Research.

Factors Affecting Firm Value in the Building Construction Sub-Sector Listed on the Indonesia Stock Exchange

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Abstract. *This study aims to determine the effect of liquidity, solvency, activity, and profitability on firm value. The research design is causal. The population in this study comprises companies in the building construction sub-sector listed on the Indonesia Stock Exchange during 2019–2023. The sample was selected using non-probability sampling with purposive sampling method, resulting in 8 companies. The data analysis method used in this study is panel data regression analysis with the help of E-Views 13 to determine the significance level between the dependent and independent variables. The results of this study indicate that liquidity has no effect on firm value, solvency has a positive effect on firm value, activity has no effect on firm value, and profitability has a positive effect on firm value.*

***Key Words*:** *Activity, Liquidity, Firm Value, Profitability, Solvency.*

INTRODUCTION

Background

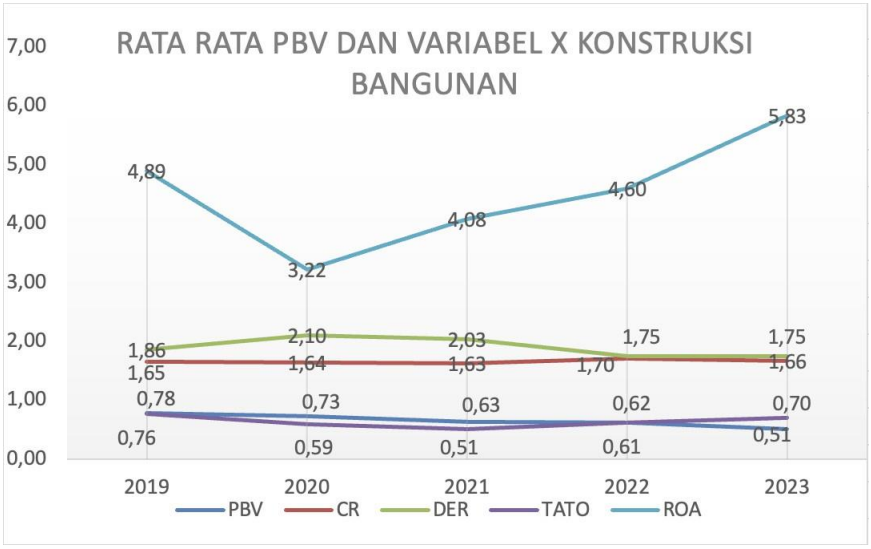
As a developing country, Indonesia has shown significant economic transformation. In 2023, economic growth reached 5.05% (year-on-year), driven by the building construction sector, which played a key role in infrastructure development, job creation, and enhancing national competitiveness. According to the Coordinating Minister for Economic Affairs, Airlangga Hartarto, this sector has been a primary driver of post-pandemic economic recovery. After plummeting to 2.07% in 2020 due to COVID-19, the building construction sub-sector recorded an annual GDP growth of 7.68%. These data indicate that the construction sector has contributed substantially to accelerating national economic recovery. Moreover, the performance of this sub-sector reflects investor confidence in Indonesia's long-term development prospects. Overall, Indonesia's economic development in that year showed a positive trend and was one of the best achievements compared to the same period in previous years.

In 2019, the sector recorded growth of 5.79%; however, the following year, 2020, saw a significant downturn due to the pandemic's impact, before gradually rebounding and reaching its peak at 7.68% in 2023. These fluctuations demonstrate the strategic role of the construction sector in the national economy, particularly as an indicator of investor confidence and a crucial reference for investment decisions in Indonesia. Nevertheless, despite this sector's solid growth and status as the third-largest contributor to GDP according to Statistics Indonesia (BPS), the firm value of building construction entities declined between 2019 and 2023. Despite the fact that the building construction entities experienced positive growth and became the third-largest contributor to the Gross Domestic Product according to Statistics Indonesia (BPS), their firm value actually declined from 2019 to 2023.

Source: Kominfo (2024)

Picture 1: Contribution of Building Construction to GDP from 2019-2023

Between 2019 and 2023, the firm value, represented by the Price to Book Value (PBV) in the building construction sub-sector listed on the IDX, experienced a decline, as shown in Figure 2. The average PBV in 2019 was 0.87; in 2020, it decreased to 0.73; and in the following year, it dropped again to 0.63. The decline continued through 2022, reaching its lowest point in 2023 at 0.51. This presents an intriguing phenomenon because, although the construction industry contributed more significantly to the national economy, the firm value—reflected by PBV—was corrected downward. This phenomenon warrants further investigation to identify the internal financial components of firms that directly affect entity value, even when the sector is growing at the macro level.



Source: Processed by researcher

Picture 2: Average PBV and Variable X of Building Construction Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2019-2023

This issue raises questions about the factors influencing firm value in this sub-sector. Several previous studies have examined the impact of financial ratios on firm value, but the findings have been varied and inconsistent. Therefore, further investigation is needed to determine which internal financial variables significantly affect firm value, especially in the context of the building construction sub-sector. This study aims to analyze the effect of financial ratios including liquidity (Current Ratio), solvency (Debt to Equity Ratio), activity (Total Asset Turnover), and profitability (Return on Assets) on firm value, as measured by PBV. The approach used is causal quantitative, with panel data regression

analysis techniques and the aid of E-Views 13 software. Through this research, it is expected to obtain new insights regarding relevant financial indicators for company management and investors in making strategic decisions and to enrich academic literature in the field of financial management.

Research Question

Referring to the studies mentioned above, the researcher has formulated the following research questions:

1. Does the Current Ratio (CR) affect the firm value in the Building Construction sub-sector listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023?
2. Does the Debt to Equity Ratio (DER) affect the firm value in the Building Construction sub-sector listed on the IDX from 2019 to 2023?
3. Does the Total Asset Turnover (TATO) affect the firm value in the Building Construction sub-sector listed on the IDX from 2019 to 2023?
4. Does the Return on Assets (ROA) affect the firm value in the Building Construction sub-sector listed on the IDX from 2019 to 2023?

LITERATURE REVIEW

A. Firm Value

Firm value reflects performance and growth prospects as represented by the company's share price in the market. The higher the share price, the higher the firm value, as it represents investor confidence (Wati, 2022). One indicator used is the Price to Book Value (PBV), the ratio between the market price and the book value per share, indicating whether a stock is fairly valued, undervalued, or overvalued. According to Sugosha & Artini (2020), PBV not only reflects financial conditions but also serves as a reference for investors in evaluating potential returns. PBV was selected for this study because it is stable, consistent with accounting standards, and objectively represents the intrinsic value of a company in the context of the Indonesian capital market.

B. Signaling Theory

Signaling theory was first introduced by Spence (1974), explaining that parties with information (management) can convey signals to external parties (investors) to reflect the condition and prospects of a company. These signals may include financial information such as profitability, liquidity, solvency, and operational efficiency, all of which influence investor perception of firm value (Brigham & Gapenski, 1996; Livia et al., 2022). Under conditions of information asymmetry, strong and positive signals will increase investor confidence, thereby increasing firm value. Conversely, weak or negative signals can reduce investor interest and firm value. Thus, the delivery of accurate and consistent information is crucial in shaping market perceptions.

C. Trade Off Theory

The trade-off theory, developed by Baxter (1967), explains that companies establish their capital structure by balancing the benefits of using debt such as tax savings (tax shield) and the risks incurred, such as bankruptcy and agency costs. The balance point between these benefits and costs is known as the optimal capital structure. This theory suggests that moderate use of debt can increase firm value, but excessive debt can reduce it. External factors such as interest rates and tax policies also influence corporate financing decisions (Amro & Asyik, 2021). Therefore, an optimally managed solvency level is key to supporting increased firm value.

D. Financial Ratios

In essence, there are many types of financial ratios, and they can be tailored to the needs of the analyst. Based on the objectives of this study, the ratios are categorized into four types: liquidity ratio, solvency ratio, activity ratio, and profitability ratio, each described

as follows. Liquidity reflects a company's ability to meet its short-term obligations on time, indicating its cash position and current assets. One commonly used indicator is the Current Ratio (CR), which is the ratio of current assets to short-term liabilities. CR is used to assess how well a company can settle its short-term obligations using current assets. This ratio is also essential for short-term financial planning. The higher the CR, the better the company's liquidity; conversely, a low CR indicates liquidity problems. Generally, a CR of around 200% is considered ideal, reflecting healthy financial performance.

Solvency shows a company's ability to meet all its financial obligations, both short-term and long-term. A commonly used indicator to measure solvency is the Debt to Equity Ratio (DER), which compares total liabilities to shareholders' equity. DER shows the extent to which a company finances its assets through debt versus equity. This ratio is critical in assessing financial risk and the company's ability to maintain profit stability and meet interest obligations. An ideal DER generally falls between 1 and 1.5. Ratios exceeding this range may indicate high dependence on debt and potentially lower financial performance.

Activity ratios are used to measure a company's efficiency in utilizing its assets to generate revenue. One common ratio is Total Asset Turnover (TATO), which compares net sales to the average total assets over a given period. TATO reflects how effectively a company manages its assets to support operations and generate income. A high ratio indicates good asset utilization efficiency, while a low ratio suggests underutilized assets. The ideal TATO value typically ranges between 1 and 1.5.

Profitability describes a company's ability to generate profits from its available resources. This ratio also indicates the company's efficiency in managing its assets to generate income over a specific period. A commonly used profitability indicator is Return on Assets (ROA), which compares net income to total assets. ROA measures how much profit is generated from each unit of asset used. The higher the ROA, the more efficient the company is in generating returns from its assets. A good ROA is generally above 5.98%, indicating sound financial performance.

RESEARCH METHODS

This study uses a quantitative method with a causal design aimed at testing hypotheses regarding the influence of several independent variables on the dependent variable. The independent variables in this study include liquidity, solvency, activity, and profitability, while the dependent variable is firm value, measured using Price to Book Value (PBV). The research was conducted from March 2024 to July 2025. The population consists of 29 companies in the building construction sub-sector listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. The sampling technique used was purposive sampling, which involves selecting samples based on specific criteria. Based on this technique, 8 companies that met the criteria were selected as research samples. Data were collected through documentation methods, by accessing secondary data in the form of annual financial reports of companies in the building construction sub-sector, available on each company's official website and the IDX page in 2024 (*www.idx.co.id*). Data analysis was performed using panel data regression with the assistance of EViews 13 software. The analysis includes descriptive statistics, panel regression model selection, model feasibility testing, panel regression analysis, and hypothesis testing.

RESULT AND DISCUSSION

Descriptive Statistical Analysis

Descriptive analysis is used to describe the data characteristics of the variables CR, DER, TATO, ROA, and PBV. The results show the mean, minimum, maximum, and standard deviation values to provide an initial overview of the data distribution and trends before conducting panel regression analysis.

Based on Table 1, the number of observations in this study is 40 data points, derived from 8 building construction companies over the 2019–2023 period. The data include the dependent variable, which is firm value (PBV), and independent variables comprising liquidity (Current Ratio), solvency (Debt to Equity Ratio), activity (Total Asset

Turnover), and profitability (Return on Asset).

Table 1 Descriptive Statistics Test Results

	PBV	CR	DER	TATO	ROA
Mean	0.652750	1.653500	1.896123	0.632000	4.525469
Median	0.675000	1.395000	1.531889	0.625000	3.053203
Miximum	1.520000	3.330000	6.114953	1.270000	24.22537
Minimum	0.090000	1.000000	0.310203	0.280000	0.062222
Std. Dev	0.361649	0.664667	1.488574	0.266537	4.726971
Observation	40	40	40	40	40

Source: Data processed using Eviews 13, 2025

Model Selection Test Lagrange Multiplier Test

Tabel 2 Hasil Uji Lagrange Multiplier

	Cross-Section	Test Hypothesis Time	Both
Breusch-Pagan	12.95860	0.780234	13.73883
	(0.0003)	(0.3771)	(0.0002)
Honda	3.599805	0.883309	3.170040
	(0.0002)	(0.1885)	(0.0008)
King- Wu	3.599805	0.883309	2.875401
	(0.0002)	(0.1885)	(0.0020)
Standardized Honda	5.657461	1.163105	1.409218
	(0.0000)	(0.1224)	(0.0794)
Standardized King-Wu	5.657461	1.163105	1.032337
	(0.0000)	(0.1224)	(0.1510)
Gourieroux, *et al*.	--	--	13.73883
			(0.0004)

Source: Data processed using Eviews 13, 2025

Based on the LM test results in Table 2, the Breusch-Pagan probability value is 0.0003 < 0.05, indicating that H_0 is rejected, and the appropriate model is the Random Effect Model.

Panel Data Regression Analysis

Random Effect Model

Tabel 3 Panel Data Regression Result Model Random Effect

Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	-0.032148	0.436327	-0.073680	0.9433
CR	0.052426	0.173531	0.302112	0.7713
DER	0.105048	0.027535	3.815108	0.0066
TATO	0.321685	0.344588	0.933534	0.3816
ROA	0. 043257	0.006964	6.211164	0.0004

Source: Data processed using Eviews 13, 2025

From the REM results in Table 3 above, the regression equation can be written as:
PL = -0.032148 + 0.052426CR + 0.105048DER + 0.321685TATO + 0.043257ROA

Model Feasibility Test

F-Test (Model Accuracy Test*)*

Tabel 4 F-Test Result

F-statistic	5.502683
Prob(F-statistic)	0.001519

Source: Data processed using Eviews, 2025

Based on Table 4, the F-statistic probability value is 0.001519, which is less than the 0.05 significance threshold. This indicates that the regression model is statistically significant and appropriate for further investigation.

Coefficient of Determination Test (R^2)

Tabel 5. Determination Test R^2 Result

R-squared	0.386081
Adjusted R-squared	0.315918

Source: Data processed using Eviews 13, 2025

Table 5 shows the adjusted R^2 value of 0.316, which means that CR, DER, TATO, and ROA explain 31.6% of the variation in PBV in the building construction sub-sector companies listed on the IDX. The remaining 68.4% is influenced by other factors outside the research model.

Hypothesis Testing
t-Test (Partial Test)

Tabel 6. t-Test Result

Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	-0.032148	0.436327	-0.073680	0.9433
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ROA	0. 043257	0.006964	6.211164	0.0004

Source: Data processed using Eviews, 2025

The t-test results for the CR variable show a t-value of 0.3021 < t-table 2.0244 and significance 0.7713 > 0.05, indicating CR does not significantly affect PBV. Thus, H_0 is accepted and Ha is rejected.The DER variable shows a t-value of 3.8151 > t-table 2.0244 and significance 0.0066 < 0.05, indicating DER has a significant positive effect on PBV, in line with the theory that capital structure affects firm value. The TATO variable shows a t-value of 0.9335 < t-table 2.0244 and significance 0.1588 > 0.05, meaning TATO does not significantly affect firm value—contrary to the initial theory. The ROA variable shows a t-value of 6.2112 > t-table 2.0244 and significance 0.0004 < 0.05, indicating ROA has a significant positive effect on firm value, supporting the theory that profitability increases firm value.

CONCLUSIONS AND SUGGESTIONS

This study investigates the impact of liquidity, solvency, activity, and profitability on the firm value of building construction sub-sector companies listed on the IDX from 2019 to 2023. The analysis shows that companies evaluated using the Current Ratio experienced a decline, and CR does not significantly influence firm value in the sub-sector. On the other hand, the DER variable showed an increase in the proportion of liabilities to equity, which significantly affected firm value. Activity, measured by Total Asset Turnover, did not significantly impact firm value, possibly due to declining asset utilization efficiency. Profitability, measured by ROA, improved, and significantly influenced firm value, reflecting companies' ability to generate profits from their assets.

1. Managerial Implications:
Companies in the construction sub-sector are advised to prioritize managerial policies that enhance profitability (e.g., ROA, ROE, and NPM), as profitability has a proven positive effect on firm value. The use of Building Information Modeling (BIM) and digital project management technologies can support more effective planning and cost control. Operational efficiency should also be improved by reducing waste and optimizing work systems to increase net profit margins.Capital structure management must balance debt and equity to control risk while benefiting from the tax shield. Enhancing the quality and transparency of financial reports is crucial as a positive

signal to investors in line with Signaling Theory. Project and income diversification are also important to ensure cash flow stability and long-term competitiveness.

2. Investor Implications:
Investors are advised to use profitability indicators—such as ROA, ROE, and NPM—as the main basis for investment decisions. Firm value reflects financial performance, growth prospects, and long-term profitability. High profitability signals effective management and potential returns, while minimizing risks. Therefore, investors should go beyond market value analysis and consider profitability ratios as part of fundamental evaluations before investing in the construction sector.

3. Suggestions for Future Research:
Future researchers should expand the sample size and extend the research period to enhance statistical power and the validity of findings. A broader data scope and longer timeframe will allow for better analysis of variable dynamics and more robust generalizations across listed companies.

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