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Effect of Firm Size, Profitability, and Firm Growth on Firm Value

(Empirical Study on Property and Real Estate Companies Listed on the Indonesian Stock Exchange)

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Abstract: This study aims to determine the effect of Firm Size, *Profitability, and Firm Growth on Firm Value. This research is a type of quantitative research, the sampling technique uses a purposive sampling method for property and real estate companies listed on the IDX in 2019-2021. The samples that met the criteria were 14 companies with a total of 42 data during 3 years of research. This study used multiple linear regression analysis with SPSS software assistance version 25. The results of this study show that firm size and profitability had a significant effect on firm value, meanwhile firm growth has no significant effect.*

Keywords: Firm size, profitability, firm growth, firm value

I. INTRODUCTION

The establishment of a company must have clear objectives, both short-term and long-term goals. The short-term goal is to maximize firm profits with the resources it has, while the long-term goal is to be able to increase firm value and bring prosperity to its shareholders.

Firm value is the investor's perception of the company which is often associated with stock prices. A high firm value is the desire of the company owners because a high value indicates high shareholder prosperity. For a manager, firm value is a measure of work performance that has been achieved. An increase in firm value indicates an increase in company performance, this is seen as an ability to increase shareholder prosperity which is the company's goal. For investors, an increase in the firm value will make investors interested in investing in the company.

Indonesia is part of the ASEAN Economic Community (AEC), which is a free market in Southeast Asia. The existence of AEC challenges Indonesian companies to gain market opportunities in an increasingly competitive business environment. This makes every company motivated to improve performance to achieve the company's goal of increasing firm value.

Firm size shows that the company is experiencing development so that investors will respond positively and the company's value will increase. The larger the size of the company, the easier it is to obtain funding sources, both internally and externally. Firm value is also influenced by profitability, namely the company's ability to make a profit. High profitability can increase stock prices, where the higher the stock price makes the company value also high. The growth of the company is one factor that can also affect firm value. Growth is the company's ability to maintain its business position in the economic development and industry in which the company operates. Companies that grow rapidly will obtain positive and stable results in competition, and benefit from sales that continue to increase significantly with an increase in market share. Companies with high growth rates will be in demand from investors, which shows that growth can impact on firm value.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Theoretical Perspective

***Stakeholder* Theory**.

According to Ghozali and Chariri (2007:409), *stakeholder theory* states that a company is not an entity that only operates for its own sake, but must provide benefits to its *stakeholders* (shareholders, investors, creditors, government, customers, employees, analysts, and the general public), which affect or are influenced directly or indirectly by the firm. *Stakeholder* theory, corporate sustainability depends on *stakeholder* support which can be seen through the company's operations. The main objective of *stakeholder* theory is to assist corporate management in creating value and reducing losses for *stakeholders.*

Firm value

Firm value is investor recognition, which is often associated with stock prices. The value of the company can be reflected in the market price of its shares. High corporate value is the desire of company owners because a high value shows the prosperity of shareholders is also high (Hemastuti, 2014:3). Indrarini (2019:15-16) states that measuring company value can be done using a rating ratio. The rating ratio is the most comprehensive performance measure for a company which consists, of *Price to Book Value (PBV), Price Earning Ratio (PER), and Tobin's Q.*

Firm Size

Firm size is a measure that determines the size of a company. Sartono (2001:249) states that large companies will find it easier to obtain capital in the capital market compared to small companies. With this easy access, large companies have greater flexibility as well. The company is said to be good if the ability and sources of funds owned are getting bigger. This makes large companies more trusted by financial institutions so that large companies have good access to get loans. The larger the size of the company, the easier it is to obtain internal and external funding sources that can affect the value of the company itself. Company size is a variable that is widely used to explain annual report disclosures. Small companies will disclose lower quality than large companies because large companies tend to have greater public demand for information compared to smaller companies.

Profitability

According to Sartono (2001:122), profitability is the company's ability to earn profits related to sales, total assets, and capital. High profitability has a positive impact on companies because it can increase company value, increase investor confidence, and can attract new investors to invest. Brigham and Houston (2014: 122) explain that profitability reflects the final result of all financial policies and operational decisions. Shareholders and potential investors will focus on the company's profitability and risk because the stability of stock prices depends on the level of profit earned and dividends in the future. Therefore, profitability can affect the value of the company and the prosperity of shareholders. High company profitability can increase the trust and interest of potential investors to invest because investors expect an optimal rate of return from the investment. A positive response from investors will increase the company's stock price, which increases in the firm's value.

Firm Growth

Safrida (2008:34) explains that growth is the impact of the flow of company funds from operational changes caused by growth and a decrease in business volume. Growth is expressed as total asset growth where asset growth in the past will reflect asset growth in the future. From an investor's point of view, company growth is a sign that the company has a profitable aspect, and investors expect the rate of return on investments made to show good development. The existence of a good response from investors can affect an increase in the company's stock price which will reflect the same growing company value.

2.2Hypothesis Development

2.2.1 Firm Size on Firm Value

Firm size is a measure that describes the size of the company which can be evaluated from the value of the assets owned by the company. Large company size reflects the convenience for companies to enter the capital market, it can also increase investor interest in investing their capital. This positive response determines good prospects so that the value of the company can increase (Prasetyorini, 2013:191).

H1: Firm size affects on firm value.

2.2.2 Profitability on Firm Value

Increased profitability will affect the amount of profit earned by the company. High profitability will attract investors to invest in the company. High company profitability can reflect good prospects and reflect a high level of company efficiency, this is where good company performance will be seen.

H2: Profitability affects firm value.

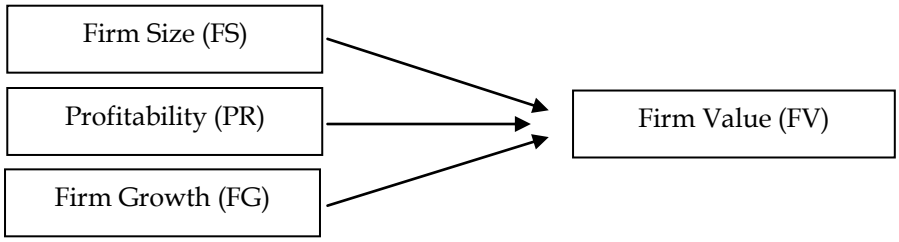
2.2.3 Firm Growth on Firm Value

The growth of the firm is one of the factors that can affect the value of the company. Growth is the company's ability to maintain its business position in economic and industrial developments in the economy in which the company operates (Susanti, 2016:27).

H3: Firm growth affects firm value.

2.3 Theoretical Framework

To be able to facilitate the understanding of this research, the theoretical framework is explained as described in the following figure.



Picture for Theoretical Framework

III. FINDING AND EQUATIONS

This research is a quantitative study, the population is property and real estate companies registered on the Indonesian Stock Exchange (IDX) for the 2019-2021 period. The sampling technique uses a documentation method determined through research sourced from financial statements on the IDX for the 2019-2021 period. The method of collection uses secondary data in the form of quantitative data whose results are in the form of numbers.

Firm Value (FV)

The dependent variable in this study is the firm value (FV), which is proxied using the *PBV ratio*. A high *PBV* will make the market believe in the company's prospects. This is also what the owners of the company want because a high company value indicates high shareholder prosperity. *PBV* is calculated using the following formula (Ghozali, 2011:79):

$$PBV = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$$

The book value of shares can be calculated by the formula:

$$\text{Book Value Per Share} = \frac{\text{Total Share Capital}}{\text{Total Outstanding Shares}}$$

Firm Size (FS)

Firm size is the wealth owned by the company as measured by its total assets. Sugiarto (2011:145) defines firm size by using the natural logarithm of the company's total assets. Firm size can be calculated by the formula (Titman and Wessels, 1988:6):

$$\text{Firm Size} = \text{Ln (Total Assets)}$$

Profitability (PR)

Profitability is measured using *ROA*, which is a ratio to measure a company's ability to generate profit after tax from its total assets. The higher the *ROA*, the better the profitability of the assets in obtaining profits. *ROA* is calculated by the formula (Brigham and Houston, 2011:148):

$$ROA = \frac{\text{Net Profit After Tax}}{\text{Total } Assets} \times 100$$

Firm Growth (FG)

Firm growth can be measured using the change in total assets, namely the difference in the total assets owned by the company in the current period and the previous period, which is then compared with the total assets of the previous year. The formula for changes in total assets is (Titman and Wessels, 1988:4):

$$\text{Growth} = \frac{\text{Total Assets (t)} - \text{Total Assets (t-1)}}{\text{Total Assets (t-1)}} \times 100\%$$

IV. FIGURES AND TABLES

Descriptive Statistical Analysis

Table 1. Descriptive Statistics

Variable	*Minimum*	*Maximum*	*Means*	*std. Deviation*
FS	27.55	31.75	29.8683	1.18578
PR	0.00	0.20	0.0505	0.04450
FG	-11.35	18.87	4.1015	6.05774
FV	0.00	2,20	0.8607	0.50505

Source: Secondary Data Processed Author, 2022

Based on table 1, the results of the analysis of independent variables using descriptive statistics on FS show a minimum value of 27.55, a maximum of 31.75, a mean of 29.8683, and a standard deviation of 1.18578. Against PR shows a minimum value of 0.00, a maximum of 0.20, a mean of 0.0505, and a standard deviation of 0.04450. Against FG shows a minimum value of -11.35, a maximum of 18.87, a mean of 4.1015, and a standard deviation of 6.05774. The results of the analysis of the dependent variable using descriptive statistics on FV show a minimum value of 0.00, a maximum of 2.20, a mean of 0.8607, and a standard deviation of 0.50505.

Normality Test

Table 2. Normality Test

	Unstandardized Residuals
N	42
Test Statistics	0.109
Asymp. Sig. (*2-tailed*)	0.200

Source: Secondary Data Processed Author, 2022

Based on table 2, the results of *Asmp. Sig.* (2- *tailed*) of 0.200. This value is greater than the significant level of 0.05, so all variables in this study are normally distributed.

Multicollinearity Test

Table 3. Multicollinearity Test

Variable	*Tolerance*	*VIF*	Information
FS	0.966	1.035	Multicollinearity does not occur
PR	0.952	1,051	Multicollinearity does not occur
FG	0.926	1,080	Multicollinearity does not occur

Source: Secondary Data Processed Author, 2022

Based on table 3 shows that the *tolerance value* of FS is 0.966 and the *VIF value is* 1.035. PR has a *tolerance value* of 0.952 and a *VIF value* of 1.051. FG has a *tolerance value* of 0.926 and a *VIF value* of 1.080. All independent variables have a *tolerance value* of more than 0.1 and a *VIF value* of less than 10, so it can be concluded that the data does not have multicollinearity.

Autocorrelation Test

Table 4. Autocorrelation Test

Durbin-Watson values	Criteria	Information
2,275	1.662 < 2.275 < 2.338	No autocorrelation occurs

Source: Secondary Data Processed Author, 2022

Test results from table IV.5, it is known that the *DW value is* 2.275. based on the provisions of testing research data free from autocorrelation if the *DW value* lies between 1.662 to 2.338 (1.662 < 2.275 < 2.338), it can be concluded that the data in this study are free from autocorrelation.

Heteroscedasticity Test

Table 5. Heteroscedasticity Test

Variable	Q	*Sig*	Information
FS	1.310	0.198	There is no heteroscedasticity
PR	-1,310	0.266	There is no heteroscedasticity
FG	-0.702	0.487	There is no heteroscedasticity

Source: Secondary Data Processed Author, 2022

Based on table 5, the significance coefficient value for FS is 0.198, PR is 0.266, and FG is 0.487. Based on the sig value with the glejser test, it can be concluded that the regression model does not have heteroscedasticity.

Multiple Linear Regression Equation Analysis

Table 6. Hypothesis Testing

Model	β coefficient	T	Sig.	Information
Constant	-2,973			
FS	0.121	2,286	0.028	H1 is accepted
PR	6,149	4,341	0.000	H2 is accepted
FG	-0.020	-1.855	0.071	H3 is rejected
F		9,817		
Sig.		0.000		
R		0.661		
R Square		0.437		
Adjusted R Square		0.392		

Source: Secondary Data Processed Author, 2022

Based on table 6, it can be seen that the regression equation:

FV = -2.973 + 0.121 FS + 6.149 PR – 0.020 FG + e

To interpret the results of the analysis can be explained:

a. The constant value of -2.973 indicates that if all independent variables are constant, then the firm value is -2.973.
b. The regression coefficient value of the FS variable is +0.121. This means that the higher the firm size, the firm value will increase. Conversely, the lower the level of firm size will reduce firm value.
c. The regression coefficient value of the PR variable is +6.149. This means that a higher level of profitability, it will increase the firm value. Conversely, the lower level of profitability will reduce the firm value.
d. The regression coefficient value of the FG variable is -0.020. This means that the higher the firm growth rate, the lower the firm value. Conversely, if the lower the growth rate of the firm, it will increase the firm value.

Simultaneous Significance Test or F Test

Table 7. F test

Model	Sum of Squares	Df	MeanSquare	F	Sig.
Regression	4,566	3	1,522	9,817	0.000
residual	5,892	38	0.155		
Total	10.458	41			

Source: Secondary Data Processed Author, 2022

Based on table 7, the calculated F test results were 9.817 with a significance level of 0.000. The significance value is less than 0.05 so it can be said that the variables of firm size, profitability, and firm growth simultaneously affect the firm value.

Partial Test or t-test

Table 8. t-test

Model	Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	-2,973	1.575		-1,887	0.067
FS	0.121	0.053	0.283	2,286	0.028
PR	6,149	1.417	0.542	4,341	0.000
FG	-0.020	0.011	-0.235	-1.855	0.071

Source: Secondary Data Processed Author, 2022

Based on table 8 it can be explained the results of testing each variable as follows:

1. The FS variable has a significance value of 0.028. This value is smaller than 0.05 and the value of $t_{count} > t_{table}$ (2.286 > 2.02269), so it can be said that the FS variable has a significant positive effect on firm value.
2. The PR variable has a significance value of 0.000. This value is smaller than 0.05 and the value of $t_{count} > t_{table}$ (4.341 > 2.02269), so it can be said that the PR variable has a significant positive effect on firm value.
3. The FG variable has a significance value of 0.071. This value is greater than 0.05 and the value of $t_{count} > t_{table}$ (-1.855 < 2.02269), so it can be said that the FG variable has no significant negative effect on firm value.

Coefficient of Determination or *Adjusted R* ²

Table 9. Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	, 661 [a]	,437	,392	0.436137	2,275

Source: Secondary Data Processed Author, 2022

Based on table 9, it is known that the value of the adjusted R Square is 0.392 or 39.2%. This means that 39.2% of the firm's value can be explained by the independent variables (FS, PR, and FG). While the remaining 60.8% is explained by other variables outside this research model.

V. CONCLUSION

Based on the results of the analysis and discussion conducted, it can be concluded that:

1. The firm size variable property and *real estate companies* listed on the IDX in 2019-2021 effect (significant) on firm value, so H_1 is accepted.
2. The profitability variable property and *real estate companies listed on the IDX in 2019-2021* effect (significant) on firm value, so H_2 is accepted.
3. The firm growth variable property and *real estate companies* listed on the IDX for 2019-2021 has no effect on firm value, so H_3 is rejected.

Research Limitations

This research has several limitations, including:

1. This study only considers three independent variables, this is firm size, profitability, and firm growth, so the model study is only able to explain the variability of the dependent variable of 39.2%. This shows that the

ability of the independent variables taken in this study is limited.
2. The research sample only uses property and *real estate companies* registered on the IDX for three years of observation, namely 2019-2021, so that is one of the reasons for the difference between theory and field facts.

Suggestion

According to these limitations, the researcher submitted the following suggestions:

1. Subsequent research can add other independent variables that can produce various alternative ways of making policies in increasing firm value.
2. For future researchers, the number of sample companies should be more numerous and varied, not just limited to property and *real estate companies*. Future research can also extend the observation period to obtain a better and larger sample.

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