

The Effect of Firm Size, Profitability, Audit Committee, and Other Factors to Firm Value

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ABSTRACT

Objective – This study aims to identify the effect of firm size, profitability, audit committee and other factors on firm value.

Methodology/Technique – The population in this study are all non-financial companies on the Indonesian Stock Exchange from 2015 to 2017. The research sample of 403 companies was selected using a purposive sampling method with certain criteria so that a total sample of 180 companies was obtained. Data testing techniques using multiple linear regression with a significance level of 5% alpha.

Findings – The results show that firm size has a negative effect on firm value while company growth, profitability, liquidity, tangible fixed assets, audit committee and board size all have a significant effect on firm value. Simultaneously, all independent variables have a positive effect on firm value. The coefficient of determination shows that the effect of the independent variable on the dependent variable is 55.9% and the rest is influenced by other factors.

Type of Paper: Empirical

Keywords: Audit Committee; Firm Value; Company Growth; Profitability; Liquidity; Board Size.

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JEL Classification: M41, M42, M49.

1. Introduction

Every year the number of new investors in the capital market in Indonesia continues to increase, making competition between companies in obtaining sources of funds from investors increase. Increased competition prevents many companies from surviving the market. Therefore, companies try to maintain and even win the highest positions in the market by increasing the value of their companies. Investors in the capital market use the value of shares as a benchmark for investment in a company. Firm value is an important thing that is considered in the company.

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Creditors, investors and other stakeholders also pay attention to the company's performance which is reflected in the value of the shares. Brigham and Houston (2010, 132) argue that maximizing the assets owned by investors in a long period of time is the main goal of financial management. At present, firm value is one way to measure the welfare of investors, creditors and other interested parties in a company (Debby et. al., 2014).

2. Literature Review

Optimizing firm value is one of the company's long-term goals. Welley and Untu (2015) argue that the value of a company can provide maximum prosperity to investors if the price of shares in the company increases. Company goals can be achieved through the application of financial management functions carefully and appropriately, because every financial decision taken will affect other financial decisions that have an impact on the firm value (Fama & French, 1998). Financial decisions in the perspective of financial management include investment, funding, and dividend payments. Companies must maximize firm value to fulfil the prosperity of shareholders, which is one of the objectives of the company. According to Foo et. al. (2015), firm value is about investors' understanding of the company's success rate which can be seen from the company's stock price. The higher the stock price, the higher the firm value. High firm value will make the market confident in the company's performance and prospects for the future (Safitri et. al., 2014).

The firm value, according to Dewi and Wirayaja (2013), is the price that potential investors are willing to pay if the company is sold. Debby et. al. (2014) suggests that a way to measure firm value using Tobin's Q. proxy. Tobin's Q is the ratio of the company's market value to the book value of the company. On the other hand, Moniaga (2013) suggests measuring firm value using the ratio of the stock price to the book firm value or price book value (PBV), which shows the company's ability to create value relative to the amount of capital invested. A high PBV reflects a high share price compared to the book value per share. The higher the stock price, the higher the value of the company in the eyes of investors. According to Lumapow and Tumiwa (2017), company size is a valuation that reflects the valuation of the total assets of the company. Dewi and Wirajaya (2013) argue that the size of the company can be determined from the total assets used by the company for daily operational activities. Company size can affect the value of a company. The larger the company is, the easier it is for the company to obtain funds from internal and external sources (Jensen, 1979).

Growth in a company is a growth opportunity for a company in the future by comparing it with previous years (Mai, 2006). Another definition of growth is the change in the total assets owned by the company (Kartini & Arianto, 2008). Companies in the future will prefer to use shares to fund the company's operations and this is predicted to make the company experience high growth. Thus, companies with low future growth will choose to use long-term debt for funding. Growth opportunity for every company must be different; this affects the difference in purchasing decisions to be chosen by financial managers. Companies that have high company growth tend to use investment spending with their own capital to avoid underinvestment problems, namely when not implementing all investment projects that are positive by the company manager (Chen, 2006).

According to Rizqia et. al. (2013), a company that can increase its profits and maintain stability can be said as a positive signal for investors relating to the value of the company. This happens because the company whose profits continue to increase, reflects that the company has good performance, so it becomes a positive signal for investors to invest their assets and make the stock price in the company increase. The results of research conducted by Mardiyati et. al. (2012), Sukmawardini (2018) and Rizqia et. al. (2013) show that profitability has a positive effect on firm value.

Fred Weston (2008, 129) says that liquidity reflects a company's ability to meet debt in the short term. High liquidity affects the investor's decision to invest in a company which causes the demand for the company's stock to increase and the stock price tends to rise. An asset or asset is something that is owned by the company. Assets can be classified into 3, namely: fixed assets, intangible assets and other assets. Chiarella et. al. (2006) argue that without assets that can be used as collateral, loan costs tend to be higher

due to high interest rates. According to Arens et. al. (2014, 790), the audit committee is the party by which auditors can communicate the results of their audits, and where they can report fraud findings, illegal actions, weaknesses in the company's internal control and other findings. Other than through the audit committee's management letters, it can greatly assist auditors in discussing their findings. Audit findings such as fraud, illegal actions and so on will be more useful if submitted to the audit committee, because the audit committee can discuss it with senior management to discuss company policies that can be implemented to address this conduct.

Siallagan and Machfoedz (2006) state that the board of directors and commissioners is the culmination of the company's internal management system and has a role in supervisory activities. The board of directors and commissioners play a role in supervising functions. The composition of the board of commissioners can influence management in preparing financial reports so that a quality financial report can be obtained (Boediono, 2005). The responsibility of the board of commissioners and directors in maintaining business continuity is reflected in the protection of the interests of stakeholders, the return of shareholders, the implementation of leadership succession, and the implementation of internal controls and risk management.

3. Research Methodology

Hypothesis testing in this study was carried out using purposive sampling methods. There were some criteria for the procedure sampling: Non-Financial Companies that were listed on the Indonesian Stock Exchange from 2015 to 2017. There were 403 companies listed on the Indonesian Stock Exchange (IDX); there were 7 non-financial companies that have financial statements with an Annual Financial Report period that does not end on December 31; 80 non-financial companies that do not use the Rupiah currency in the financial statements and 136 non-financial companies that do not get profit from 2015 to 2017. The total number of respondents used are 180 non-financial companies. It also facilitates identification of research gaps, which is a core objective of this paper.

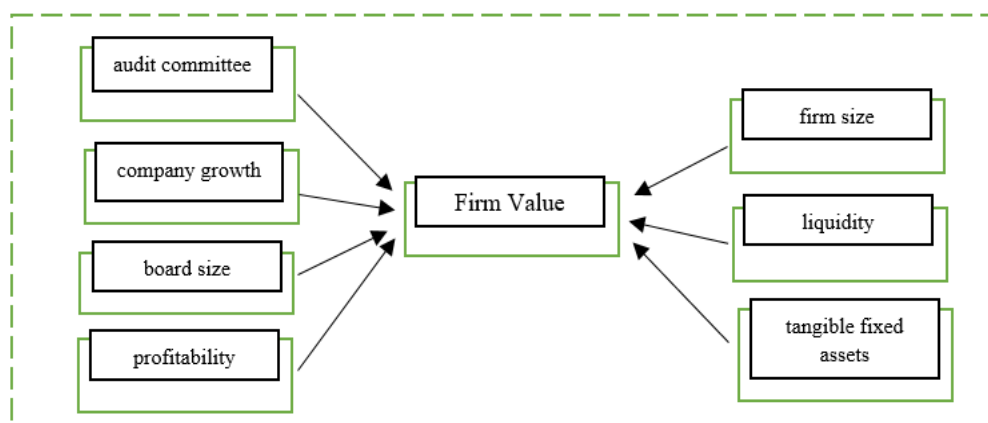


Figure 1. Research Framework

3.1 Hypotheses Development

- H1: Firm size has an influence on firm value.
- H2: Company growth has an influence on firm value.
- H3: Profitability has an influence on firm value
- H4: Liquidity has an influence on the firm value.
- H5: Tangible fixed assets have an influence on firm value.

H6: The audit committee has an influence on firm value.

H7: Board size has an influence on firm value.

4. Results

The results of the statistical test can be seen in Table 1 below.

Table 1. Hypotheses Results

Variable	B	Significance	Accepted or rejected
(Constant)	-0,375	0,795	-
SIZE	-0,02	0,987	H ₁ rejected
GRO	0,966	0,001	H ₂ accepted
PRO	17,516	0,000	H ₃ accepted
LIQ	0,056	0,017	H ₄ accepted
TGB	1,216	0,000	H ₅ accepted
KA	-0,374	0,031	H ₆ accepted
BS	0,99	0,000	H ₇ accepted

Based on the hypotheses results in Table 1 above, it can be seen that company growth, profitability, liquidity, tangible fixed assets, audit committee and the number of directors all have an influence on firm value, while the size of the company has no significant effect on firm value. These results show that size of the company has a negative effect on firm value. This is inconsistent with the theory that the larger a company is, the easier it will be to obtain funding which can then be utilized by management to increase firm value. The possibility that can occur from the results of this study is that companies are more likely to prefer internal funding than debt, so that the size of the company has no influence on the use of external funding sources (Indriyani, 2007)

5. Conclusion

This research was conducted with the aim of analyzing and assessing the effect of company size, company growth, profitability, liquidity, tangible fixed assets, audit committee and board size on the firm value in non-financial companies listed on the Indonesian Stock Exchange in the 2015-2017 period. The findings of this study show a strong positive relationship between firm value and company growth, profitability, liquidity, tangibility assets, audit committee, board size and firm size however the results of this research also show that firm size does not have an effect on firm value. Finally, the findings of this study are useful for decision makers or investors to know what factors can affect the value of a company.

This research has several limitations that can be corrected in future studies. The research objects used are non-financial companies listed on the Indonesian Stock Exchange and the research period used is 2015-2017. It is recommended that future studies widen the population used and the study period examined. Future studies may also compare the factors that affect firm value in several countries over a longer period of time.

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