALUE EVIDENCE FROM INDONESIA

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ABSTRACT

This study aims to measure the simultaneous and partial impact of Earnings Quality, Tangible Assets, and Leverage on Firm Value in real estate and property companies based on the Indonesia Stock Exchange (IDX) 2021-2023 as a limitation field. This study uses a data processing method with the EViews version 12 application. This study employs secondary data, with a sample of 26 companies selected using the purposive sampling method. The results show that Earnings Quality has an insignificant impact on Firm Value, Meanwhile, Tangible Assets and Leverage have a positive but insignificant impact on Firm Value. So, it can be concluded that tangible asset and leverage are accepted and earnings quality is rejected.

Keywords: *Earnings Quality, Tangible Asset, Leverage, Firm Value*

1. INTRODUCTION

According to Solehudin (2024), The valuation of company in the real estate and property sector in Indonesia is anticipated to achieve substantial figures, supported by urbanization trends, increasing demand for housing, and government support for infrastructure development plans. Therefore, the market value of this sector is estimated to be around \$64.78 billion, and this value is expected to continue increasing to \$85.97 billion by 2029 with a compound annual growth rate (CAGR) of approximately 5.82%. For example, PT Metropolitan Land Tbk. (MTLA) or Mentland generated a net profit attributable to the owners of the parent entity of Rp 300.69 billion in the reporting period, an increase of 11.91% year-on-year. Earnings per share also increased from Rp 35.1 to Rp 39.28 per share (Tonce 2023).

The company's value serves as its primary goal (Purnama 2020). The value of a company is believed to not only reflect the current prospects of the company but also its future prospects. The value of a company is a crucial concept in business and finance that encompasses many different methods and elements (Oktaviarni, Murni, and Suprayitno 2018).

Agency Theory

According to Jensen and Meckling (1976), agency theory describes a contractual relationship in which one or more individuals (the principal) delegate tasks to another individual (the agent), granting them the authority to make decisions on their behalf. If both parties in the relationship prioritize maximizing their own benefits, there is a strong possibility that the agent could fail to consistently act in the principal's best interest. Institutional ownership helps monitor and adjust income by maintaining management accountability, thereby reducing agency costs and potentially increasing the company's value (Akpada 2024).

Signaling Theory

Spence (1973) proposing the signaling theory aimed at describing the behavior of signalers and influencing the behavior of signal receivers. This theory is often applied in accounting, auditing, and financial management research, where managers send signals to external parties, such as investors, through the disclosure of financial information. The signals in question encompass all actions taken by management concerning the company's upcoming potential. Within the framework of this study, the signaling theory serves to obtain complete and relevant information about the company (Ompusunggu and Wijaya 2021).

Earnings Quality and Firm Value

The quality of earnings can enhance the reliability of earnings information that accurately reflects the company's economic condition, thereby helping report users make decisions and Enhancing the company's perceived value in the market (Bandiyono and Nurseto 2023). Agency theory serves as a conceptual foundation for explaining how earnings quality helps mitigate agency conflicts (Ogiriki and Asemota 2024). The findings from the study conducted by Dang et al. (2020) indicate that earnings quality has a substantial effect on the value of the company. Meanwhile, according to Hutagaol-Martowidjojo et al. (2019), Earnings quality negatively affects firm value.

Tangible Asset and Firm Value

According to Kurniasari et al. (2023) tangible assets include all types of goods owned by a company and used for the company. The more efficiently a company manages its assets, the more effectively the company can increase its value. If a company has many tangible assets, it indicates that a lot of operational activities are taking place within it. Therefore, this can serve as a positive signal for investors, indicating that tangible assets have the potential to generate future benefits (Ramadhan et al. 2022). The conducted research by Ramadhan et al. (2022) shows that tangible assets have a substantial effect on the value of the company. Meanwhile, according to Jeroh (2020), Tangible assets negatively impact the value of the company.

Leverage and Firm Value

Leverage is an important financing strategy for companies, especially when internal funds are insufficient, allowing for borrowing to purchase assets and also potentially increasing profits for shareholders (Ibhagui and Olokoyo 2018). In agency theory, leverage also serves as a monitoring tool by requiring the company to pay interest regularly, which can cause losses that limit the managers' ability to invest in projects that do not create shareholder value (Akpataka 2024). The research conducted by (Habakkuk et al. (2023), shows that leverage has a substantial effect on the value of the company. Meanwhile, according to Ibrahim (2020), leverage has an adverse influence on the value of the company.

The research framework in this study, the following is observed:

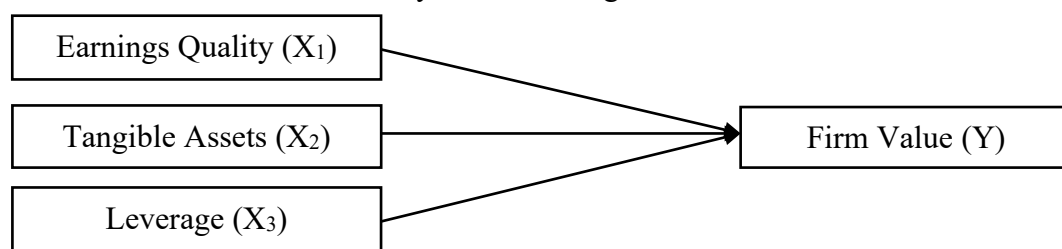


Figure 1. Research Framework

Research Hypothesis

- H1: Earnings quality has a beneficial and substantial impact to firm value.
H2: Tangible asset has a beneficial and substantial impact to firm value.
H3: Leverage has a adverse and significant impact to firm value.

2. RESEARCH METHOD

Population and Sampling Techniques

The target population of this study includes companies operating in the properties and real estate sector that are listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. The sampling method applied in this study is non-probability sampling, as the selection of samples is not conducted randomly. The sampling design used is purposive sampling with several existing criteria, namely: companies listed on the Indonesia Stock Exchange (IDX), companies that present annual financial statements using the rupiah currency, and companies that consistently present financial statements during the 2021-2023 period. A total of 26 companies were obtained based on the criteria and issues explained.

The variables in this study include firm value as the dependent variable, while the independent variables consist of earnings quality, tangible assets, and leverage.

Variables and Measurement Methods

Table 1. Variable Operationalization

Variabel	Pengukuran	Sumber	Skala
	$(\text{Market value of equity} + \text{Book value of liabilities})$		
Firm Value (Y)	$\text{Book value of assets}$	(SON et al. 2023)	Rasio
Earnings Quality (X1)	$\frac{\text{Operating Cash Flow}}{\text{Net Income}}$	(Wardani and Dewanti 2022)	Rasio
Tangible Asset (X2)	$\text{Total assets} - \text{intangible assets} - \text{total liabilities}$	(Sixpence et al. 2021)	Rasio
Leverage (X3)	$\frac{\text{Long Term Debt}}{\text{Total Equity}}$	(Anton 2018)	Rasio

3. RESULTS AND DISCUSSIONS

Descriptive statistical test shows maximum value of the company value variable which 0.989693 that comes from PP Properti Tbk. (PPRO) in 2023 and the minimum value is 0.373806 which comes from Bekasi Asri Pemula Tbk. (BAPA) in 2021. The firm value's standard deviation is 0.148314. the firm's mean value variable is 0.654635, which explains that the average company in the data has a value level of 65.46%, which means that the average company in the sample has a fairly high level of ability to earn profits. earnings quality in this study has a maximum value of 637.1757 originating from Bumi Citra Permai Tbk. (BCIP) in 2021 and a minimum value of -26.80275 originating from Intiland Development Tbk. (DILD) in 2021. The standard deviation value of earnings quality is 72.36739. The mean value of the earnings quality variable is 8.164014. tangible assets in this study have a maximum value of 36,300,000,000,000 originating from Bumi Serpong Damai Tbk (BSDE) in 2023 and the minimum value is 126,000,000,000 originating from Bekasi Asri Pemula Tbk (BAPA) in 2023. The standard deviation value of tangible assets is 7,890,000,000,000. The mean value of the tangible asset variable is 6,790,000,000,000. The leverage in this study has a maximum value of 4.991726 which comes from PP Properti Tbk (PPRO) in 2023 and the minimum value is 0.001969 which comes from Royalindo Investa

Wijaya Tbk (INDO) in 2021. The standard deviation value of leverage is 0.873848. The leverage's mean value variable is 0.963577, which explains that the average company in the data has a leverage level of 96.36%, which means that the companies in the sample have a fairly large dependence on debt.

The test results show a probability value of 0.098789, which exceeds the significance threshold of 0.05 ($0.098789 > 0.05$). Since the probability value is greater than 0.05, the data is deemed to follow a normal distribution. On the other hand, if the probability were below 0.05, the data would be classified as not normally distributed.

On this research, the test conducted on the variabels earnings quality (X1), tangible asset (X2), and leverage (X3) concerning firm value (Y) reveals correlation values below 0.8. Therefore, it can be inferred that these three variables do not exhibit multicollinearity issues.

Multiple Linear Regression Test

The result of the multiple regression test show that the regression equation in the research is as follows:

$$\text{Tobin's } Q = 0.512945646965 + 0.0000824227251198EQ + 0.00000000000000675398489199TA + 0.0987640062459DER + \varepsilon$$

Table 2. Result of Multiple Linear Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.512946	0.031446	16.31186	0.0000
EQ	8.24E-05	0.000104	0.790210	0.4319
TA	6.75E-15	2.36E-15	2.864890	0.0054
DER	0.098764	0.019151	5.156995	0.0000

This test is a statistical method used to assess the overall influence of the independent variable (X) on the dependent variable (Y). with a significance value of F less than 0.05, spesifically 0.000, it indicates that all independent variables (X) concurrently exert a significant influence on the dependent variable (Y) at a 11.74% confidence level. Tus, it can be inferred that factors such as earnings quality (X1), tangible asset (X2), and leverage (X3) jointly contribute significantly to the occurrence of firm value (Y).

The coefficient of determination test yielded an adjusted R-squared value of 0.295105. This adjusted R² value indicates that the earnings quality (X1), tangible asset (X2), and leverage (X3) variables together are able to explain the firm value variable by 29.5105% of changes or variations in firm value. While the remaining 70.4895% of the variation in firm value is influenced by other factors that are not taken into account in this model, namely variables that may be relevant but are not considered in this study.

4. CONCLUSIONS AND SUGGESTIONS

This study examines three independent variables: earnings quality, tangible assets, and leverage. The t-test results show that earnings quality does not significantly impact firm value, despite being a key indicator of financial transparency and credibility, which investors often consider. Conversely, tangible assets show a positive and substantial effect on firm

value, highlighting the importance of optimal investment in physical assets to enhance company worth. Similarly, leverage also has a positive and significant influence on firm value, suggesting that higher leverage contributes to an increase in firm value.

According to the findings of the conducted research, the research has several limitations. (1) This study only uses a sample of properties & real estate sector companies listed on the Indonesia Stock Exchange, so the results are only relevant to that sector. (2) This study uses a limited observation period of only three years, namely from 2021 to 2023. (3) This study only tests three independent variables as factors that affect firm value such as earnings quality, tangible assets, and leverage. (4) This study uses the earnings quality formula which contains related to net income, where many net income in this study are negative, so the resulting earnings quality value can be extreme (outliers).

Suggestion that can be given for developing research on the same topic are: (1) Future surveys are expected to include companies in other sectors that are not listed on the Indonesia Stock Exchange, such as primary consumers, non-primary consumers, and the transportation and logistics sector. (2) Future research is expected to cover a longer period of three years so that the results obtained will be more accurate and cover even greater variations. (3) Future research may include additional independent variables that can affect firm value. (4) Future research can use an approach that is more focused on companies with certain characteristics or add control variables to eliminate problems due to negative net income.

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