

The Effect of Financial Distress, Capital Structure, and Firm Size on The Firm Value of Property Companies Listed in Indonesia Stock Exchange 2016-2020

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Abstract. The property sector is one of the parameters of the country's progression besides infrastructure and industrial development. However, in the last few years, there has been a fluctuation in economic growth with the largest contraction -2,07% in 2020. The study aims to examine the effect of financial distress, capital structure, and firm size on the firm value of property companies listed in the Indonesia Stock Exchange 2016-2020. The sample is determined by the purposive sampling method. The Data collection is using documentation technique from the annual financial statement published by the website of the Indonesia stock exchange. The methods of data analysis are using a descriptive statistic, classic assumption test, and multiple linear regression analysis tests. The number of the samples are 19 companies. The result found that there are a positive and significant effect of financial distress and capital structure on the firm value. Negative and no significant effect of firm size on the firm value. The simultaneous relationship shows a significant effect on the firm value. The model is explained by a 61,6% variation on the firm value. This study shows that financial distress and capital structure is important factor in determining the firm value.

Keywords : Financial distress, capital structure, firm size, firm value, property.

1 Introduction

Indonesia has shown fluctuated economic growth for the last five years. It is known there has been an increase in economic growth by 5.03% in 2016 which continues to increase in the next two years by 5.07% and 5.17%. Further it shows a decrease by 5.02% in 2019. The decrease extended to -2.07% in 2020 (The Central Bureau of Statistics, accessed 30 October 2021).

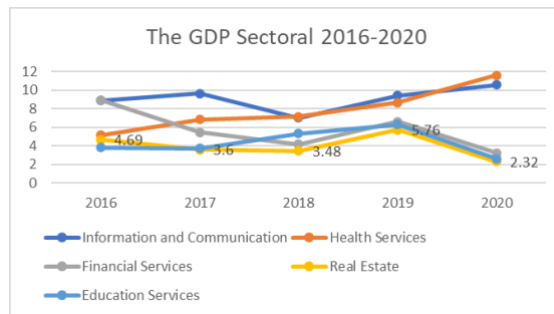


Fig. 1. The GDP sectoral 2016-2020.

The graph above shows several sectors that contribute to the GDP of Indonesia. Based on The GDP per sector there has been an increase in the health sector as well as the information and communication sector, but other sectors such as financial services, education services, and real estate have run into a decline. However, by seeing the data it can be seen that the property sector is currently showing a decrease due to the Covid-19 pandemic.



Fig. 2. The Property Stock Price Trend.

The decrease in the property sector is also indicated by the trend of property stock prices which tend to fluctuate. Therefore, based on the slowdown in the performance of the property sector has resulted in systematic risk. Financial distress is the systematic risk that is defined as the instability of the flow of funds which generally occurs before bankruptcy. This condition influences the decline in the firm value so that the prosperity of the owner will decrease [1].

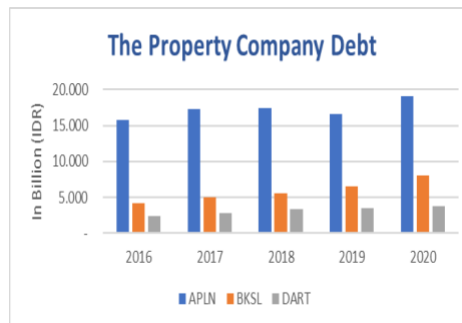


Fig. 3. The property company debt.

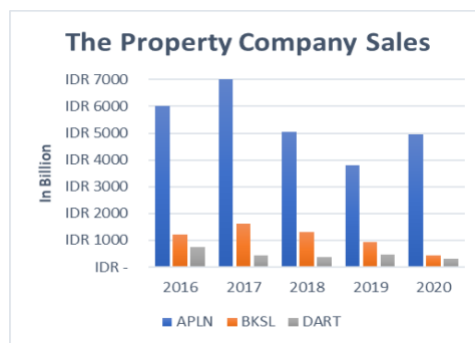


Fig. 4. The property company sales.

The data above shows that there has been an increase in debt of the property companies. However, it is the opposite with the decline in sales data. This condition will result in negative cash flow and if it continues for several periods, it will make the difficulty for the company to be sustainable so that the company experiences financial difficulties that have the potential to be a default. For this reason, it is necessary to measure the risk of bankruptcy so that the potential of bankruptcy can be overcome by the company. To determine the risk of bankruptcy can be calculated by using the Altman Z-score which is an assessment of the company's performance based on the potential bankruptcy. Companies with healthy conditions will tend to avoid bankruptcy while companies in a state of bankruptcy indicated that the company cannot pay their debts. Based on this reason both companies and investors need to know the potential of bankruptcy risk so that the investors can get the best benefits from the investments and the companies can avoid the potential defaults and the risk of bankruptcy. There is a variation result in several studies when analyzing financial distress. The research by previous studies shows there is a significant effect of financial distress on the firm value [2-3]. Research that has different results shows that financial distress has no significant effect on the firm value [4].

Furthermore, the good performance of the company requires positive support from a large capital structure. The use of capital structure can finance the company's operations and business expansion to produce excellent company performance. The company's capital can be obtained

by the issuance of securities or through a debt policy. Companies that issues securities will result in an obligation to pay a dividend. However, if the company chooses to take on debt, the company needs to pay interest on borrowing the debt. The previous research shows that there is a positive effect of capital structure on the firm value [5-7].

However, another study conducted by previous study show the negative relationship between capital structure on firm value [8].

Further, to know the company is in the good condition it can be determined by firm size which is a criterion to find how the financial capabilities of a company. The firm size reflects the small or large condition of the company so that it can affect the value of the company. Then it can be seen that the larger the size of the company will have high earnings and it has a positive influence on the firm value which in turn shows the benefits of shares that will be owned by investors. Based on the previous study, it is known that the firm size has a positive effect on the firm value. For this reason, it is concluded that there is an opportunity for large companies will generate great value for investors [9]. The other study shows the contrasting result that firm size has a negative effect on the firm value [6]. So based on the phenomenon of economic slowdown, fluctuations in the performance of the property sector, as well as the finding of research gaps from previous studies, the author aimed to discuss how financial distress, capital structure, and firm size effect the firm value. The focus of this study is the property companies listed on the Indonesia Stock Exchange. This sector is used because it is considered the phenomenon of the property sector which continues to experience growth fluctuation.

2 Literature Review

2.1 Financial Distress

Financial distress is a condition when the revenue obtained by the company is not able to meet all the costs required so it experiences a loss condition. The factors that cause financial distress are generally more micro, including:

1. Cash flow difficulties
Cash flow difficulties occur because of the management mistake in managing cash to meet payment needs. It can result in the company's inability to meet the costs of operational activities.
2. Operational loss
Occurs when the company has a high operating expense but contrasts with the company income. This will lead to negative cash flow for the company.
3. The amount of debt
Using debt will result in an obligation to pay the debt in the future. If the company is not able to finance the maturing debt there will be sales or confiscation of assets.

Financial distress has a classification based on the categories and the cause:

1. Technical insolvency
The condition when the company is unable to finance the technical debt. So, it indicated that the company will temporarily experience liquidity difficulties. However, in this condition, it is possible that the company can still make payments on the debt and interest.
2. Legal bankruptcy

a business can be interpreted as having faced legal bankruptcy if the business has formally filed a lawsuit in a legal court that has been adjusted to the applicable law.

3. Business failure

a condition in which a business has stopped to operating and left a loss to the creditors. Besides, it also gives the possibility that occurs in the companies that use funds from equity.

4. Accounting insolvency

a condition where the value of the total asset is negative which is reflected by the value of liabilities that are greater than the total asset. This condition is considered to be in a state of bankruptcy.

2.2 Capital Structure

The capital structure reflects how the balance portion between debt and capital owned by the company affects the return that will be received by the investor. Capital structure is a combination of capital financing with debt financing in a company [11]. There are two ways to obtain funding sources:

1. Owner Equity

Owner equity is usually using retained earnings. In general, companies with small sizes can pay for capital needs from the owner. In addition to obtaining funds, the company can also issue new shares or new stock. Shares can be categorized into two types :

a. Common Stock

The stock which the sales are aimed at the public. It is a subordinate to preferred stock or the position is below preferred stock concerning dividend distribution. The distribution of common stock dividends will be paid if there is still a residual payment of preferred shares. However, this stock also has an advantage in the form of voting rights which state each share owned can determine the future of the company, for example, the right to choose the directors.

b. Preferred Stock (Preferred Stock)

Preferred stock is a type of stock that has special rights. It is the payment of dividends that always comes first over common stock so that it is referred to as superior to common stock. For this reason, this type of share will first be sold to the company's founding fathers as a form of appreciation for the founders.

2. Loans (Long-term Debt)

Companies in general can use long-term debt to meet investment financing. The instrument used can be in the form of bond issuance or through investment loans obtained from financial institutions or banks.

Debt is a component of the company's support for business expansion. However, the proportion of debt needs to be maintained so that the company can avoid the risk of financial difficulties. Measuring the proportion of debt to equity, it can be done through the calculation of the Debt to Equity Ratio (DER). The proportion of owner capital is indicated to be smaller if the DER value is higher.

2.3 Firm Size

Firm size is known as the scale that is used to classify the size of the company that can be known from the sales value, the asset value, or the equity value. The firm size can be categorized into three types; big size company, middle company, and small company. The previous study

explained that the larger the company the easier to obtain funding in the capital market [12]. Furthermore, previous research found that there is an effect between firm size on firm value [9].

The large size of the company allows diversifying its business more than the small size and it gives the possibility of failure is relatively small. Large companies will place their business in any kind of business so if one business fails another business is still run. This statement is in accordance with the theory of "do not put your egg in one basket" or not only open one business but diversify the business to prevent failure.

2.4 Firm Value

Firm value is the investor perception of the successful managers in managing the company and is generally associated with the stock prices. The firm value is an important aspect because the increasing share price comes from the increase in the value of the company and ultimately reflects the prosperity of shareholders. Investors have more interest in companies that generate relatively high profits so it becomes the main focus in assessing companies.

The Price to Book Value or the comparison between share price with the book value per share is used to measure the company value. Shares of companies that are expected to perform well can increase profits, able to increase market share, have a successful product, and generally will be sold at high prices [11].

2.5 Conceptual Framework and Research Hypothesis

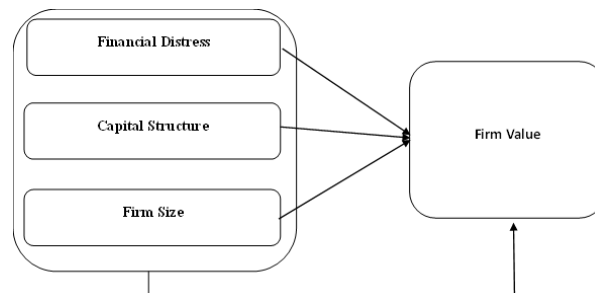


Fig. 5. Conceptual Model

3 Methodology

This study uses a quantitative approach that focuses on financial distress, capital structure, and firm size on the firm value. The data analysis uses multiple linear regression and SPSS 28 software. The equation of the linear regression method is :

$$\hat{Y} = a + b_1X_1 + b_2X_2 + b_3X_3 + e \quad \text{Where:}$$

\hat{Y} = Dependent variable (Firm value of property companies)

A, b_1 , b_2 , b_3 = The coefficient of multiple linear regression

X_1 = Independent variable 1 (Financial Distress)

X_2 = Independent variable 2 (Capital structure)

X3 = Independent variable 3 (Firm Size)

In addition, this research is classified as a case study by using a selected sample of the property industry. The population used is all companies in the property sector listed on Indonesia Stock Exchange. The population consists of 71 companies. The data collection method is based on secondary data. The sampling technique is purposive sampling with the following criteria :

1. The sample are stocks that are in the property sector.
2. The samples are stocks that have been listed in IDX since January 1, 2016.
3. Reports financials regularly: 2016, 2017, 2018, 2019, and 2020
4. The sample is a property company that has a Z-Score value of 1.81-2.99 or the financial conditions are under special attention/quite vulnerable.

The sample selection is use the Altman Z Score model to know whether the company is in the good condition or in a distress zone. The selected sample are the company that has the Z Score value of 1.81-2.99 or under special attention so it will give the impact on the firm value. Another one, to know the company is in the good condition is also measured by using the capital structure or how the portion of the debt and the capital in the company.

Further, it also uses the calculation of firm size to know how the total asset can effect the firm value of the company. The equations that used in selecting the samples are :

Altman Z Score

$$1.2 (WCTA) + 1.4 (RETTA) + 3.3 (EBITTA) + 0.6 (MV \text{ of eq to TL}) + 1 (\text{Sales to TA}) \quad (1)$$

Where :

WCTA = (Current Assets – Current Liabilities) / Total Assets

RETTA = Retained Earning / Total Assets

EBITTA = EBIT / Total Assets

MV of eq to TL = MV of Equity / Total Liabilities

Sales to TA = Sales / Total Assets

Capital Structure

$$DER = \text{Total Debt} / \text{Total Equity} \quad (2)$$

Firm Size

$$\text{Ln} (\text{Total Assets}) \quad (3)$$

Firm Value

$$\text{Stock Price} / \text{BV per Share} \quad (4)$$

So, the final result of the samples are 19 property companies. The list of companies are:

Table 1. Sample.

No.	Firm	Code
1	Agung Podomoro Land Tbk.	APLN
2	Alam Sutera Realty Tbk.	ASRI
3	Bumi Citra Permai Tbk.	BCIP
4	Bekasi Fajar Industrial Estate	BEST
5	Bhuwanatala Indah Permai Tbk.	BIPP
6	Bukit Darmo Property Tbk.	BKDP
7	Sentul City Tbk.	BKSL
8	Duta Anggada Realty Tbk.	DART
9	Intiland Development Tbk.	DILD
10	Bakrieland Development Tbk.	ELTY
11	Gading Development Tbk.	GAMA
12	Perdana Gapuraprima Tbk.	GPRA
13	Greenwood Sejahtera Tbk.	GWSA
14	Kawasan Industri Jababeka Tbk.	KIJA
15	Lippo Karawaci Tbk.	LPKR
16	Metropolitan Land Tbk.	MTLA
17	City Retail Developments Tbk.	NIRO
18	Pudjiadi Prestige Tbk.	PUDP
19	Suryamas Dutamakmur Tbk.	SMDM

4 Result and Discussion

4.1 Descriptive Statistics

The descriptive statistic shows the maximum value, minimum value, mean, and standard deviation of each sample in the research object.

Table 2. Descriptive statistic.

Variable	N	Descriptive Statistic			
		Minimum	Maximum	Mean	Standard Deviation
Financial Distress	95	-0.11	2.80	1.2796	0.74471
Capital Structure	95	0.07	1.81	0.7253	0.42516
Firm Size	95	26.92	31.64	29.2868	1.27697
Firm Value	95	0.15	1.15	0.4953	0.27003

The result shows the highest financial distress is 2.80, the lowest is -0.11, the mean is 1.2796, and the standard deviation is 0.74471. The capital structure shows the highest is 1.81, the lowest

is 0.07, the mean is 0.7253, and the standard deviation is 0.42516. The firm size shows the highest is 31.64, the lowest value is 26.92, the mean is 29.2868, and the standard deviation is 1.27697. Furthermore, The firm value shows the highest is 1.15, the lowest is 0.15, the mean of 0.4953, and the standard deviation is 0.27003.

4.2 Classical Assumption Test

Normality Test

Table 3. Normality test.

One-Sample Kolmogorov-Smirnov Test	
Unstandardized Residual	
N	95
Sig.	0.200

Based on table 2 Kolmogorov-Smirnov test showed a significant value of $0.200 > \alpha=0.05$, it can be concluded that the data is normally distributed.

Multicollinearity

Table 4. Multicollinearity test

Variable	Collinearity Tolerance	VIF
Financial Distress	0.790	1.266
Capital Structure	0.665	1.504
Firm Size	0.819	1.221

Table 4 based on the multicollinearity test it can be interpreted that all independent variables do not experience multicollinearity. This is because the VIF value is less than 10. Furthermore, if we see by collinearity tolerance, the independent variable has a value of > 0.100 , which means that there is no multicollinearity.

Heteroscedasticity

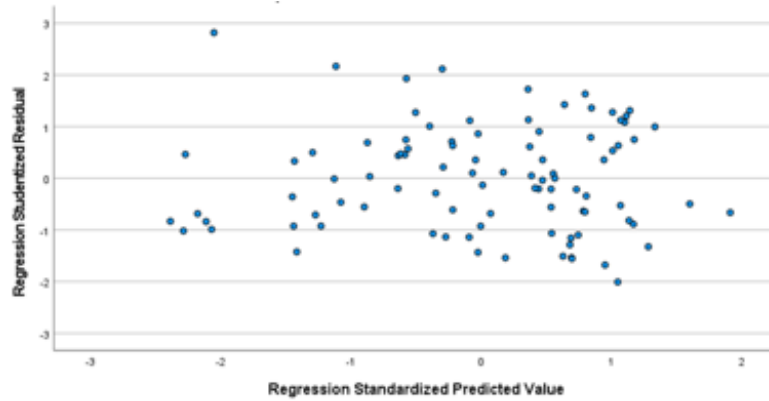


Fig. 6. Heteroskedasticity test

Figure 6 explains that the sample of data is spread either above or below the 0 number on the Y-axis. This shows no heteroscedasticity in the data used.

Autocorrelation

Table 5. Autocorrelation test.

Durbin Watson	1.962
dL	1.609
dU	1.732
4-dU	2.268

The results of autocorrelation by using the Cochrane-Orcutt method shows that the value of $dU < \text{Durbin Watson} < 4-dU$ is $1,732 < 1,962 < 2,268$. For this reason, it can be interpreted that there is no autocorrelation between the samples.

Multiple Linear Regression

Table 6. Multiple linear regression test.

Model	Coefficient	Standard Error
Constant	0.785	0.641
Financial Distress	0.139	0.040
Capital Structure	0.221	0.076
Firm Size	-0.021	0.023

$$Y = 0,785 + 0,139 X1 + 0,221 X2 - 0,021 X3$$

Where:

- Y : Firm Value
 XI : Financial Distress
 X2 : Capital Structure
 X3 : Firm Value

The above equation can be interpreted as follows :

1. The results of the constants in this regression model show the firm value constant is 0.785. This shows that if the variables of financial distress, capital structure, and firm size are constant, the firm value is 0.785.
2. The coefficient of financial distress is 0.139. This shows that if the value of financial distress (z-score) increases by one unit, the value of the property sector will increase by 0.139.
3. The coefficient of capital structure is 0.221. This shows that if the capital structure (DAR) increases by one unit, the value of the property sector company will increase by 0.221.
4. The coefficient of firm size is -0.021. This shows that if the Firm size (Ln Total Assets) increases by one unit, the value of the property sector company will decrease by 0.021.

F Test**Table 7.** F test.

Model	F	Sig.
Regression	4.855	0.004

F test obtained a significance of 0.004. This shows a sign of <0.05 or rejects Ho. So, it can be concluded that there is a simultaneous significant effect between financial distress, capital structure, and firm size on the firm value of property companies listed in IDX 2016-2020.

T Test**Table 8.** T test.

Model	Unstandardized B	Coefficient Std.Error	Standardized Coefficients Beta	t	Sig.
Constant	0.785	0.641		1.225	0.224
Financial Distress	0.139	0.040	0.385	3.512	0.001
Capital Structure	0.221	0.076	0.348	2.917	0.004
Firm Size	-0.021	0.023	-0.101	-0.943	0.348

Financial Distress

From the results of data processing, the significance is $0.001 < 0.05$. So, it shows that financial distress partially has a significant effect on the firm value. Then based on the results of the t-test $3.512 > 1.990$, financial distress has a positive effect on firm value.

Capital Structure

From the results of data processing, the significance is $0.004 < 0.05$. So, it indicated that capital structure partially has a significant influence on the firm value. Then based on the t test of $2,917 > 1,990$ the capital structure has a positive effect on the firm value.

Firm Size

From the result of data processing, the significance is $0.348 > 0.05$. It indicates that the firm size partially does not have a significant effect on the firm value. Then based on the results of the t-test $-0.943 < 1.990$ shows that the firm size has a negative effect on the firm value.

Coefficient of Determination Test

Table 9. Coefficient of determination test.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.785	0.616	0.603	0.08052

Based on the results of the coefficient determination test, the R^2 result is 61.6%. So, it can be concluded that 61.6% of the diversity of the firm value can be explained by independent variables (financial distress, capital structure, firm size) while the remaining 38.4% is explained by other variables that are not included in this study.

4.3 Discussion

The Effect of Financial Distress (Z Score) on The Firm Value

The regression coefficient of financial distress (z-score) is 0.385, the t-test is 2.917 and the significance is 0.001. This shows the z-score has a significant effect on the firm value. So, if the z-score increases by one unit, it will increase the firm value.

Z-score is a tool to measure the level of bankruptcy. The indicator shows z-score < 1.81 (distress zone), $1.81 < Z < 2.99$ (grey zone), and > 2.99 (safe zone). Based on the criteria, the higher the z-score, the better the condition of the company. Thus, if the company shows a good condition, it will have a positive impact on the company value. Otherwise, a lower z-score can make a bad condition so it has a negative effect on decreasing the company value.

When a company experience financial difficulties or goes bankruptcy, it is a condition of financial distress. If financial distress occurs, the company's ability to generate corporate profits decreases so it will reduce the value of the company.

This results in investors taking back their funds from companies that experience financial difficulties. For this reason, financial distress can affect the value of the company.

Then based on signaling theory, it shows a positive signal if the financial information is good and will have an effect on the increasing company value. For this reason, if the financial information is bad (financial distress), it will effect the declining value of the company. This is because there is a negative signal that causes investor not want to invest their shares.

Companies with loss conditions are the result of bad financial management so it gives the result in a decrease in the company value. This can be identified from the decline in stock prices of companies that experience loss. Then on the other hand a high stock price can show the company has good value for investors so that it is expected to provide high returns.

The Effect of Capital Structure on The Firm Value

The capital structure variable (DER) shows a regression coefficient of 0.348, a t test of 3.512 and a significance of 0.004. This shows the capital structure (DER) has a significant effect on the firm value. If the capital structure increase by one unit it will increase the company value by 0.348.

The results is in line with previous study which suggests that the results of capital structure have a positive and significant effect on the firm value [5]. The higher the capital structure, the higher the firm value. This research is also in line with signaling theory states that the companies that use more debt give more convincing signals to investors. Companies with the bravery to increase debt are viewed positively by investors because they are considered to have good opportunities in the future. For this reason, investors will take positive signals from companies that have good prospects.

Then the companies that use more debt can increase their profits. This is in accordance with the theory of financial leverage which explains that the use of fixed financial costs can increase earnings per share. If the proportion of debt is greater than the proportion of share issuance, the EPS will increase. This is because the net income divided by the smaller number of shares can produce a larger EPS [11]. For this reason, if the company's profit increases, it can increase the book value so that it increases the company value.

An increase in debt can increase the value of the company because if the debt increases, it means the company has additional sources of funds. The addition of the funds can increase the company's ability to finance operations so the ability to make profits will be greater. If the profit is greater, the company can set the profit to increase capital so that the book value of the company will increase and will have an impact on the increase of the company's value.

The Effect of Firm Size on The Firm Value

The firm size regression coefficient is -0.101, a t-test result is -0.943, and the significance is 0.348. this shows that firm size has no effect and no significant effect on the firm. Then based on the results, if the firm size increases by one unit it will decrease the value of the company.

Referring to the results of the study, this study cannot prove the effect of firm size on the firm value of property companies. The size of the company can increase due to an increase in total assets. Companies with increased profits which then increase capital can buy more assets so that the company size should increase the value of the company. On the other hand, if we see the

results of previous research, it is stated that company size has a negative and no significant effect on the firm value [12]. The main focus of investors in buying shares is not only on size but also considering the condition of the financial statement, the policies, and the reputation.

Then the large size of the company can also result in inefficient supervision of operational activities so which reduces the company's value. This occurs due to agency conflicts, that come because of the different interests between the principal and agent. The principal will be more concerned with the company's progress by making policies that can increase the value of the company. On the other hand, agents will try to achieve their personal goals by seeking the maximum profit, it can be a bonus or incentive without considering the risk of losses. Agents are the most roles in the company than the principal so they will have more information about the company. The existence of this information asymmetry results in an opportunity for the agent to prioritize their interest which can reduce the value of the company.

5 Conclusions and Recommendation

5.1 Conclusions

Based on the simultaneous test, the independent variables (financial distress, capital structure, and firm size) have a simultaneous effect on the dependent variable (firm value).

Based on the partial test, financial distress (X1) has a significant positive effect on the firm value. The results indicate that financial distress seen based on the large Altman z-score has a positive effect on increasing firm value. The capital structure (X2) has a significant positive effect on the firm value. The results indicated that the capital structure seen based on the large Debt to Equity Ratio (DER) has an effect on increasing the firm value. This is because if debt increases, the company has additional sources of funds that can improve operations so that the ability to gain profits will be greater. In contrast, the firm size (X3) has no significant and negative effect on the firm value. The results cannot be proven and considered. Companies with large sizes result in inefficient supervision of operational activities so it reduces the company value. A large company effect the different interest between the principal and agent, results the agency conflicts.

5.2 Recommendation

1. For further research who wants to conduct research related to firm value, they can use alonger period, larger samples, other company's sectors, or other calculation methods such as Tobin's Q method so that the research results will be more accurate and more varied.
2. For investors who will do the investment activities have to pay attention to the financial distress and capital structure. This variable is important because the results of the study are significantly positive on the firm value.
3. For companies have to calculate and analyze the financial distress of the company so that they can avoid the risk of bankruptcy. In addition, it is also necessary to pay attention to the components of the optimal capital structure so that the company has a healthy financial condition and can avoid bankruptcy.

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