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Analysis Of The Influence Of Company Performance, Institutional Ownership, Company Size And Debt Policy On Company Value Of Property And Construction Companies In Indonesia

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Abstract:

The purpose of this study is to determine if the factors that affect company value in the property, real estate, and building construction sectors are institutional ownership, debt policy, company size, and company performance. The companies that are listed on the Indonesia Stock Exchange (BEI) in the categories of real estate, property, and building construction comprise the study's population. Purposive sampling was the method of sampling that was employed in this study. Quantitative data, also known as secondary data, was used in this study. Documentation and a review of the literature were utilized to gather the data for this study. A panel data regression test is the research methodology employed in this study. The regression test results demonstrate that the independent variables of institutional ownership, debt policy, performance, and size have a noteworthy positive impact on the value of the company. Property, real estate, and building construction companies have demonstrated a noteworthy positive impact on their company value due to the institutional ownership variable. In the real estate, building construction, and property industries, it has been demonstrated that the debt policy variable significantly increases the value of the company. In the real estate, building construction, and property industries, it has been demonstrated that company performance variables significantly increase the value of the company. In the real estate, building construction, and property industries, it has been demonstrated that the company size variable has no bearing on the value of the company.

Keywords: institutional ownership, debt policy, company size, company performance, property, company value.

Introduction

Every business must constantly improve its competitiveness in the modern, highly competitive industrial era. Companies must be able to preserve or create competitive advantages by giving their operational and financial activities their whole attention in order to survive the increasing competition in both domestic and international markets. Every business must have a primary goal when conducting its daily operations, which is to make a profit in order to support the interests of its shareholders. The definition of corporate objectives is to maximize shareholder wealth. Being able to manage a business requires having a manager in place (Brigham, 2019). Additionally, the function of a financial manager who has essentially studied interesting things that happen in the company in utilizing all of the resources at the company's disposal to locate, process, and distribute funds so that the business can carry out its operational activities in line with its predetermined goals. The formation of a company has specific goals. The goal of forming a company is expressed in a number of ways. The company's main objective is to increase profits. Prosperity for the company's owner or shareholders is the second aim of the business. Maximizing the company's worth as indicated by its share price is the third corporate objective, in the meantime. The goals of these three companies are actually not that dissimilar. It's just that every company has a different emphasis that it wants to achieve (Zunaidah et al., 2021).

The company's goal is the same as the company owner's goal, namely to make a profit. Therefore, companies are called profit-seeking organizations. The special characteristic of a company is that everyone involved in activities must think about saving costs and maximizing income so that the company can make a profit to maximize the wealth of its owners, the welfare of its employees, and to develop its activities. The concept of agency theory in financial accounting. When one or more people, referred to as the principals, engage another person or organization, referred to as the agent, to carry out a variety of tasks and assign the agent decision-making authority, an agency relationship is established (Jensen, 2016). The primary agency relationships in financial management are those between managers and debt owners and shareholders. There will undoubtedly be losses due to agency issues. because agency costs may result from conflicts of interest between owners and agents. Reducing agency costs can also be achieved by institutions owning more shares. Through stringent levels of oversight, institutional ownership can lessen the incentives of self-interested managers. The use of discretionary measures by management in financial reports may be restrained by institutional ownership (Pandiangan et al., 2022).

It is anticipated that the ownership structure of the business will affect its financing choices. Higher institutional ownership increases the company's external control and lowers agency costs, allowing the company to pay out low dividends. Managers use low levels of debt to anticipate the possibility of financial distress and the risk of bankruptcy because of the existence of strict controls. Although debt policy also depends on the size of the company, it can be used to create the desired company value. This demonstrates that accessing the capital market is comparatively simpler for larger businesses. This convenience suggests that obtaining debt financing through the capital market is comparatively simple for businesses with substantial assets. Debt is an instrument that is highly sensitive to changes in the value of the company (Katan et al., 2015). The value of the company is unaffected by the use of debt funds. But if you start looking at tax implications, using debt will always be more advantageous and can raise the company's value, presuming that the following is applied in this model: first, there are no costs associated with filing for bankruptcy. Secondly, transaction fees are absent. Third, both individuals and businesses pay the same interest on loans and savings. Another option for business funding besides capital market share sales is debt policy.

Literature Review

Financial management is the activity of obtaining sources of funds at the lowest possible cost and using funds as effectively and efficiently as possible to create profits and economic value. The concept of financial management pertains to the creation and preservation of wealth, or economic value. As a result, wealth creation must be the primary consideration in all decision-making (Sutagana et al., 2022). We will therefore have to make financial decisions about when to launch new goods, when to invest in new or replacement assets, when to obtain bank loans, when to issue bonds or shares, when to give consumers credit, and how much cash needs to be kept on hand. It has long been known that managers' personal objectives could conflict with the objective of increasing shareholder wealth. Decision-making authority granted to managers by the company's owners, or shareholders, gives rise to a possible conflict of interest known as agency theory. The company's objective is to maximize shareholder wealth, but when that objective is carried out, agency issues may arise. The division of responsibilities between shareholders and company management is the cause of agency problems. The agent and the owner have a conflict of interest since the agent might act in the principal's best interests, which would result in agency fees (Rustendi et al., 2018).

The ratio of debt to equity in capital, as well as the percentage of outside and inside shareholder share ownership, is known as ownership structure. Individuals, families, institutions, and other institutions or companies can all own shares in a company. Institutional investors will monitor the situation closely and will not be readily duped by managers. If institutional ownership is able to keep an eye on management actions, it is anticipated that institutional ownership will help lower agency costs for free cash flow and eventually replace debt (Vintila & Ghergina, 2014). If there is efficient oversight of debt policy, the use of debt may decline as institutional parties have adopted it as a monitoring tool. This is so because ownership is a source of power that management can use to sustain itself or in other ways. It is believed that a company's internal control will be stronger the more institutional ownership it has, which will lower agency costs for the business. Capital, which can come from debt or equity, is necessary for growing businesses. There are two benefits to debt. First, the effective cost of the debt can be decreased by deducting the interest paid for tax purposes. Second, shareholders do not have to take their share of profits in prime condition since debt holders receive a fixed return. Debt, however, also has a number of drawbacks (Brigham, 2019).

The size of a company is determined by the assets it possesses. Compared to a small business, a large business finds it easier to get a loan. The likelihood that a company will use foreign capital increases with its size. This is due to the fact that big businesses need substantial sums of money to support their operations, and if their own capital is insufficient, using foreign capital is one option. The capital structure is significantly impacted by the company's size, particularly in terms of its loanability. The value of the assets used as collateral and the degree of bank trust are two factors that make it simpler for businesses to obtain loans. The outcome of the business's operational activities is its performance (Zunaidah et al., 2021). The financial statements' achievement of net profit serves as an example of operational activity. The difference between revenue and expenses is known as profit. Thus, company managers will endeavor to optimize earnings and minimize costs. Increasing profitability refers to actions taken to maximize revenue, and increasing efficiency refers to cutting costs. The performance of the company will improve if managers own company shares. Company value is important because high shareholder prosperity will follow high company value. The value of the company increases with the share price. The market price of shares, which is a reflection of financing, asset management, and investment decisions, represents the wealth of companies and shareholders (Jensen, 2016).

Methodology

The population is the entire object of research. The study's participants are businesses that are listed on the Indonesian Stock Exchange (BEI) in the categories of real estate, property, and building construction. A few components of the population are samples. Purposive sampling was the method of sampling that was employed in this study. Quantitative data, also known as secondary data, was used in this study. The term "secondary data" refers to information that researchers unintentionally gather from Indonesian Stock Exchange (BEI) annual financial reports or other intermediary media (obtained and recorded by other parties). Both a nominal and a ratio scale are used to measure this quantitative data. Documentation and a review of the literature were utilized to gather the data for this study. A panel data regression test is the research methodology employed in this study. Panel data is information that includes a time component (e.g., time series data) along with multiple variables (e.g., cross-section data). Eviews is used in this study's data management. Panel data, cross sections, and time series problems can all be solved with Eviews. Microsoft Office Excel software is also used to make data management easier, such as creating graphs, tables, etc.

Case studies

Based on the computation results, the PBV ratio is influenced by the institutional ownership variable, as indicated by the t-count value of 0.49. Given that the obtained t-count value is 2.7, it can be inferred that the PBV ratio is influenced by the debt-to-equity ratio variable. Given that the t-count value is 5.1, it can be said that the PBV ratio is influenced by the return on equity variable. Based on the computation results, the t-count value is 1.5, indicating that the PBV ratio is unaffected by the company size variable. The t-statistical probability of the institutional ownership variable is 0.03. It is clear from this that the alternative hypothesis was chosen to be accepted; in other words, institutional ownership significantly affects the PBV ratio. The findings of this study are consistent with earlier research, which indicates that institutional ownership affects the value of a company. These findings corroborate those of other studies, which suggest that one strategy for lowering agency conflict is institutional ownership. Stronger external control over the company is exerted over it at higher levels of institutional ownership. This leads to lower agency costs for the company and potentially higher company value. More institutional ownership leads to more effective use of the company's resources, and it is hoped that this will also prevent management from wasting money and manipulating profits in order to raise the company's worth. The findings of this study conflict with those of earlier investigations, which found no relationship between institutional ownership and company value.

The t-statistical probability of the debt-to-equity ratio variable is 0.008. We can conclude that the choice made is that the PBV ratio is significantly impacted by debt policy (DER). The findings of this study are in line with earlier studies that suggested debt policy can be a tool to reduce agency conflicts between parties within the company and shareholders. The study's findings are also in line with the previously put forth theory, which holds that a company's ability to borrow money can give its managers more authority. Debt helps prevent overinvestment of free cash flow by managers in their own interests. By giving management a chance to demonstrate its willingness to distribute cash flows and be under lender scrutiny, debt can also add value. The value of the company increases with the percentage of debt. Consequently, the company's value will rise if the percentage of its debt keeps rising. This is because the company's interest payments from using debt will result in lower taxable income and benefits from tax reduction. Utilizing debt will boost a company's worth up to a certain amount. After that, using debt will actually lower the company's value because the advantages of doing so are outweighed by the expenses it brings with it, such as agency and financial distress fees. This finding contradicts earlier research that claimed debt policy had no bearing on firm value since, according to signaling theory, investors are not swayed by information about companies with high debt values and promising investment opportunities. However, the market is more accepting of information about companies that have high debt values because of the increased risk of company bankruptcy.

The t-statistical probability of the return on equity variable is 0.0000. In summary, the choice made was to accept the alternative hypothesis, which states that the PBV ratio is significantly impacted by the size of the company. The findings of this study are in line with earlier research, which claims that profitability or a company's capacity to turn a profit reflects its standing as a successful enterprise in the eyes of investors. Investors' demand for their shares rises as a result of this success. Hence, a company's value increases in direct proportion to its profit margin, and this is because rising share demand will inevitably raise the company's value as well. The present study's findings align with prior research indicating that elevated profits serve as a barometer of a company's promising future, thereby stimulating investor demand for shares. The company's value will rise in response to increased share demand. The t-statistical probability of the company size variable is 0.1. In summary, the conclusion drawn is that the PBV ratio is not significantly impacted by the size of the company. This finding is in line with earlier studies that found that firm size has no discernible impact, indicating that investors do not take company size into account when making investments. A positive number indicates that a company's value will rise as its size does. A company's size is determined by the total assets it possesses for its business operations. The amount of money required for the business's operational activities increases with company size. One way the business raises money is through debt that comes from outside sources. Therefore, the conclusion that follows is that a company's debt increases with its size. Large corporations that make debt withdrawals ought to be able to get substantial returns in the form of assets. The assets utilized as security for the loan have a higher value than the return on assets that the business has been given. This indicates that there is not enough liquidity between the company's debt and assets. Investors are concerned when a company becomes insolvent. This increases the possibility of bankruptcy and is the result of the company's high risk. The present study's findings contradict prior research indicating that a company's size positively impacts its value. Big businesses have easy access to the capital market, he claims. Because it is easier to access the capital market and can raise more money, a company with easy access to it will have greater flexibility and be able to secure funding. Because investors view this convenience as a positive signal, the company's value rises.

Conclusion

The regression test results demonstrate that the independent variables of institutional ownership, debt policy, performance, and size all significantly positively impact company value at the same time. Property, real estate, and building construction companies have demonstrated a noteworthy positive impact on their company value due to the institutional ownership variable. In the real estate, building construction, and property industries, it has been demonstrated that the debt policy variable significantly increases the value of the company. In the real estate, building construction, and property industries, it has been demonstrated that company performance variables significantly increase the value of the company. In the real estate, building construction, and property industries, it has been demonstrated that the company size variable has no bearing on the value of the company. Several implications that may be helpful are suggested by the conclusions presented, including: When making investment decisions, additional information about the company's value can be taken into account. Companies can base their decisions to increase company value on information about the impact of institutional ownership, debt policy, company performance, and company size. The results of this research can be used as additional knowledge for readers, both academics and practitioners. May pique people's interest in making investments through the ownership of shares, particularly those in real estate, property, and building construction firms listed on the IDX. The following recommendations can be made by researchers to other researchers who may undertake comparable studies in the future: Company value (PBV) is the dependent variable in this study, and institutional ownership, debt policy, business performance, and company size are the independent variables. In order to produce unique and in-depth research results, it is hoped that future studies will employ a range of variables. Companies in the property, real estate, and building construction sectors were selected as samples for this study. It is hoped that more samples will be used in future studies, resulting in higher-quality research. The panel data regression method and Eviews 9 processing are employed in this study. Newer software and other techniques can be used in future research.

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