

The Effect of Firm Size, Return On Equity, And Leverage on Firm Value

Nabila Nurmalitasari¹, Ngurah Pandji Mertha Agung Durya¹

¹Universitas Dian Nuswantoro Semarang

Jl. Imam Bonjol No.207, Semarang, Jawa Tengah, Indonesia

*Email: nabilanurmalita@gmail.com

ABSTRACT

The company was formed with the aim of achieving profit or profit and prospering company owners and shareholders in an industry. The company not only has economic obligations to shareholders, but also has obligations to other interested parties and has a major influence on the establishment of the company. This study aims to analyze the effect of firm size, Return On Equity, and leverage on firm value. This study uses the independent variables of firm size, Return On Equity (ROE), and Leverage (DER) and the dependent variable is firm value (PBV). This study uses a purposive sampling method and the number of samples is 80 manufacturing companies with 4 years of research listed on the Indonesia Stock Exchange for the 2017-2020 period. The results of the study stated that Return On Equity (ROE) had an effect on firm value. Meanwhile, firm size and leverage have no effect on firm value.

Keywords: Firm Value, Firm Size, Return On Equity, and Leverage

DOI: <https://doi.org/10.55983/ijeset.v1i4.234>



INTRODUCTION

The company was formed with the aim of achieving profit or profit and prospering company owners and shareholders in an industry. The company not only has economic obligations to shareholders, but also has obligations to other interested parties and has a major influence on the establishment of the company. Because it cannot be separated from the fact that companies cannot survive, run well and survive and earn profits without interference from various parties. The success of a company in realizing its goals from time to time can show how the company's business and policies are (Padmantyo & Laksono, 2020). The greater the value of a company, the company is considered to have good operations in the eyes of investors. According to Manggale & Widyawati, (2021) company size is a criterion that can be used to see how big or small a company is. Companies that have a large size must have high capital to fund their investment in obtaining profits. According to Wardhany et al (2019), a high company value can show prosperity for shareholders, therefore company value is an investor's expectation of the company, which is often involved in share prices. Investors must be more careful in making choices for investment, because if the investment is not appropriate, it can result in not being able to get a return, especially if the initial capital invested can be lost.

In Indonesia, the value of the company can be seen at the level of stock prices. Fluctuations in stock prices that go up and down in the capital market are an interesting phenomenon related to the issue of rising and falling company values. In 2019 there was a decline in the automotive sector which was under pressure, namely PT Indo Kordsa Tbk (BRAM) with a 39.81% decline at a price of Rp 6,500/ share. For the food and beverage sector, there are also those who are under pressure, one of which is at PT. Delta Djakarta Tbk (DLTA) with a decrease of 3.89% at a price of Rp 6,800/share.

According to Manggale & Widyawati, (2021) company size is a criterion that can be used to see how big or small a company is. Companies that have a large size must have high capital to fund their investment in obtaining profits. Company size can be measured by the amount of total assets owned because the value of total assets is basically very large compared to other financial variables. The greater the value of a company, the company is considered to have good operations in the eyes of investors.

According to Manggale & Widyawati, (2021) Profitability (Return On Equity) is one of the theoretical factors that determines the value of the company. In measuring ROE, it can be seen that the high profit results in a company, then investors get a high return as well. Conversely, if the profit generated by the company is monitored low, the lower the return that investors will get. Profitability in the company can also generate net profit after tax to utilize its capital.

According to Putri et al., (2017) Leverage is a ratio that can be used to measure company assets paid for by debt. Leverage can also measure the financial leverage of a company, where the higher the leverage, the more likely it is that the capital structure has been financed by loans, so that the company's dependence on creditors increases. Leverage can show the ability of a company if it can meet its obligations or debts.

Past research conducted by AA Ngurah Dharma Adi Putra & Lestari (2016), Rudangga & Sudiarta (2016), Manggale & Widyawati (2021), S.A. Putra & Wahyuni (2021) and Padmantyo & Laksono (2020) state that company size has a positive and significant effect on firm value. Meanwhile, Hidayat's research (2019), Suwardika & Mustanda (2017), Rai Prastuti & Merta Sudiarta (2016), and Herawan & Dewi, nd (2021) stated that firm size had no significant effect on firm value. In the research of Hidayat (2019), Suwardika & Mustanda

(2017), AA Ngurah Dharma Adi Putra & Lestari (2016), Rudangga & Sudiarta (2016), Padmantyo & Laksono (2020), Manggale & Widyawati (2021), Herawan & Dewi, nd (2021) and SA Putra & Wahyuni (2021) state that profitability has a positive and significant effect on firm value. In past research conducted by Hidayat (2019), Suwardika & Mustanda (2017), Rudangga & Sudiarta (2016), Manggale & Widyawati (2021) and (Herawan & Dewi, nd(2021) stated that leverage has a positive and significant effect on the value of Meanwhile, according to Padmantyo & Laksono (2020) and SA Putra & Wahyuni (2021) they state that leverage has no significant effect on firm value. The difference in research results is the phenomenon of the research gap.

There are several variables that have been studied by Hidayat (2019), Suwardika & Mustanda (2017), AA Ngurah Dharma Adi Putra & Lestari (2016), Rudangga & Sudiarta (2016), Padmantyo & Laksono (2020), Manggale & Widyawati (2021) , Herawan & Dewi, nd (2021) and S.A. Putra & Wahyuni (2021) whose research results on firm size, return on equity/profitability, and leverage affect firm value. So, the three independent variables are in accordance with the dependent variable that the researcher proposes.

Thus, based on the background described above, there are dissimilarities in the results of the research and there is a phenomenon of a decline in income that occurs in manufacturing companies which encourages researchers to investigate more deeply. This research is a replication of Hidayat's research (2019) but with difference in the period of the research year.

Signal theory explains that management gives a signal to shareholders or shareholders through financial statements. In this theory, it shows that the size of the company is seen through its total assets, which the size of the company can give a positive or negative signal to the increase in the value of the company which can be the influence of the shareholder's response to the value of the company (Manggale & Widyawati, 2021). Signals on high profitability values measured using ROE can show that the company's performance and value are good, so shareholders view the signal more positively and the value of the company increases. On the other hand, if the company's ROE decreases, the shareholder views the signal negatively which can result in the company's value decreasing (Manggale & Widyawati, 2021).

Signals on higher leverage can show shareholders that the company is not solvable. The company is said to be insolvable if the company cannot pay its debts with its assets, in this case the shareholders have a negative response to the signal. On the other hand, if the company 's leverage level is low, it means that the total debt of a company is low. Then it can increase the value of the company which causes shareholders to respond positively to the signal (Manggale & Widyawati, 2021).

Pecking Order Theory is a theory which states that all companies prioritize in financing additional operational capacity with their own capital. In the Pecking Order theory, managers are consistent with the company's main goal, namely the prosperity of shareholders. This theory contains asymmetric information which shows that management has more information about the company's prospects, risks and company value when compared to public investors (Maryamah & Mahardhika, 2021).

METHOD

This study uses secondary data. The population used in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017-2020 a total of 182 companies. The sampling method used in this research is purposive sampling. The data

analysis technique used is statistical analysis including classical assumption test, multiple linear regression, model feasibility test, and coefficient of determination test.

RESULTS AND DISCUSSION

Normality Test Results

Normality test using Kolmogorov-Smirnov analysis tool, the results are:

Table 1. Normality Test Results (Before Transformation to Ln)

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		320
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	4,92023555
Most Extreme Differences	Absolute	,265
	Positive	,252
	Negative	-,265
Kolmogorov-Smirnov Z		4,732
Asymp. Sig. (2-tailed)		,000
a. Test distribution is Normal.		
b. Calculated from data.		

The test results show Asymp. Sig. (2-tailed) (0.000) < 0,05, it can be concluded that the data is not normally distributed, therefore treatment is performed using data transformation to Ln.

Table 2. Normality Test Results (After Transformation to Ln)

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		310
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,99694019
Most Extreme Differences	Absolute	,068
	Positive	,068
	Negative	-,057
Kolmogorov-Smirnov Z		1,194
Asymp. Sig. (2-tailed)		,116
a. Test distribution is Normal.		
b. Calculated from data.		

The test results show Asymp. Sig. (2-tailed) (0.116) > 0.05 then it can be concluded that the data were normally distributed.

Multicollinearity Test Results

The results obtained in the multicollinearity test are:

Table 3. Multicollinearity Test Results

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-3,631	3,592		-1,011	,313		
	LN_UKPER	1,600	1,059	,070	1,510	,132	,934	1,071
	LN_ROE	,544	,046	,579	11,864	,000	,832	1,202
	LN_DER	,062	,041	,071	1,501	,134	,887	1,127

a. Dependent Variable: LN_PBV

Based on the table above, it shows that the independent variable has a tolerance of more than > 0.10 and a VIF value of < 10 . Therefore, it can be concluded that the regression model is free from multicollinearity between the independent variables.

Autocorrelation Test Results

The results of the autocorrelation test can be shown in the following table:

Table 5. Autocorrelation Test Results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,627 ^a	,393	,387	1,00182	2,065

a. Predictors: (Constant), LN_DER, LN_UKPER, LN_ROE

b. Dependent Variable: LN_PBV

Based on the table above, it can be seen that the Durbin-Watson value is 2,065. The Durbin Watson value is in the $dU < 2.065 < 4-dU$ area, so it can be concluded that the regression model is free from autocorrelation problems.

Heteroscedasticity Test Results

The results of the heteroscedasticity test can be shown in the following table:

**Table 6. Heteroscedasticity Test Results
(with White Test)**

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,284 ^a	,081	,062	1,94826

a. Predictors: (Constant), KUADRAT_X2X3, KUADRAT_UKPER, KUADRAT_X1X2, KUADRAT_X1X3, KUADRAT_DER, KUADRAT_ROE

b. Dependent Variable: KUADRAT

From the results above, which show that Chi Square Count $<$ Chi Square Table ($25.92 < 124.34$), it can be concluded that the data does not show symptoms of heteroscedasticity.

Multiple Linear Regression Analysis Test Results

The test results of multiple linear regression analysis can be shown in the following table:

Table 7. Test Results of Multiple Linear Regression Analysis

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-3,631	3,592		-1,011	,313		
	LN_UKPER	1,600	1,059	,070	1,510	,132	,934	1,071
	LN_ROE	,544	,046	,579	11,864	,000	,832	1,202
	LN_DER	,062	,041	,071	1,501	,134	,887	1,127

a. Dependent Variable: LN_PBV

Based on the table above, the equation is obtained, namely:

$$PBV = -3.631 + 1.600 X_1 + 0.544 X_2 + 0.062 X_3 + e$$

Simultaneous Test (F-test)

The results of the F test can be shown in the following table:

Table 8. F Test

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	199,098	3	66,366	66,126	,000 ^b
	Residual	307,112	306	1,004		
	Total	506,210	309			

a. Dependent Variable: LN_PBV
b. Predictors: (Constant), LN_DER, LN_UKPER, LN_ROE

Based on the results of the F test in the table above, it can be seen that the calculated F value of 66.126 with a significance value of 0.000, which is < 0,05. This statement indicates that the model is acceptable, meaning that the variable index of firm size, Return On Equity, and leverage has a simultaneous effect on the variable index of firm value.

Partial Test Results (T-test)

The results of the T test can be shown in the following table:

Table 9. T Test

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3,631	3,592		-1,011	,313
	LN_UKPER	1,600	1,059	,070	1,510	,132
	LN_ROE	,544	,046	,579	11,864	,000
	LN_DER	,062	,041	,071	1,501	,134

a. Dependent Variable: LN_PBV

The significance value is 0.132 > 0.005 then H1 is rejected. It can be concluded size the company has no effect on the value of the company. The significance value is 0.000 <

0.005 the H_2 is accepted. It can be concluded that return on equity has an effect on firm value. The significance value is $0.134 > 0.005$ then H_3 is rejected. It can be concluded leverage does not affect the value of the company.

Coefficient of Determination Test

The results of the coefficient of determination test can be shown in the following table:

Table 10. Coefficient of Determination Test

Model Summary ^b				
Model	R	R Square	Adjusted Square	Std. Error of the Estimate
1	.627 ^a	.393	.387	1,00182
a. Predictors: (Constant), LN_DER, LN_UKPER, LN_ROE				
b. Dependent Variable: LN_PBV				

Based on the coefficient of determination in the table above, it can be seen that the Adjusted R Square is 0.387. This states the ability of the variable firm size, Return On Equity, and leverage to firm value of 38.7% with the remainder ($100\% - 38.7\% = 61.3\%$) explained by other variables outside this model.

Discussion

The size of the company does not affect the value of the company. A large company size also does not guarantee that the company's value is high, because large companies may not dare to make new investments related to expansion, before the company's debts have been paid off. This research is in line with research conducted by Hidayat (2019), Rai Prastuti & Merta Sudiarta (2016) and Suwardika & Mustanda (2017) which states that firm size has no effect on firm value.

Return on equity has an effect on firm value. If the value of Return On Equity is high, the value of the company also increases. In this case the management will try to get a high Return On Equity so that the value of the company is also high. This research is in line with that conducted by Hidayat (2019), Suwardika & Mustanda (2017), AA Ngurah Dharma Adi Putra & Lestari (2016), Rudangga & Sudiarta (2016), Padmantyo & Laksono (2020), Manggale & Widyawati, (2021), Herawan & Dewi, nd (2021) and SA Putra & Wahyuni, (2021) stated that Return On Equity (ROE) has an effect on firm value.

Leverage has no effect on the value of the company. If the debt is higher, the value of the company will decrease, so the company should not be fully financed by debt so that the company does not experience the risk of bankruptcy. This research is in line with that conducted by Padmantyo & Laksono (2020) and SA Putra & Wahyuni (2021) which state that leverage has no significant effect on firm value.

CONCLUSION

Based on the discussion above, it can be concluded that the results of this study are: Testing the effect of firm size on firm value shows that firm value shows that firm size has no effect on firm value. Testing the effect of Return On Equity (ROE) on firm value shows that Return On Equity (ROE) has an effect on firm value. Testing the effect of leverage (DER) on firm value shows that leverage (DER) has no effect on firm value.

REFERENCES

- Ghozali, I. (2018). Applications of Multivariate Analysis With IBM SPSS 25 Program, Ninth Edition. Semarang: Undip Publisher.
- Herawan, F., & Dewi, SP (nd). Effect of Profitability, Leverage, Liquidity, and Firm Size on Firm Value. *Journal of Accounting Paradigms*, 3(1), 137–145.
- Hidayat, WW (2018). Effect of leverage and liquidity on ratings bonds: a case study of non-financial companies in Indonesia. *Journal of Management and Business Research (JRMB)*, 3(3), 387–394.
- Hidayat, W.W. (2019). The effect of firm size, return on equity and leverage on firm value in manufacturing companies in Indonesia. *Economic Forum*, 21(1), 67–75.
- Mangale, N., & Widyawati, D. (2021). The Effect of Return On Equity, Leverage, Company Size, And Sales Growth On Company Value. *Journal of Accounting Science and Research (JIRA)*, 10(1).
- Maryamah, A., & Mahardhika, AS (2021). Effect of Firm Size, Profitability and Leverage on Company Value in Food And Beverages Companies Listed on the IDX for the 2017-2019 Period. *Scientific Journal of Management, Business and Accounting Students (JIMMBA)*, 3(4), 747–764.
- Nurbaety, L. (2014). The Effect of Profit Persistence, Growth Opportunity and Company Size on Earnings Response Coefficient (Empirical Study on Mining Companies Listed on the Indonesia Stock Exchange in 2008-2012). Unpas Faculty of Economics.
- Padmantyo, S., & Laksono, R.T. (2020). Effect of Profitability, Leverage, and Firm Size on Firm Value. *Proceedings of The URECOL*, 226–232.
- Putra, A.A.N.D.A., & Lestari, PV (2016). The effect of dividend policy, liquidity, profitability and firm size on firm value. Udayana University.
- Putra, S. A., & Wahyuni, DU (2021). The Influence of Company Size, Leverage, and Profitability on the Value of Cement Companies on the Indonesia Stock Exchange (IDX). *Journal of Management Science and Research (JIRM)*, 10(5).
- Putri, R. K, Zulfahridar, Z., & Kurnia, P. (2017). Effect of Firm Size, Profitability, Leverage, Liquidity, and Ownership Base on Corporate Social Responsibility in Mining Companies Listed on the Indonesia Stock Exchange (IDX) for the Period of 2012-2014. Riau University.
- Rai Prastuti, N. K, & Merta Sudiarta, I. G (2016). The effect of capital structure, dividend policy, and firm size on firm value in manufacturing firms. Udayana University.
- Rudangga, I. G. N. G, & Sudiarta, G. M (2016). The effect of firm size, leverage, and profitability on firm value. Udayana University.
- Setiawati, LW, & Lim, M. (2018). Analysis of the Effect of Profitability, Company Size, Leverage, and Social Disclosure on Firm Value in Manufacturing Companies Listed on the Indonesia Stock Exchange for the 2011-2015 Period. *Journal of ccounting*, 2(1).
- Sutama, D., & Lisa, E. (2018). The effect of leverage and profitability on firm value. *JSMA (Journal of Management and Accounting Science)*, 10(1), 21–39.
- Suwardika, I. N. A, & Mustanda, I. K (2017). Leverage Effect, Size Company, Company Growth, And Profitability Against Value and Company Property. Udayana University.
- Wardhany, D. D. A, Hermuningsih, S., & Wiyono, G. (2019). The Effect of Profitability, Leverage and Firm Size on Firm Value (Empirical Study of Companies Involved in LQ45 in the 2015-2018 Period). *Encyclopedia of Journals*, 2(1).