

THE INFLUENCE OF LIQUIDITY AND COMPANY SIZE
ON THE VALUE OF AUTOMOTIVE SUBSECTOR COMPANIES
IN THE INDONESIAN STOCK EXCHANGE

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Abstract

The valuation of companies holds a pivotal role in determining the wealth of shareholders. In the context of the automotive subsector within the Indonesian capital market, understanding the factors that influence company value is of significant interest for investors and stakeholders alike. Two key variables under scrutiny in this research are liquidity and firm size. Liquidity denotes the ability of assets to be readily converted into cash without causing substantial price disruptions, while firm size relates to the scale and scope of a company's operations. This study seeks to investigate the impact of liquidity and firm size on the company value of firms listed on the Indonesia Stock Exchange, specifically within the automotive subsector. The data utilized in this research is quantitative, and the literature review technique is employed to gather data and document research outcomes. The research findings indicate that liquidity has a positive and significant impact on the company value of firms listed on the Indonesia Stock Exchange, particularly in the automotive subsector. On the other hand, firm size also has a positive effect on the company value in the automotive subsector in the Indonesian stock market, but it is not statistically significant.

Keywords: Company Value, Firm Size, Liquidity

1. INTRODUCTION

Rapid development is being experienced in the automotive industry, especially in Indonesia. The production of increasingly sophisticated products to meet consumer needs has been driven by technological advancements. Automotive companies are making efforts to keep up with this technological evolution, but these endeavors are not without the capital costs required for product development and promotion. The enhancement of automotive companies' performance is crucial for effective competition and the attainment of sustainable profits. In this context, the role of a company's value is critical. A high company value positively impacts shareholders' well-being. By increasing the company's value, profitable investment returns can be achieved by shareholders. (Pasaribu & Sulasmiyati, 2016) assert that the value of a company can be gauged through the movement of its stock prices in the stock market. An increase in stock prices indicates positive growth in the company's value.

Liquidity represents a performance measure demonstrating a company's capacity to meet its short-term financial obligations, which require immediate payment, such as financial obligations due within a year (Sitanggang, 2014). A company's enhanced liquidity enhances its standing in the eyes of creditors, as it is perceived to be capable of promptly fulfilling its obligations.

The attainment of liquidity levels can lead to a potential decrease in previously owned earnings due to the accumulation of unused or surplus funds, which hinders the distribution of credit. A study conducted by Halim (2019) with the topic "Impact of Liquidity Ratio, Assets, and Profitability on the Company's Value in the automotive subsector at the Indonesia Stock Exchange (BEI) during the period 2014-2016" supports the conduct of this research, showing that the company's value can be influenced by liquidity ratios in a positive direction. On the other hand, another study with contrasting results, conducted by (Lumoly et al., 2018) titled "Impact of Liquidity, Company Size, and Profitability on the Value of Metal and Similar Companies Listed on the BEI," suggests that the company's value is not influenced in a positive direction by liquidity.

The article with the topic "Impact of Company Size, Leverage, and Profitability on the Goodwill of Food and Beverage Companies in the Indonesia Stock Exchange (BEI)," conducted by (Pratama & Wiksuana, 2016), states that the exogenous factor of company size has a positive impact on the company's value. This explains that the relationship among food and beverage companies on the BEI during the period 2011-2018 demonstrates that larger company size will result in an increase in the value of a business entity. This is different from the findings presented by (Lumoly et al., 2018), which explain that the company size does not have any positive or negative relationship with the company's value.

The valuation of a company is of utmost importance as it directly affects the wealth of its shareholders. Understanding the factors that impact company value is crucial for investors and stakeholders. In this context, this research focuses on the automotive subsector within the Indonesian capital market. Specifically, it investigates the influence of liquidity and firm size on the company value of firms listed on the Indonesia Stock Exchange. Liquidity refers to the ease with which assets can be converted into cash without causing significant price fluctuations, while firm size denotes the scale and magnitude of a company's operations. By examining these variables, the study aims to shed light on the dynamics of company valuation in the automotive subsector of the Indonesian stock market

2. RESEARCH METHODS

In this study, numerical data, particularly quantitative data, were employed. The data source consisted of secondary data from the Indonesia Stock Exchange, which included information about automotive companies listed on the exchange. Data collection methods involved library research and document research, wherein financial reports from various libraries were retrieved and compiled. The research population comprised 13 companies in the automotive subsector that were listed on the Indonesia Stock Exchange from 2016 to 2018. Saturated sampling was used as the sampling method, aiming to include all characteristics of the automotive subsector business population. As a result, all companies meeting these criteria were included in the research population.

3. RESULTS AND DISCUSSION

3.1. Results

3.1.1. Classic Assumption Tests

The following are the results of classic assumption tests, which involve tests for normality, multicollinearity, autocorrelation, and heteroskedasticity:

1) Normality Test

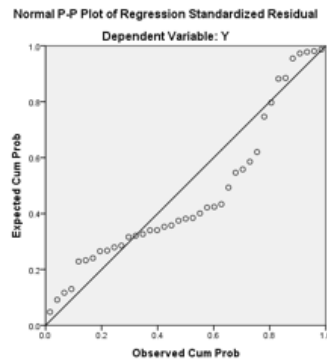


Figure 1. Normality Test Result

Source: The data was processed using IBM SPSS Version 23

The data indicates and follows a normal distribution as the points are evenly scattered along the diagonal line on the graph based on the results of calculations and analysis in Figure 1.

2) Multicollinearity Test

Table 1. Multicollinearity Test Result

Model		Unstandardized Coefficients		Collinearity Statistics	
		B	Std. Error	Tolerance	VIF
	X1	.003	.001	.953	1.049
	LNX2	.059	.104	.953	1.049

Source: The data was processed using IBM SPSS Version 23

The results from Table 1 indicate that the variance inflation factor (VIF) for the liquidity variable is 1.049 (<10), and the variance inflation factor (VIF) for the company size variable is also 1.049 (<10). Thus, it can be inferred that there is no evidence of multicollinearity problems in this analytical model.

3) Autocorrelation Test

Table 2. Autocorrelation Test Result

Model	R	R Square	Adjusted R Square	Durbin-Watson
1	.388 ^a	.150	.103	.825

Source: Data was processed using IBM SPSS Version 23.0

From the information provided in Table 2, we obtained a Durbin-Watson (DW) value of 0.825, falling within the range of -2 to +2. Hence, we can conclude that the regression model is not affected by autocorrelation or shows no signs of autocorrelation.

4) Heteroscedasticity Test

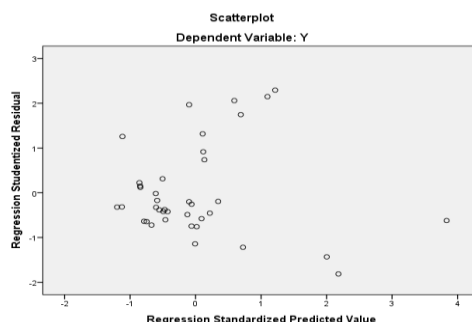


Figure 2. Heteroscedasticity Test Result

Source: Data processed using IBM SPSS Version 23.0

Data analysis from the scatterplot above, Heteroscedasticity does not occur as the diagram illustrates that the data distribution is not regular and the depicted pattern lacks specific clarity.

3.1.2. Multiple Linear Regression

Table 3. Multiple Linear Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.267	1.684		-.158	.875
	X1 (Liquidity CR)	.003	.001	.397	2.525	.016
	LN2(Firm Size LN asset)	.059	.104	.089	.568	.573

Source: Data processed using IBM SPSS Version 23.0

The coefficient table from IBM SPSS version 23 reveals a multiple linear regression equation represented as $Y = -0.267 + 0.003X_1 + 0.059X_2$. This implies that the constant value of -0.267 indicates a negative company value when not influenced by the exogenous factors of liquidity and company size.

The exogenous factor of liquidity has a positive effect on the company's value in the automotive subsector of the Indonesia Stock Exchange, as indicated by the regression coefficient value of 0.003. This implies that the company's value will experience a positive change or increase when liquidity factor also increases.

The regression results for the company size coefficient (X_2) show a positive impact on the endogenous variable, which is the company's value, with a coefficient value of

0.059. This means that the company's value will increase as the company size also increases.

3.1.3. Partial Test (T-Test)

Table 4. T-Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.267	1.684		-.158	.875
X1 CR (Liquidity)	.003	.001	.397	2.525	.016
X2 Ln Asset (Firm Size)	.059	.104	.089	.568	.573

Source: Data processed using IBM SPSS Version 23.0

Based on the analysis, it can be explained that the value of companies in the automotive subsector on the Indonesia Stock Exchange is influenced by liquidity and company size as follows:

The direction of the relationship and the influence of liquidity factor on the business entity's value is the regression coefficient for liquidity is 0.003, with a significance level of 0.016. These results indicate a positive and significant relationship between company value and liquidity in the automotive subsector on the Indonesia Stock Exchange. In other words, an increase in liquidity contributes to an increase in company value.

The direction of the relationship and the influence of the liquidity factor on the business entity's value suggest that the exogenous factor of company size has a significant and positive impact on the endogenous variable, which is the business entity's value. Based on these results, the alternative hypothesis stating that company size has a positive and significant effect on the business entity's value in the automotive subsector at the Indonesia Stock Exchange is not supported.

However, it is important to note that the positive coefficient value indicates a positive relationship between company size and the business entity's value, although it is not statistically significant.

3.1.4. Coefficient Determination

Table 5. Coefficient Determination Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.388 ^a	.150	.103	1.065	.825

Source: Data processed using IBM SPSS Version 23.0

The coefficient of determination from the analysis results indicates that 15% of the correlation relationship between exogenous and endogenous factors in this study, or in other words, a weak relationship between liquidity and company size towards the business entity's value. The remaining 85% is influenced by other exogenous factors that were not investigated in this research.

3.2. Discussion

The investigation regarding the effects of exogenous factors, liquidity, and business size on the endogenous factor, business entity value, in the automotive subsector on the Indonesia Stock Exchange reveals a positive relationship indicated by liquidity and business value. In other words, liquidity, measured through the current ratio, reflects the capability of the business entity to meet short-term obligations, contributing to an increase in the business entity's value. In simpler terms, an increase in liquidity contributes to a rise in the company's value, while a decrease in liquidity has the opposite effect. Some studies suggest that liquidity has no significant effect on firm value (Kurnia & Pardistya, 2021), while others indicate that liquidity has a positive effect on company value (Amar et al., 2021).

The positive correlation between liquidity and company value has significant implications, as liquidity is believed to enhance stock prices and overall company value. Additionally, investor confidence in a company's performance also plays a role in shaping the company's image in the eyes of investors.

On the other hand, company size also positively affects company value, although this effect is not statistically significant. This means that company value tends to increase with the growth of the company's size, but this relationship lacks sufficient statistical strength to be considered scientifically. Company size was measured using the natural logarithm of total or company assets. Larger company size can influence investor perceptions and confidence when investing in a company. However, in the context of this study, company size does not significantly impact company value.

The impact of liquidity on the company value of firms is not consistent across studies. While some studies have found a negative effect of liquidity on firm value (Firdaus & Tanjung, 2022), others have found no significant effect (Khan et al., 2022). In conclusion, this study clarifies that there is a significant positive correlation between the exogenous factor of liquidity and the endogenous factor of business entity value in the automotive subsector of the Indonesia Stock Exchange (BEI). On the other hand, business size does not have a significant relationship or impact on the business entity value within the scope of this research.

4. CONCLUSION

The study's findings and analyses provide an overall understanding of the impact of liquidity and business size on the value of business entities in the automotive subsector as follows: Liquidity has a positive and significant effect on the value of companies in the automotive subsector of the Indonesia Stock Exchange. This indicates that an increase in company liquidity in the automotive subsector contributes positively and significantly to the rise in company value.

On the other hand, company size positively influences the value of companies in the automotive sector within the Indonesian capital market. However, its effect is not statistically significant in the context of this study, suggesting that while larger company size is generally associated with higher company value, this difference lacks sufficient statistical significance in this research.

In conclusion, the study highlights that liquidity in automotive companies within the Indonesian capital market has a more substantial influence on company value compared to company size. Nevertheless, company size does play a role in explaining fluctuations in company value, although without sufficient statistical significance in the scope of this research.

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