

Company attributes and firm value: Evidence from companies listed on Jakarta Islamic index

Atributos y valor de empresa: Evidencia de las empresas que figuran en el *Jakarta Islamic index*

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ABSTRACT:

This study examines the effect of company attributes (i.e., dividend policy, capital structure, and ownership concentration) on firm values. The sample consists of fifty-six companies listed on Jakarta Islamic Index. SmartPLS program is used to analyze the data. The findings show that ownership concentration and profitability have a positive effect on firm value. In contrast, liquidity has a negative effect on capital structure. However, this study doesn't find any relationship between profitability and capital structure. Finally, capital structure mediates the relationship between profitability, liquidity, and firm value.

Keywords: Company Attributes, Capital structure, Firm value

RESUMEN:

Este estudio examina el efecto de los atributos de la empresa (es decir, la política de dividendos, la estructura de capital y la concentración de propiedad) en los valores de la empresa. La muestra consta de 56 empresas incluidas en el índice islámico de Yakarta. El programa SmartPLS se utiliza para analizar los datos. Los resultados muestran que la concentración de la propiedad y la rentabilidad tienen un efecto positivo en el valor de la empresa. En contraste, la liquidez tiene un efecto negativo en la estructura del capital. Sin embargo, este estudio no encuentra ninguna relación entre rentabilidad y estructura de capital. Finalmente, la estructura de capital media la relación entre rentabilidad, liquidez y valor de la empresa.

Palabras clave: atributos de la empresa, estructura de capital, valor de la empresa

1. Introduction

The main purpose of the company is not only to earn a profit but also to maximize the firm value. Firm value can be achieved by increasing stock prices to enhance the prosperity of the owner. Saona & San Martín (2018); Crisóstomo et al. (2011) explained that there are several company attributes i.e., dividend policy, capital structure, and

ownership concentration can affect firm value. Dividend policy and capital structure are complementary ways of controlling agency problems because they tend to influence manager incentives and impact on firm value (Saona & San Martín, 2018).

Saona & San Martín (2018) found that dividend policy has a positive effect on firm value. Highly dividend policy in the form of dividend payout can increase stock price and firm value of the companies. The finding of Anton (2016); Baker & Powell (2012); Hauser & Thornton (2017) is in line with the study of Saona & San Martín (2018). However, Dennis & Smith (2014) argued that the effect of dividend policy on firm value is negative. Creating an artificial dividend may decrease the firm value because it diverts funds from investment to the consumption of perquisites. Another study is conducted by Dennis & Smith (2014) which found that dividend policy has no effect on firm value.

Saona & San Martín (2018); Nababan (2016); La Rocca (2007) conduct a study related to capital structure revealed that capital structure has a positive effect on firm value. The increase in performance can be seen from the company's capital structure. Firm value can increase the high capital structure ratio. However, Vo & Ellis (2017) cannot support the effect of capital structure on firm value. Capital structure has a negative effect on firm value.

This study also considers the ownership structure as a factor that influences firm value. The previous study suggests that in developing countries such as Indonesia, the ownership structures are characterized by high concentrations. Saona & San Martín (2018); Crisóstomo et al. (2011) argued that the concentration of ownership is a significant driver of the firm value of the market. It reduces the intensity of financial constraints and therefore increases firm value. De Miguel, Pindado, and De La Torre (2004), Saona & Martin (2010); García-Meca & Sánchez-Ballesta (2011); Wang (2018) provided evidence that the concentration of ownership negatively affects firm value.

Saona & San Martín (2018) and Nababan (2016) showed that capital structure positively affects firm value. Capital structure is able to drive management to increase firm value. In contrast, Loncan (2014); Chen, Li-Ju, & Chen (2011) found that capital structure has a negative effect on firm value. Manurung et al. (2014) also proved that capital structure has no effect on firm value.

In terms of the relationship between profitability and firm value, Chen, Li-Ju, & Chen (2011); Crisóstomo, De Souza Freire, & De Vasconcellos (2011); Deswanto & Siregar (2018); Haryono & Iskandar (2015); Nuryaman (2015); Osazuwa & Che-Ahmad (2016); Purwanto & Agustin (2017) found that the higher profitability will increase the higher of firm value. However, Kodongo, Mokoaleli-Mokoteli, and Maina (2015) and Oktrima (2017) found that profitability has no effect on firm value.

Barclay et al. (2003) support the positive effect of the company's ability to fulfill short-term obligations to firm value. Firm value can increase with high liquidity ratio. However, Amihud & Mendelson (2008); Osazuwa & Che-Ahmad (2016) cannot support the effect of liquidity on firm value. The company's liquidity ratio is not considered by investors to invest because this ratio is considered only to cover the company's short-term liabilities with current assets.

This study adds an antecedent test of capital structure in the form of profitability and liquidity and sees its influence on firm value. It shows the capital structure mediates profitability and liquidity toward firm value. Profitability and liquidity have an influence on the capital structure with a negative direction as pecking order theory. The higher liquidity and profitability of the company indicates that there are an internal funding source and priority in the fulfillment of capital requirements rather than the use of debt.

This study extends the previous studies by developing the relationship between company attributes, capital structures and firm. This study also considers the profitability and liquidity variables in the model. As stated by Alfi & Safarzadeh (2016); Chen, Li-Ju, and Chen (2011), profitability and liquidity can affect firm value. Furthermore, they argued that capital structures can mediate the relationship between profitability and liquidity and firm value. Thus, the purpose of this study is to examine the effect of company attributes on firm value and to test profitability and liquidity as antecedents of capital

2. Literature Review

2.1. Sharia Enterprise Theory

Enterprise theory recognizes the existence of accountability from the company owners and stakeholders (Triyuwono, 2007). Enterprise theory is developed into sharia enterprise theory because of it more closely with the concept of sharia. Triyuwono (2007) revealed that the sharia enterprise theory includes God, human, and nature. This theory establishes God as the highest stakeholder. The definite consequence is the application of *sunnatullah* as the basis of sharia accounting construction. The second stakeholder is a human being that is divided into two groups, those who directly contribute to the company (direct stakeholders) and parties that do not contribute to the company (indirect stakeholders). The last stakeholder is nature. Nature is a party that contributes to the way the company like God and man. Companies can stand and exist physically because they stand on earth, producing raw materials available from nature, using energy, and so on. As revealed by Rahayu (2015) that registered companies in Jakarta Islamic Index (JII) have passed a series of processes and fulfill the same elements as other indexes, even paying attention to the illicit elements in the view of *Majelis Ulama Indonesia*.

2.2. Signaling Theory

Signaling theory states that company executives who have better information about their employer will be compelled to provide information open to prospective investors (Ross, 1977). In addition, this theory describes the company will always try to give a positive signal on the company's performance to external parties through the disclosure of information in the financial statements. This theory can be a reference to provide a positive signal that can be shown with the state of profitability, liquidity and dividend policy. The higher profitability, liquidity, and dividend policy are considered to be capable to provide a positive signal for investors to increase the company values.

2.3. Pecking Order Theory

Pecking order theory is the development of signaling theory. This theory is a funding structure that offers other alternatives to make funding decisions (Myers & Majluf, 1984). Pecking order theory explains that companies are advised to have policies to funding sources and to consider low cost and risk. This theory can be a reference to increase firm value because it assumes that the high profitability of the company will reduce the use of debt. Companies will use external funding if the internal is not sufficient (Brealey, Myers, & Allen, 2005).

2.4. Dividend Policy

Dividend policy is determined by agency costs arising from the separation of ownership and control (Jensen, 1986). Disbursements of cash to shareholders reduce the manager's ability to spend firm assets on perquisites and also increase the manager likelihood to face the discipline of capital markets. For measurements, it uses the payout ratio. The ratio is the proportion of dividend to each share with the profit earned. According to Saona & San Martín (2018), the use of this proxy is based on the payout ratio that provides an overview of how management shares profits to shareholders rather than keeping in retained earnings.

2.5. Capital Structure

Miller & Modigliani (1963) identify the irrelevance of capital structure and invariance of

the weighted average cost of capital to the proportion of debt and equity. In other words, internal and external financing are perfect substitutes (Bevan & Danbolt, 2002). Measurement of capital structure uses leverage (Hovakimian & Li, 2011). Chen and Zhao (2006) argue that leverage implies the cumulative use of held funds, debt, and equity, thereby disclosing the company's financial policies and potential impacts on firm value.

2.6. Ownership Concentration

Owing to their significant equity holdings, major shareholders typically have stronger incentives and power to discipline management and remedy the free rider problem associated with dispersed ownership (Heugens, van Essen, & van Oosterhout, 2009). Nevertheless, significant equity positions can obviously tempt to large shareholders to expropriate from minority investors by assuming control of the firm and depriving the latter of the returns due on their investments (Li & Qian, 2013). Ownership concentration is measured by majority ownership or institutional share ownership. It is appropriately used as a proxy for the average company in Indonesia that is dominated by the family and there is no separation between ownership and control (Arora & Sharma, 2016; Iqbal, Nawaz, & Ehsan, 2018; Noorlailie, 2018).

2.7. Profitability

Profitability is used as an indicator of the company's fundamental performance which represents management performance. Rating of earnings is an assessment of the condition and the ability earnings to support operations and capital (Rusydiana & Parisis, 2016). Return on assets (ROA) indicators as used by Chen, Li-Ju, and Chen (2011) to measure profitability.

2.8. Liquidity

The liquidity measures a company's ability to pay off its current liabilities (payable within one year) with its current assets such as cash, accounts receivable and inventories (Yeo, 2016). The higher ratio is better than the company's liquidity position. Relationship between liquidity and leverage can have two possible forms where more levered firms want to reduce the risk of financial distress (Loncan, 2014). Liquidity is measured with current ratio (Loncan, 2014; Yeo, 2016).

2.9. Firm Value

Firm value is the perception of the investor to the success of a company. It is reflected in the share price of the company. The increase of the share price shows the trust of the investors to the company. They are willing to pay more with aiming for a higher return. The firm value is the total assets owned. It consists of the market value of share and liabilities (Damodaran, 2002). The high stock price can provide a good signal to attract investors to determine investment decisions. The firm value in this study uses proxies of Crisóstomo et al. (2011); Saona & San Martín (2018) namely the ratio of market price to book value ratio.

3. Hypotheses development

3.1. Effect of Dividend Policy on Firm Value

Dividend payouts theoretically can be characterized as mechanisms capable for increasing firm value. Dividend policy serves as a disciplinary tool by means of high dividend payments to align managers' interests with investors and increase firm value (De Miguel et al. 2004). According to Crisóstomo et al. (2011), dividend payout policy can improve managerial oversight by entering creditors as supervisors. When the dividend payout is relatively low, the company is encouraged to get external funds from the debt, so the creditor takes the supervisory role with the loan funds by monitoring the manager's performance and increasing firm value. Saona & San Martín (2018); Anton

(2016); Baker & Powell (2012); Hauser & Thornton (2017) gained the empirical support of the positive effect of dividend policy on firm value. Therefore,

H1: Dividend policy has a positive effect on firm value.

3.2. Effect of Capital Structure on Firm Value

Capital structure becomes the emergence of company efficiency with the use of debt as a control mechanism by managers (Barclay et al., 2003). The occurrence of performance improvement can be seen in the company's capital structure. This is in accordance with the signaling theory where the capital structure can be a signal for investors to invest because the company is considered as a good performance to fund the capital structure. Saona & San Martín (2018) ; Nababan (2016); La Rocca (2007) show that there is a positive effect of capital structure on firm value. Thus,

H2: Capital structure has a positive effect on firm value.

3.3. Effect of Ownership Concentration on Firm Value

Saona & San Martín (2018) stated that ownership concentration can be used as an internal mechanism to discipline management. Share ownership by the largest shareholders can be used as an incentive to supervise as well as influence decision making for management. This cannot be done by shareholders if the ownership of shares in the company is very small (Saona & San Martín (2018). Crisóstomo et al. (2011) show that share ownership has a positive effect on firm value. Thus,

H3: Ownership concentration has a positive effect on firm value.

3.4. Effect of Profitability on Capital Structure

The ability of the company to earn a high profit means that the company has sufficient funds in the operationalization. The high level of profit is used as a return earning to meet operational funds. This is in accordance with pecking order theory where the return earning becomes the main alternative followed by debt and as the last option to issue shares in the acquisition of capital resources. Chen, Li-Ju, and Chen (2011) obtained that profitability has a negative effect on capital structure. Thus,

H4: Profitability has a negative effect on capital structure.

3.5. Effect of Profitability on Firm Value

The high profitability of the company shows the prospect of a good future. The high profitability performs the more profits that are distributed for shareholders. This is in accordance with signaling theory because of the high profitability can provide a signal for investors to invest. Nababan (2016); Crisóstomo et al. (2011); Deswanto & Siregar (2018); Haryono & Iskandar (2015); Nuryaman (2015); Osazuwa & Che-Ahmad (2016); Purwanto & Agustin (2017) empirically gain proof that profitability has a positive effect on firm value. Thus,

H5: Profitability has a positive effect on firm value.

3.6. Effect of Liquidity on Capital Structure

A high level of liquidity is considered to meet the company's operational needs with internal funds without having to rely on external funds. This is in line with the pecking order theory because of the increased liquidity will have enough excess assets and it can be used to finance the company's operations and reduce debt. Owino (2011) in their research proved that liquidity has a negative effect on capital structure. Thus,

H6: Liquidity has a negative effect on capital structure.

3.7. Effect of Liquidity on Firm Value

The decision to determine the number of cash reserves has become one of the significant factors in the financial literature (Alfi & Safarzadeh, 2016). In accordance with signaling theory, the high liquidity of the company will provide a signal and a positive response from the market to increase firm value. Barclay et al (2003); Marsha & Murtaqi (2017) show that liquidity has a positive effect on firm value. Thus,

H7: Liquidity positively affects firm value.

4. Research Methods

The population of this study is listed companies manufacturing in the JII of the period 2014-2017. This study refers to both qualitative and quantitative. This shows that JII's performance has improved quite well. The high investor response to the listed companies' shares is also due to the fact that JII shares have healthy capital structure, liquid and most investors think that JII has a lower financial risk and higher return potential. This study uses purposive sampling with criteria (1) companies consistently existing in JII of the period 2014-2017; (2) companies submit the financial statements in the rupiah currency; (3) companies have the required data; (4) companies have a positive profit in the period of 2014-2017. Data, therefore, is analyzed using structural equation modeling (SEM) with partial least square (PLS) method.

Table 1
Sample of the Study

Explanation	Total
Total companies entering in JII of the period 2015	30
Companies that are not registered consistently in the Jakarta Islamic Index in the period 2014-2017	13
Companies that are not presented in rupiah-denominated financial statements for the period 2014-2017	3
Number of research samples per years of the study period	14

5. Results and Discussion

Table 2 shows the descriptive statistics of the sample.

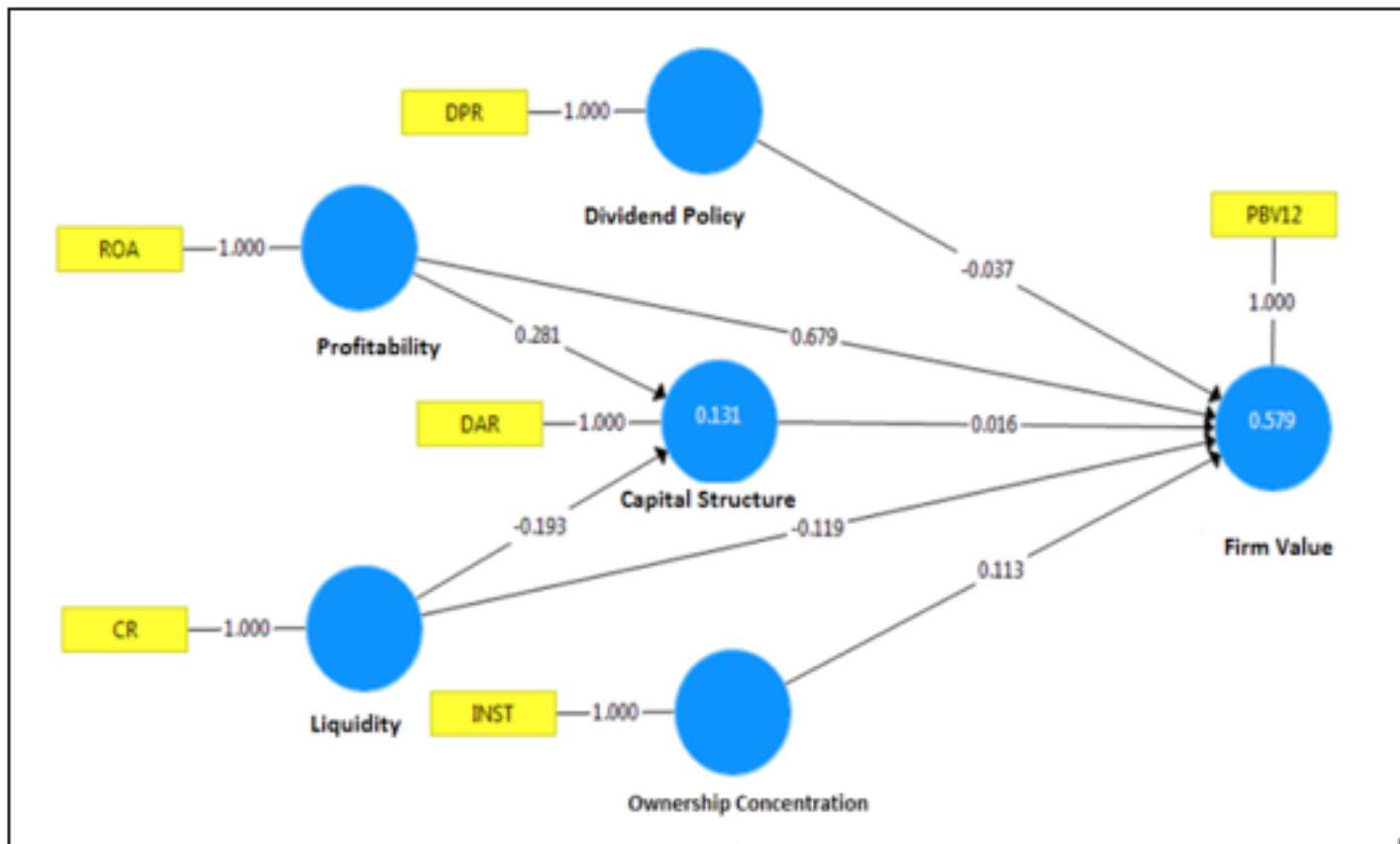
Table 2
Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Deviation
Dividend Policy	56	0.1002	0.7509	0.3608	0.1814
Capital Structure	56	0.1364	0.6931	0.4077	0.1649
Ownership Concentration	56	0.1788	0.8499	0.5834	0.1584
Profitability	56	0.0248	0.4018	0.1318	0.0843

Liquidity	56	0.4500	6.9133	2.2359	1.5972
Firm Value	56	1.02	58.48	6.0868	11.5151

Based on Table 2, it can be seen that dividend policy shows the average value of 0.3608. It means the average dividend compared to earnings per share of 36.08 percent. Capital structure means that the average debt to asset ratio is 40.77 percent. The concentration of ownership shows the average institutional share ownership of 58.34 percent. Profitability average is 13.18 percent of total assets. The average liquidity of current assets is 2.2359 times to the current debt. The average value of the company is 6.0868. It means that the stock price compared to the book value of shares is 6.08 times.

Figure 1
Full Model



From Figure 1, it can be seen that the outer loading shows each construct is quite high (greater than 0.5). It indicated 'valid and reliable'. The VIF value shows that there is no collinearity because the value is less than 5.

Table 3
R-Square (R2)

	R Square	R Square Adjusted
Firm Value	0.579	0.537
Capital Structure	0.131	0.098

From Table 3, it can be seen that firm value has R-Square better than capital structure (0.579 or to 57.9%). This means that firm value can be explained by the independent variables, i.e., dividend policy, capital structure, ownership concentration, profitability and liquidity of 57.9% while 42.1% is explained by other variables.

Table 4
Hypotheses Testing

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Hypotheses	Estimate	T-Statistic	ρ	Result
Dividend Policy à Firm Value	-0.037	0.377	0.353	Rejected
Capital Structure à Firm Value	0.016	0.107	0.107	Rejected
Ownership Concentration à Firm Value	0.113	1.514	0.065	Accepted
Profitability à Capital Structure	0.281	1.917	0.028	Rejected
Profitability à Firm Value	0.684	6.641	0.000	Accepted
Liquidity à Capital Structure	-0.193	1.640	0.051	Accepted
Liquidity à Firm Value	-0.122	1.371	0.085	Rejected

Notes: * $\rho < 0.05$.

5.1. Effect of Dividend Policy on Firm Value

Based on the results of the analysis in Table 4, it can be concluded that dividend policy has no effect on firm value. The dividend policy is deemed not to affect the welfare and prosperity of shareholders. Dividends distributed are considered not necessarily continuing to increase firm value. There may also be an external factor for investors who consider management to choose using retained earnings rather than dividend payments to make a profit. This result shows that the average company has a policy in dividend distribution which has a fixed value or not really increase every year, so the dividend policy does not give a significant effect on firm value. This finding is supported by Dennis & Smith (2014) that dividend policy has no effect on firm value.

5.2. Effect of Ownership Concentration on Firm Value

The positive effect of concentration of ownership on firm value is proved. Company governance through a concentration of ownership policy may affect the firm value since majority ownership is proven to influence management's decision-making to take into account the interests of shareholders. Management actions can accommodate the interests of shareholders by making institutional investors to increase share ownership and firm value. The results support the findings of Chabachib, Fitriana, Hersugondo, Pamungkas, & Udin (2019); Crisóstomo et al. (2011); Heugens et al. (2009).

5.3. Effect Profitability on Capital Structure

The result of the analysis shows that profitability affects capital structure. This result indicates if the higher profitability will increase capital structure. The result of this study is not consistent with pecking order theory because it assumes internal funding is preferred over funding from outside of the company. The result of this supports the finding of Andika, Prasetyo, & Fitria (2016).

5.4. Effect of Profitability on Firm Value

This study proves that profitability has a positive effect on firm value. This indicates that higher profitability will increase firm value. The result of this study also supports the signaling theory where the company will always try to give a positive signal to external parties about the performance. This is indicated by the high profitability can increase investment on future good prospects. The high demand for investment to invest capital can make the stock price will increase. This result supports the study of Chen, Li-Ju and

Chen (2011); Crisóstomo et al. (2011); Deswanto & Siregar (2018); Haryono & Iskandar (2015); Nuryaman (2015); Osazuwa & Che-Ahmad (2016); Purwanto & Agustin (2017).

5.5. Effect of Liquidity on Capital Structure

This study reveals that there is a negative effect of liquidity on capital structure. The result of this study supports the pecking order theory where the company selects funding sources from within rather than external sources. The high liquidity causes the company reducing its debt because it has substantial funds and can be used to finance operations. This result supports the studies of Owino (2011).

5.6. Effect of Liquidity on Firm Value

Based on the results of the analysis, liquidity affects firm value with negative direction. High liquidity companies actually lower the firm value. This finding is not in line with the signaling theory where a company has high liquidity to give a positive signal and increase firm value. The finding supports the results of Hersugondo, Pertiwi, & Udin (2019); Hersugondo & Udin (2019); Purwanto & Agustin (2017).

5.7. Effect of Profitability on Firm Value through Capital Structure

Table 5 shows the total indirect effect of profitability on firm value through capital structure.

Table 5
Indirect Effect of Profitability on Corporate Value through Capital Structure

Explanation	Indirect effect of profitability on firm value (A)	Direct effect of profitability on capital structure (B)	Indirect effect of capital structure on firm value (C)	Indirect effect (D) = A+(BXC)
Profitability à Capital Structure à Firm Value	0.684	0.287	0.016	$= 0.684 + (0.287 \times 0.016)$ $= 0.684 + 0.0045$ $= 0.6885$

The calculation in Table 5 proves that capital structure becomes the mediating variable of profitability and firm value. Indirect effect (0.6885) is greater than direct effect (0.684). It shows the high profitability of increasing firm value indirectly through capital structure. This result is supported by Chen, Li-Ju, and Chen (2011). This study provides direction of the importance of management to increase capital structure to mediate profitability and firm value.

5.8. Effect of Liquidity on Firm Value through Capital Structure

Table 6 presents the total indirect effect of liquidity on firm value through the capital structure.

Table 6
Indirect of Liquidity on Firm Value through Capital Structure

	Direct effect of liquidity on firm	Direct effect of liquidity on capital	Direct effect of capital structure	Indirect effect

Explanation	value (A)	structure (B)	on firm value (C)	(D) = A+(BXC)
Liquidity à Capital Structure à Firm Value	-0.122	-0.193	0.016	= -0.122 + (-0.193 x 0.016) = -0.122 - 0.003 = -0.125

Table 6 shows that capital structure becomes a mediating mediation in the relationship between liquidity and firm value. Comparison of direct effect (-0.122) is smaller than the indirect effect (-0.125). This result concludes that the high liquidity will increase the value of the company indirectly through capital structure. This indirect effect indicates that a liquid company will lower capital structure, which in turn will increase the investor's capital investment and firm value.

6. Conclusion

The results of the study conclude that concentration of ownership and profitability have a positive effect on firm value, and capital structure mediates the relationships between profitability and liquidity on firm value. This results approve the findings of Crisóstomo et al. (2011); Osazuwa & Che-Ahmad (2016); Owino (2011). This study has an implication on company attribute in the form of concentration of ownership which has a positive effect on firm value. Likewise, profitability also has a positive effect on firm value such as liquidity on capital structure. Management has a high commitment to the creation of profitability and liquidity to balance the optimum capital structure to increase firm value. In addition, management is also expected to maintain the proportion of ownership concentration in order to increase firm value.

This study has some limitations and suggestions for further research as follow:

The samples of this study only consist of fifty-six companies listed in JII 2015. It is more challenging for future research to expand the samples to generate the findings.

Firm value has a standard deviation of 11.5151 which higher than its mean value of 6.0868. This means that the indicator of firm value low of data accuracy. Future research should use other indicators such as Tobin's q. It is expected that Tobin's q as the proxy of firm value can provide a piece of good information and accuracy.

R-square value of capital structure is too small (0.098). This means that only 9.8% of the variable is described as an independent variable, 90.2% is described other variables that out the study. Future research should add company size as a moderating variable with the consideration of the negative effect of profitability on capital structure (Chen, Li-ju, and Chen, 2011).

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