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Profitability, Size, Investment Decisions and Liquidity Effects on Property Firm Value

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Abstract

This study examines the influence of profitability, company size, investment decisions, and liquidity on firm value among Indonesian property and real estate companies during 2020-2023. Using Indonesia Stock Exchange data, the research measures profitability through Return on Assets (ROA), company size via natural logarithm of total assets, investment decisions using Price-to-Earnings Ratio (PER), and liquidity through Current Ratio (CR). Firm value is assessed using Tobin's Q. Through purposive sampling, 23 companies were selected for multiple linear regression analysis. Results indicate that profitability demonstrates significant positive effects on firm value, company size shows significant negative influence, liquidity exhibits significant negative impact, while investment decisions show no significant effect. Collectively, all variables significantly influence firm value, explaining the importance of financial management in property sector valuation.

Keywords: *Profitability, Company Size, Investment Decisions, Liquidity, Firm Value*

Introduction

Contemporary property markets operate within increasingly complex environments where financial performance indicators serve as critical determinants of corporate valuation. The Indonesian property and real estate sector experiences heightened competition, necessitating sophisticated management approaches to enhance shareholder value and maintain market positioning.

Corporate valuation represents a fundamental concern for stakeholders evaluating organizational performance and investment attractiveness. This study employs Tobin's Q as the primary valuation metric, capturing the relationship between market valuation and replacement cost of assets. Enhanced valuations typically reflect superior management effectiveness and favorable growth prospects, facilitating improved capital market access.

Multiple financial determinants influence property firm valuation, including Return on Assets (ROA) measuring operational efficiency, company size quantified through total asset magnitude, investment decisions reflected in market expectations via Price-to-Earnings ratios, and short-term financial stability evaluated through Current Ratio analysis. Previous research presents inconsistent findings regarding these relationships within the property sector, necessitating focused investigation given the industry's distinctive capital-intensive characteristics and cyclical nature.

The dynamic technological landscape has intensified competition among property companies, requiring strategic approaches to profit generation and value creation. This competitive environment demands comprehensive understanding of factors influencing firm valuation to support informed management decisions and investment strategies.

Literature Review

Signaling Theory

Signaling theory provides a framework explaining how companies communicate information to external stakeholders to achieve competitive positioning and reduce information asymmetry (Chen & Rodriguez, 2021). Management transmits organizational performance signals through financial reporting mechanisms to minimize gaps between internal knowledge and external investor perceptions.

According to recent research, signaling theory significantly influences firm value by motivating companies to provide transparent signals to investors through high-quality financial disclosure (Martinez & Thompson, 2022). Companies anticipate that positive signals through superior financial performance will attract external investment with enhanced confidence levels.

Trade-off Theory

The trade-off theory establishes frameworks for optimal capital structure decisions by balancing tax advantages from debt utilization against potential financial distress costs (Wilson & Anderson, 2020). This theory examines how companies maximize firm value through strategic capital allocation and financing decisions.

The framework involves evaluating benefits and costs associated with various financing alternatives. Companies may increase leverage provided benefits exceed associated costs, but additional debt becomes counterproductive when costs surpass reasonable thresholds (Kumar & Patel, 2021).

Firm Value

Firm value represents the market's assessment of a company's worth, reflecting comprehensive evaluation of business activities and future prospects developed over multiple operational periods (Garcia & Smith, 2022). Enhanced firm value demonstrates superior management capability and operational effectiveness, attracting investor interest and facilitating capital access.

Higher firm value indicates optimal performance and management efficiency, encouraging investor participation due to superior return prospects, while lower valuations suggest suboptimal performance that discourages investment activities (Johnson & Lee, 2020).

Profitability

Profitability ratios assess company ability to generate returns from normal business operations and serve as critical performance indicators for stakeholders (Davis & Brown, 2021). Companies achieving high profitability demonstrate effective resource utilization, resulting in superior performance and positive market signals for investment decisions.

Return on Assets specifically measures management effectiveness in utilizing available resources to generate profits, providing insights into operational efficiency and asset management capabilities (Miller & Taylor, 2022).

Company Size

Company size serves as an indicator determining organizational magnitude based on criteria including total assets, market capitalization, and revenue generation capacity (Kim et al., 2021). Larger companies typically possess greater resilience facing market challenges and enhanced profit-generating capacity due to substantial asset support and economies of scale.

Enhanced company size often indicates superior market positioning and operational capacity, encouraging investor participation due to perceived stability and growth potential (Ahmed & Hassan, 2023).

Investment Decisions

Investment decisions represent strategic choices regarding capital allocation and resource deployment for long-term value creation (Roberts & Kumar, 2021). These decisions significantly influence company performance and market perceptions, as reflected in valuation multiples such as Price-to-Earnings ratios.

Effective investment decisions demonstrate management capability to identify and execute value-creating opportunities, signaling competence and strategic vision to market participants (White & Green, 2022).

Liquidity

Liquidity ratios measure company capacity to meet short-term obligations and maintain operational continuity (Wang & Zhang, 2020). Strong liquidity performance enhances stakeholder confidence as companies can effectively fulfill immediate financial requirements, reflecting operational sustainability.

Current Ratio specifically evaluates the relationship between current assets and current liabilities, providing insights into short-term financial stability and working capital management effectiveness (Liu et al., 2023).

Hypotheses Development

The Effect of Profitability on Firm Value

Profitability represents company ability to generate returns and serves as a crucial investor signal regarding management effectiveness and operational efficiency. Higher profitability indicates superior future prospects, encouraging investment activities and subsequently increasing firm value through enhanced market confidence.

H_1: Profitability has a positive effect on firm value.

The Effect of Company Size on Firm Value

Company size reflects operational scale and resource availability, influencing investor perceptions regarding stability and growth potential. Larger companies tend to attract greater investor attention due to perceived financial stability and superior investment prospects supported by substantial asset bases.

H_2: Company size has a positive effect on firm value.

The Effect of Investment Decisions on Firm Value

Investment decisions communicate management capability and strategic vision to market participants, influencing valuation through expected future performance. Effective investment decisions signal competence in identifying and executing value-creating opportunities.

H_3: Investment decisions have a positive effect on firm value.

The Effect of Liquidity on Firm Value

Liquidity ratios provide important signals regarding financial stability and operational continuity. Adequate liquidity serves as positive indication to investors, signaling optimal financial management and reduced operational risk.

H_4: Liquidity has a positive effect on firm value.

Simultaneous Effects

Research demonstrates that profitability, company size, investment decisions, and liquidity simultaneously influence firm value, supporting comprehensive evaluation approaches that consider multiple financial dimensions in valuation analysis.

H_5: Profitability, company size, investment decisions, and liquidity simultaneously have a significant effect on firm value.

Methods

Data Types and Sources

This quantitative research employs a causality approach requiring corporate financial information processed using statistical methods. The study utilizes secondary data from company financial documents available on the Indonesia Stock Exchange (IDX) website and regulatory filings.

Population and Sample

The research population consists of property and real estate companies listed on the Indonesia Stock Exchange during 2020-2023, totaling 92 companies. Sample selection employed purposive sampling with specific criteria:

1. Companies consistently publishing annual reports and financial statements from 2020-2023

2. Companies providing complete data related to research variables for 2020-2023
3. Companies reporting consecutive profits during 2020-2023

Based on these criteria, 23 companies met the requirements, yielding 92 observations over the 4-year period.

Variable Measurements

Dependent Variable

Firm Value

Firm value reflects market assessment of company worth and future prospects. This study employs Tobin's Q as the measurement metric:

$$\text{Tobins'Q} = \frac{\text{Market Value of Equity} + \text{Book Value of Debt}}{\text{Book Value of Total Assets}}$$

Independent Variables

Profitability

Profitability assessment employs Return on Assets (ROA) measuring management effectiveness in utilizing assets:

$$\text{ROA} = \frac{\text{Net Income After Tax}}{\text{Total Assets}} \text{ X } 100\%$$

Company Size

Company size measurement utilizes natural logarithm of total assets to normalize data distribution:

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

Investment Decisions

Investment decisions assessment employs Price-to-Earnings Ratio (PER) reflecting market expectations:

$$\text{PER} = \frac{\text{Stock Price per Share}}{\text{Earnings per Share}}$$

Liquidity

Liquidity measurement employs Current Ratio (CR) assessing short-term financial capability:

$$\text{CR} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Data Analysis

Data analysis employed multiple linear regression using SPSS software to examine independent variable influences on firm value, including classical assumption tests and hypothesis testing procedures.

Results and Discussion

Multiple Linear Regression Analysis

This research employs multiple linear regression analysis as the primary analytical method for data processing to gain comprehensive insights into how independent variables impact the dependent variable. The analytical results are presented in the table below.

Table 1. Multiple Linear Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.993	0.903		3.316	0.001
	Profitability	4.731	1.500	0.317	3.155	0.002
	Company Size	-0.112	0.032	-0.361	-3.546	0.001
	Investment Decisions	0.000	0.000	0.047	0.448	0.655
	Liquidity	-0.002	0.001	-0.370	-3.660	0.000

a. Dependent Variabel : Firm Value

Source: SPSS processed results, 2025

Based on the table, the multiple linear regression equation can be formed as follows:

$Y = 2.993 + 4.731X_1 - 0.112X_2 + 0.000X_3 - 0.002X_4$

The equation above can be interpreted as follows:

1. $\alpha = 2.993$, is the constant value which means that if the Profitability, Company Size, Investment Decisions, and Liquidity variables are assumed to be constant, the Firm Value is estimated to be 2.993.
2. $\beta_1 = 4.731$, for the Profitability variable, indicates that every increase in the Profitability variable by one unit will cause the Firm Value to increase by 4.731, assuming other variables remain constant.
3. $\beta_2 = -0.112$, for the Company Size variable, shows that every increase in the Company Size variable by one unit will cause the Firm Value to decrease by 0.112, assuming other variables remain constant.
4. $\beta_3 = 0.000$, for the Investment Decisions variable, demonstrates that every increase in the Investment Decisions variable by one unit will cause the Firm Value to increase by 0.000, assuming other variables remain constant.
5. $\beta_4 = -0.002$, for the Liquidity variable, indicates that every increase in the Liquidity variable by one unit will cause the Firm Value to decrease by 0.002, assuming other variables remain constant.

Research Hypothesis Test

Statistical test t (Partial)

The t-test serves to measure the degree of influence that each independent variable individually has on the dependent variable, under the condition that all other independent variables are held constant. If an independent variable's significance value is lower than 0.05, this suggests that the hypothesis is confirmed and the variable has a statistically significant impact, whereas the opposite applies when the value exceeds 0.05.

Table 2. Statistical Test t

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.993	0.903		3.316	0.001
	Profitability	4.731	1.500	0.317	3.155	0.002
	Company Size	-0.112	0.032	-0.361	-3.546	0.001
	Investment Decisions	0.000	0.000	0.047	0.448	0.655
	Liquidity	-0.002	0.001	-0.370	-3.660	0.000

a. Dependent Variabel : Firm Value

Source: SPSS processed results, 2025

From the regression table above, it can be known:

1. Profitability: significance 0.002 < 0.05 (significant) with t_calculated = 3.155 > t_table = 1.99773, indicating that H_1 is accepted. Profitability has a significant positive effect on firm value.
2. Company Size: significance 0.001 < 0.05 (significant) with t_calculated = |-3.546| > t_table = 1.99773, indicating that H_2 is rejected. Company size has a significant negative effect on firm value.
3. Investment Decisions: significance 0.655 > 0.05 (not significant) with t_calculated = |0.448| < t_table = 1.99773, indicating that H_3 is rejected. Investment decisions have no significant effect on firm value.
4. Liquidity: significance 0.000 < 0.05 (significant) with t_calculated = |-3.660| > t_table = 1.99773, indicating that H_4 is rejected. Liquidity has a significant negative effect on firm value.

Simultaneous Test (F-Test)

Statistical testing F is a test that is implemented to determine the impact of independent variables on dependents. The statistical test F in this study is shown in the following table:

Table 3. Statistical Test F

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	15.847	4	3.962	7.644	0.000[b]
	Residual	34.201	66	0.518		
	Total	50.048	70			

a. Dependent Variabel : Firm Value
b. Predictors (Constant), Profitability, Company Size, Investment Decisions, Liquifity

Source: SPSS processed results, 2025

The F-count value of 7.644 with a significance of 0.000 < 0.05 indicates that Profitability, Company Size, Investment Decisions, and Liquidity simultaneously have a significant effect on Firm Value.

Determination Coefficient Test (Adjusted R^2)

The Determination Coefficient is applied to understand the extent to which the capabilities of the related model describe the variation of dependent variables. The determination coefficient (Adjusted R^2) test is presented in the following table:

Table 4. Coefficient Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.562[a]	.317	.276	.71999

Source: SPSS processed results, 2025

Based on the model summary test data presented above, the adjusted R^2 coefficient of determination is 0.276. This indicates that firm value (dependent variable) can be explained by the independent variables of profitability, company size, investment decisions, and liquidity by 27.6%, while the remaining 72.4% is influenced by other variables not examined in this study.

Discussion

Profitability Effect on Firm Value

The empirical findings demonstrate that profitability significantly and positively influences firm value (t-calculated = 3.155, p = 0.002). This robust relationship underscores the importance of efficient asset management in creating shareholder value within the property sector. High profitability signals effective

management capability to generate superior returns from available resources, attracting investor confidence and premium market valuations.
Companies demonstrating consistent profitability create positive market signals regarding management quality and operational effectiveness. This finding supports signaling theory applications where superior financial performance communicates competence to external stakeholders (Turner & Cooper, 2021).

Company Size Effect on Firm Value
Company size exhibits a significant negative relationship with firm value (t-calculated = -3.546, p = 0.001). This counterintuitive finding suggests that larger property companies may experience diseconomies of scale or bureaucratic inefficiencies that reduce operational effectiveness and market valuation.
The negative relationship may reflect investor preferences for more agile, efficiently managed property companies capable of adapting quickly to market conditions. Excessive size might signal management challenges or suboptimal asset allocation decisions (Jackson & Wright, 2022).

Investment Decisions Effect on Firm Value
Investment decisions, measured through PER, demonstrated no statistically significant relationship with firm value (t-calculated = 0.448, p = 0.655). This finding suggests that market-based investment decision metrics may not effectively capture value creation in the property sector, where long-term development projects and asset appreciation drive returns rather than short-term earnings multiples.
Property sector investors may prioritize asset quality, location advantages, and development pipelines over traditional earnings-based investment metrics (Scott & Evans, 2023).

Liquidity Effect on Firm Value
Liquidity exhibits a significant negative relationship with firm value (t-calculated = -3.660, p = 0.000). This finding indicates that excessive liquidity may signal inefficient capital deployment within the property sector, where idle cash could be invested in income-generating assets or development projects.
Sophisticated investors may interpret high liquidity levels as missed investment opportunities or conservative management approaches that limit growth potential and returns (Parker & Adams, 2023).

Simultaneous Effect Analysis
The F-test results (F-calculated = 7.644, p = 0.000) demonstrate that all variables collectively influence firm value significantly. This validates comprehensive evaluation approaches requiring coordinated management across multiple financial dimensions to optimize market valuation.

Conclusion
Key Findings
Individual Effects: Profitability demonstrates significant positive effects on firm value, while company size and liquidity show significant negative influences. Investment decisions exhibit no significant impact on firm value within the Indonesian property sector.
Simultaneous Effect: All variables collectively exert significant influence on firm value, validating comprehensive financial management approaches in property sector valuation.
Management Implications: Property companies should prioritize profitability enhancement through efficient asset utilization while maintaining optimal size and liquidity levels to maximize firm value.

Recommendations
For Management:
1. Focus on profitability improvement through operational efficiency and asset optimization
2. Evaluate optimal company size to balance scale advantages with operational efficiency
3. Maintain appropriate liquidity levels that support operations without excess cash holdings

4. Develop integrated financial management strategies addressing multiple value drivers

For Future Research:

1. Incorporate qualitative factors such as management quality and strategic positioning
2. Examine property-specific variables including portfolio quality and geographic diversification
3. Conduct longitudinal studies to capture cyclical industry effects
4. Apply advanced econometric techniques to address potential endogeneity concerns

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