RIGEO
REVIEW OF INTERNATIONAL GEOGRAPHICAL EDUCATION
ISSN: 2146-0353 • © RIGEO • 11(1), MARCH, 2021
www.rigeo.org
Research Article

Influence of Firm Size, Profitability and Geographic Location Government Owned Firms on Firm Value: A Study on Indonesia Banking Sector

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Abstract
The purpose of this study was to examine the effect of profitability and company characteristics, namely; company size and geographic location such that in some areas firms are jointly owned by the government as well along with the price to book value (PBV), the banking sector on the IDX. To achieve the research objectives, 81 research data were used as research samples, the observation period was 2017 to 2019 from 27 banks. All research data obtained from financial statements. Multiple regression model is used to test the relationship between research variables. From the results of data processing, this study found that profitability (ROA) and firm size (total assets) had a positive effect on firm value of PBV. Meanwhile, research cannot prove that geographic location can affect firm value (PBV). These results prove that profitability and company size have become important factors in stock investment in the Capital Market.

Keywords
Firm value, profitability, Firm size and geographic location

To cite this article: Roespinoedji, N, R (2021) Influence of Firm Size, Profitability and Geographic Location Government Owned Firms on Firm Value: A Study on Indonesia Banking Sector. *Review of International Geographical Education (RIGEO), 11(1), 760-766. doi: 10.48047/rigeo.11.1.64*

Submitted: 02-01-2021 • **Revised:** 09-02-2021 • **Accepted:** 18-03-2021

Research Background

The purpose of establishing the company is to grow and develop to provide value for all company stakeholders in an unlimited period of time. The existence of the company is expected to provide value for employees in the form of salary received, for the government in the form of taxes, and company shareholders in the form of dividends and an increase in company value. For shareholders, as investors they expect the firm value (FV) or stock price from time to time to continue to rise, because with the increase in the FV, this means that the investment value continues to increase. The increase in the FV is one of the objectives of stock investment in the capital market, with an increase in the FV means that the prosperity of shareholders will increase (E. F. Brigham & Daves, 2014). Firm value is the price that prospective investor are willing to pay, if the firm is to be sold, reflected in the firm's stock price. The increase in the company's stock price indicates an increase in the selling FV.(E. Brigham & Houston, 2014; Soman, 2021)
Price to book value (PBV) is a financial ratio that is often used to calculate company value. PBV is the ratio of stock price per share to book value per share. The higher the PBV value, the higher the FV. One of the important sectors in the capital market (IDX) is the banking sector. The banking sector on the IDX has become the driver of the JCI, the rise and fall of the JCI is also determined by the movement of stock prices in the banking sector. Below is the data on the average PBV value in the banking sector on the IDX for the last 3 years, 2017 - 2019.

	2017	2018	2019	Decline in 2018	Decline in 2019
PBV Banking	1,739	1,586	- 1,639	-20 %	- 15 %

Data source: processed ID

Compared to the PBV in 2017, the PBV in 2018 has decreased - 20%, and the PBV in 2019 has decreased - 15%. This situation is not encouraging news for investors in banking stocks in the capital market. Many factors that can affect the FV, including: Profitability, firm size (FS), and ownership of stock by the Government (GO). The influence of these three factors on firm value is interesting to study. Previous research on the relationship between profitability and FV, the results are not consistent. Several studies show that profitability has a positive effect on FV (Cheryta, Moeljadi, & Indrawati, 2017), while Tamrin, Mus, and Arfah research shows different results, namely profitability is negatively related to FV.
Research on the relationship between FS and FV in the Jordanian Capital Market shows a positive relationship between FS and FV (Ramadan, 2016), while Ibrahim research in Nigeria shows the opposite result, namely FS is negatively related to FV. The results of these studies are not consistent. Research on geographic location with firm value, the results are not conclusive. Geographic location were firms are under the government ownership tend to show negative relationship (Qi, Wu, & Zhang, 2000), while Wei and Varela (2003) concluded that firms located in geographic location where high or low government ownership exists it has a relationship with high market performance.
This research is to re-examine the effect of profitability, firm size and geographic location (Since it can determine their value), a study of the banking sector on the Indonesia Stock Exchange.

Theoretical framework

The Firm Value

The firm value (FV) can be seen as the book value of the firm's assets as reflected in the company's financial statements, and the market value of the company as reflected in the stock price. The FV referred to in this research is the value of stock or the firms's stock price. The share value or share price will be determined by the investor's perception of the company. If investors judge that this company is good and has good future prospects, then the company's stock price will be highly valued by investors, on the other hand, if investors assess the company's prospects are not good, it will have an impact on the firm's stock price decline.(Sun, Tong, & Tong, 2002)
There are many ways to measure company value. This research will use price to book value (PBV) as the firm value. PBV is the ratio of the share price per share to the book value per share of the company. PBV reflects the relative value of the company's stock price for each use of

invested capital (Breuer & de Vargas, 2021). The higher the PBV, the higher the company's stock price

The Effect of Profitability, Firm Size and Geographic location on Firm Value

Effect of Profitability on Firm Value

The firm's profitability is the firm's ability to generate company profits within a certain period. Profitability is one of the important indicators for management performance appraisal. There are many ways that can be used to measure company profitability: ROA, ROE, NPM, OPM and others. One of the ratios that is often used in measuring company profitability is Return on Investment (ROA). ROA is the ratio of management's ability to generate profits from each use of asset resources. Several previous researchers have used ROA as a measure of profitability.
The expectation of stock investors in the capital market is that the stock price will increase. The share price will continue to increase when the issuer succeeds in making a profit in running its business, with the issuer's profit being able to distribute dividends and use the profit for expansion, for the betterment of the company. The higher the firm's ability to result profits, it will directly have a more profitable impact on stock investors in the Capital Market, which in turn makes the demand for these shares increase, and share prices increase (Cheryta et al., 2017). This is accordance with the signaling theory, which states that an increase in company profits is a positive signal for potential investors which has an impact on increasing demand for stock.
Rational investors will be interested in issuers that have a level of efficiency and effectiveness in managing company assets, because with that, company profits can be achieved, and company profits will also be high. Thus, profitability will have an influnce on increasing stock prices.

Ha1 Profitability has a positive effect on firm value

The Effect Of Firm Size On Firm Value

Along with the development of the assets of issuers listed on the capital market, the total assets of each company also vary. The size of the company can be seen, one of which is the number of company assets, the greater the number of assets owned, the bigger the company (Weston & Copeland, 2008). Several previous researchers used total assets as a proxy for firm size.(Breuer & de Vargas, 2021) The greater the company's assets, the greater the company's resources that can be used to achieve increased profitability, and increase the value of the firm. The bigger the firm, the more public trust will be to use the products or services produced by the company. With the increasing public trust in the company, it will have an impact on the attractiveness of the issuer's share price, so that the share price will increase. Stock investors will increasingly believe in large companies, because large companies are seen as more competitive and stable in managing companies, so investors increasingly believe that large companies will provide a greater level of profit (Wahyuni, 2013).(Hussain, Ali, Thaker, & Ali, 2019)
Firm size (total assets) can reflect the ability of a business entity to increase sales volume and profit. With a large number of ASSTs, the company can seize various profitable investment opportunities, the company can improve the capabilities of its human resources, and can increase its market share, so that it has better prospects. This prospect will have a positive impact on increasing profits and firm value (Safitri & Wiyono, 2021).
Ha2: Firm size has a positive effect on firm value

The Effect Of Geographic Location On Firm Value

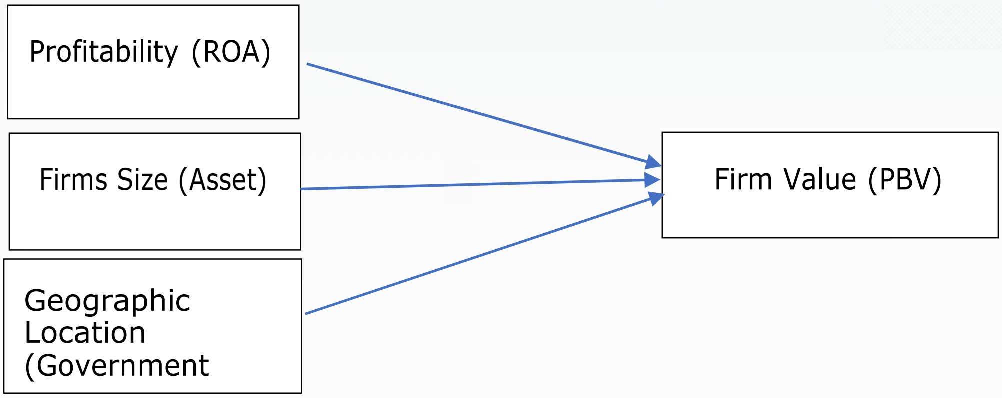
State-Owned Enterprises (BUMN) are profit-oriented companies whose entire or most of the shares are owned by the government (Law no 19, 2003). Geographic location is important factor since the firms located in the geographic area where the government's equity participation in business units, certain companies, which of course are expected to provide great benefits for state income, and for the welfare of the community. The ownership of significant shares (controlling shares) can be a means of controlling and supervising the company's executives, so that the executives work in accordance with the interests of the firm's goals.

One of the controls on the firm's management is through the presence of controlling share ownership. One of them is the significant share ownership by the government in the shares of state-owned enterprises (BUMN). It is hoped that the presence of the controlling shareholder will make the board of commissioners more effective in supervising and managing the company, because the controlling shareholder can take corporate action to prevent executive actions that can harm the company (Wei & Varela, 2003). For all state-owned companies, the government acts as the controlling shareholder.

Firms located at a geographic location where share ownership by the government exists and it will significantly benefit the implementation of corporate governance because: 1) The existence of controlled ownership with a significant portion makes it possible to exercise control over the company's executives. 2) Control by the government will also provide effectiveness in carrying out the company's mission. (Wei & Varela, 2003)

Ha3: Geographic location has a positive effect on firm value

Research Model



Research Method

Type of research, population and sample

This type of research is ekplanatoty, to examine the effect of several independent variables on firm value. The target population of this research is the banking sector industry which is listed on the IDX, the observation period from 2017 to 2019 is 27 banks. This study uses 81 sample data from 27 banks for 3 years, the 2017-2019 reporting period.

Research Data Collection Methods And Data Analysis Models

All research data is obtained from the 2017-2019 financial statements available on the idx.com web. All of these financial reports have been audited by a Public Accounting Firm. The data obtained in this study used secondary data analysis, financial statements. To propose the research hypothesis, the researcher will use multiple regression analysis model.

Operationalization Of Research Variables

No	Research Variables	Measurement variables	Measurement scale
1	Firm Value	Price to Book Value = Share price/Book value per share (PBV)	Ratio
2	Profitability	Return on assets = Net profit/ Total assets (ROA)	Ratio
3	Firms Size	Total assets (ASSET)	Ratio
4	Geographic Location (GL)	1= company located at geographic location with significant share ownership by the government 0= the company located at geographic location with government ownership with an insignificant amount	Nominal

Research Results

Descriptive statistics

Table 4.1.1

	N	Min	Max	Mean	Std. Dev
PBV	81	.36	4.79	1.6547	1.05305
ROA	81	.02	3.13	1.3026	.79073
ASSET	81	3084.00	1416758.00	244943.0123	370974.18325
GL	81	.00	1.00	.2963	.45947
Valid N (listwise)	81				

Notes: PBV= Price to book value; ROA=Return on assets; Asset=Total assets; GL=Geographic Location

In table 4.1.1. Shows the average PBV of the firm is 1.65, and a standard deviation (dev.) of 1. The standard deviation of that size shows that stock prices in the banking sector are very varied. This can be seen from the difference in height between the maximum and minimum values (range=4.79-0.36). The average profitability is 1.3% and a standard dev. of 0.79%. The value of the standard dev. shows a varied difference. The maximum value of the range is the max-min (3.31 - 0.02). The average total assets of the company are 244.9 trillion with a standard dev of 370.9 trillion. This shows the same thing, namely asset ownership is very varied. Of all banking companies listed on the IDX, 29.6% are state-owned companies whose controlling share is the government.

The Influence Of Profitability, Firm Size And Geographic Location On Firm Value

Simultaneous influence

The following table 4.2.1. the results of statistical analysis of the simultaneous influence of independent variables on firm value.

Table 4.2.1

Model	R	R Square	Adjust R Square	Std. Error of the Est.	Sig. F Change
1	.317[a]	.101	.066	1.01791	.042

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.931	3	2.977	2.873	.042[b]
	Residual	79.782	77	1.036		
	Total	88.713	80			

a. Dependent Variable: PBV

b. Predictors: (Constant), KS.GL, ROA, ASSET

Simultaneous effect explains how the simultaneous influence of profitability, company size and share ownership by the government on the value of the company as proxied by PBV. If you pay attention to the determinant R of 0.1 with a significance level of 0.042 (below 5%), it can be concluded simultaneously that all of the ROA, ASSET, and GL have a significant impact on firm value. This shows that the fit regression model can be used as a predictive model. Thus, the partial relationship analysis can be continued.

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The following is table 4.2.2. the results of multiple regression statistical processing of all independent variables on firm value

Table.4.2.2

Model		Unstand Coeff.		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	a	1.227	.223		5.491	.000
	ROA	.263	.166	.197	1.579	.018
	ASSET	5.488E-7	.000	.193	1.440	.042
	GO	-.165	.275	-.072	-.602	.549

a. Dependent Variable: PBV

b. Predictors: (a=Constant), GL=Geographic Location, ROA, ASSET

Table 4.2.2. shows the regression coeff of the ROA variable of 0.263 with a significance level of 0.018, if using a significance level of 5%, it means that the research hypothesis stating that profitability has a positive effect on FV is acceptable, at a level of error 1.8% (below 5%). Based on signaling theory, the firm's profit information has given a signal about the firm's prospects in the future. The firm's profit information signal is responded to by an increase or decrease in the firm's share price, depending on the company's profit. In accordance with the positive sign of the regression coefficient which shows they have a positive relationship. The sign of a positive relationship indicates that the higher the company's profitability, the higher the company's PBV.

The findings of this study have proven that investors in the Indonesia Stock Exchange have acted rationally in making investment decisions, because they have used profit/profitability information as an important factor in investing in stocks. The findings of this research support the results of previous research, research by Cheryta et al. (2017), which explains that profitability has a positive relationship with stock prices. The availability of adequate resources, including the company's asset resources, has proven to have an impact on the firm's ability to result higher corporate profits, the firm's profitability performance is higher than companies that have limited company assets resources.

Table 4.2.2. shows that the relationship of FS variable has a positive relationship with FV, at a level of error 4.2% (0.042). If using a significance level of 5%, the second research hypothesis which states that FS has a positive effect on the FV can be accepted at a significance level of 0.042 (below 0.05). The findings of this research are in accordance with the results of previous studies, Wahyuni's research; 2013 which states that firm size has a positive relationship with firm value. The findings of this research have proven that companies that have large and adequate resources of assets are able to capture various investment opportunities, and are able to increase sales and company profits, which are then responded by the capital market by increasing stock prices.

In accordance with the results of statistical data processing (table 4.2.2) the regression coefficient of the relationship between geographic location and firm value is not significant, because the error rate is 0.549 (54.9%) far above 5%. Thus, the third research hypothesis which states that geographic location has a positive effect on FV cannot be accepted. The results of the study illustrate that government ownership does not guarantee an increase in investor confidence through an increase in the firm's stock price. The results of this research are accordance with the results of previous studies, studied by (Qi et al., 2000).

The existence of BUMN in addition to providing benefits to the community, but besides being profit oriented as a BUMN that prioritizes the public interest, it is not uncommon for companies to take policies that tend to sacrifice economic interests, to fulfill the public interest. It is this factor that might not have an influence on increasing the firm’s value.

Conclusions

Based on the results of the research and discussion above, it can be concluded as follows:

Company profitability accounting information is one of the important information for investors and potential investors in the Capital Market. Profitability has a positive effect on firm value. This means that profitability is an important factor in making investment decisions in the capital market. Firm size has a positive effect on firm value. Investors trust companies with large or adequate asset ownership, so that an increase in the number of company assets has an impact on increasing the value of the company. This study failed to prove that geographic location can increase firm value. These results indicate that geographic location is not an important factor in investment decisions on the IDX.

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