Could Fixed Asset Revaluation Encourage Investment? Study case in Indonesia

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ABSTRACT
After the COVID-19 Global Pandemic, most firms in Indonesia required a significant enough money injection to improve their value and encourage investors to make investments. The research seeks to assess which determinants are most relevant and significant in promoting the value of the company. This study examined 288 samples with three independent variables: liquidity via the quick ratio indicator (QR), ownership structure via the majority ownership indicator, and corporate size via the total asset natural logarithm indicator. Structural Equation modelling is utilized during the analysis stage to determine the strength of the association between independent and dependent variables. The results revealed that liquidity and the size of the firm have an impact on the increase in the company’s value through asset revaluation; however, ownership structure has no impact. The research suggests that companies listed at the EIB should pay special attention to the variables of investment opportunity and size if they want to increase their investments in the future.

Keywords: Fixed Asset Revaluation, Company’s Value, Investment Opportunity, Indonesia

Introduction
In order to sustain their business over the long run, companies are continuously looking for ways to raise their value. Business competition in an era of rapidly expanding globalization necessitates that companies continue to enhance their performance through investments that offer the most lucrative returns, optimal funding, information transparency, and increased supervision and control. Furthermore, to enhance their performance, companies need to be able to meet all...
corporate obligations and always strive to grow the company.

Through an increase in stock price, maximizing a company's value may benefit shareholders (Bebchuk et al., 2022; Komara et al., 2020; Triani & Tarmidi, 2019). Cornell and Shapiro (2021) claim that a high stock price denotes a high corporate value. The impression of a firm made by investors, which is frequently correlated with the stock price, determines its worth. The maximization of a company's wealth or value is said to be its main goal, in accordance with the theory of business (Battilana et al., 2022).

The ratio of debt to assets and equity would increase as a result of asset revaluation (Evi, 2019; Solikhah et al., 2020). However, asset revaluations are still carried out to send a message to investors (Bae et al., 2019; Penman, 2021). Many companies assume that the revaluation of a fixed asset will have a loss effect and only carry out accounting policies to record fair value on their financial statements. Nevertheless, this should still be done to give a positive indication to investors.

The research is motivated by the low corporate willingness to carry out asset revaluation. From 2015 to 2022, the growth of businesses that underwent asset revaluation and were listed on the Indonesian Stock Exchange remained extremely low compared to the number of businesses registered and conducting asset revaluations from 2015 to 2022, shown in Table 1.

Table 1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Companies</th>
<th>Number of Companies that Revalued Assets</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>523</td>
<td>28</td>
<td>5.35</td>
</tr>
<tr>
<td>2016</td>
<td>531</td>
<td>31</td>
<td>5.84</td>
</tr>
<tr>
<td>2017</td>
<td>542</td>
<td>27</td>
<td>4.98</td>
</tr>
<tr>
<td>2018</td>
<td>544</td>
<td>32</td>
<td>5.88</td>
</tr>
<tr>
<td>2019</td>
<td>598</td>
<td>20</td>
<td>3.34</td>
</tr>
<tr>
<td>2020</td>
<td>706</td>
<td>50</td>
<td>7.08</td>
</tr>
<tr>
<td>2021</td>
<td>744</td>
<td>50</td>
<td>6.72</td>
</tr>
</tbody>
</table>

Source: Compiled from various sources.

As a result, in 2015, the government released a V-tier economic policy package, including fixed asset revaluation initiatives. This is due to the fact that many organizations have yet to revalue their assets, although revaluing assets is regarded as vital to improving the company's performance (KEMENKOPMK, 2015). The objective of this research is to examine the influence of asset revaluation on enhancing investor perceptions of making investments by utilizing proxy firm value elements such as ownership structure, liquidity, and company size. The study is expected to contribute to literacy development as well as forward-thinking research references, particularly on the issue of asset revaluation and its role as a variable that modifies the value of the company. Furthermore, the findings of this study may be helpful as a recommendation for the development of asset revaluation policies by the government as well as a major reference for businesses, particularly those that have not yet performed asset revaluations.
Literature review

In the theory of the firm, the company's mission is to maximize the wealth or value of the company (Grant, 1999). According to Hirdinis (2019), one reflection of the increase in corporate value can be seen in the increase in stock prices. There are several methods used to analyze company value, including Price Earning Ratio (PER), Price To Book Value (PBV), and Tobin's Q (Kadim et al., 2020; Marc et al., 2022; Suhendry et al., 2021). Firm value is empirically affected by several determining factors, including company size and profitability (Gharaibeh & Qader, 2017; Kadim & Sunardi, 2019; Kluiters et al., 2023). Companies with large total assets show good cash flow management and promise prospects, thus triggering investors to increase demand for shares (Gharaibeh & Qader, 2017; Hirdinis, 2019; Widyasti & Putri, 2021).

Fixed asset revaluation is a review of the company's fixed assets due to changes in market value (Bae et al., 2019; Evi, 2019; Grant, 1999). Asset revaluation is still thought to be beneficial for the firm's external side since, in addition to encouraging higher company performance, it affects earnings as well as the price of corporate shares. (Gharaibeh & Qader, 2017; Kadim et al., 2020). However, the revaluation of assets can also result in a lower value for the company (Evi, 2019; Solikhah et al., 2020). Several factors influencing the asset revaluation decision were discovered, including the desire to exhibit the correct value of the capital return rate used (Widyasti & Putri, 2021), increased borrowing capacity, bonus stock issuance (Gharaibeh & Qader, 2017), decreases in operational cash flows, growth prospects, potential breaches of debt agreements, and liquidity (Bae et al., 2019; Cornell & Shapiro, 2021).

Grant (1999) states that a company is a combination of the value of real assets (assets in place) with future investment options. Investment opportunities provide a potential possibility for growth, are projected to return more than initial expenses, and may generate profits. In achieving a corporate goal where one of its goals is to raise the level of investment, the company must assure investors that they have a high corporate value and a good future. The company's value can be measured in several indicators such as liquidity, corporate size, and corporate management (Hirdinis, 2019; Triani & Tarmidi, 2019).

Liquidity is an important variable in measuring the value of an enterprise. Liquidity indicates a company's ability to meet financial obligations that are urgent to be fulfilled or the ability of a company to meet its financial obligation at the time of billing in the short term (Datu & Nike, 2023). Management of companies with too high liquidity indicates poor management performance due to unemployed cash balances, relatively excessive supplies, and poor company billing policies (Jeenas, 2019). With regard to asset revaluation, it remains helpful to provide more up-to-date information about the amount of cash that can be received from the sale of assets, thereby helping to increase the lending capacity of the company and reduce the cost of lending (Rahman & Hossain, 2020; Widyasti & Putri, 2021). Companies with low liquidity tend to choose to use the revaluation method to show the true value of their fixed assets. (Bae et al., 2019; Rahman & Hossain, 2020; Solikhah et al., 2020).

The ownership structure of the company also reflects the company's value from the perspective of share ownership (Raimo et al., 2020). The ownership structure in a company implies the
existence of sacrifices in the efficient use of resources to maximize the profits earned, where distributed ownership will reduce the incentive for managers to maximize profits (Al Farooque et al., 2020; Ting et al., 2020). The concentration of ownership has a positive impact on the value of the company, by minimizing the agency cost (Purba & Africa, 2019). Empirical research from emerging nations shows that the concentration of ownership, particularly family ownership that controls the firm, is likely to enhance borrowing behavior and raise the amount of corporate debt (Alharasis, 2023; Jabbouri & Naili, 2020). Companies with a dominant centralized ownership system are more capable of carrying out asset revaluations (Evi, 2019). This argument is also in line with Purnamawati et al. (2023), where majority ownership has a positive influence on the revaluation of fixed assets; the higher the majority holding, the more asset revaluations continue to rise.

The size of a company has a different influence on the value of the company (Amelia & Prapanca, 2023a; Chen et al., 2021; Jara Hardiyanti Jalih, 2022). The size of the company is seen from the total assets owned by the company, which are used for operational activities (Amelia & Prapanca, 2023a; Jara Hardiyanti Jalih, 2022). The size of the corporation or organization tends to reflect shareholders' overall assessments of past and future financial success. The company's assets are growing, making the company stable in financial conditions, so it is easier to acquire capital than a company with lower assets (Munawar et al., 2022).

Large corporations will use income-reducing procedures to reduce the likelihood of regulatory losses (Chimitdorzhieva, 2022). Large corporations would avoid high-profit reporting to lower political pressure on the government or trade unions. Upward asset revaluation is an effective way to lower profit reporting through increased depreciation costs as a result of increased revaluations of assets (Amelia & Prapanca, 2023b; Teruni et al., 2022).

**Research Methodology**

*Research design*

This research uses a method of quantitative analysis through correlation analysis to achieve the established research objectives. The entire list of companies listed on the Indonesian Stock Exchange (BEI) from 2015 until 2022 is the object of this study in order to provide an up-to-date overview of the financial statements and value of the company so that it can raise the rate of investment. The data used in the analysis process was taken from several sources, such as financial data that has been published in the Indonesia Stock Exchange (BEI), data from the Indonesia Capital Market Directories (ICMD), or sites and websites that support obtaining research data over the period 2015–2022. Exogenous variables in this study are liquidity, ownership structure, and company size.

*Analysis technique and hypothesis testing*

In this study, the data analysis technique used was the Structural Equation Modelling (SEM) technique using Partial Least Squares (PLS) version 2.0 statistical software. PLS is used to help obtain latent variable values for prediction purposes (Hair et al., 2019). The study employed 288
samples with three independent factors: liquidity represented by the quick ratio indicator (QR), ownership structure variables represented by the majority ownership indicator, and corporate size variable represented by the total asset natural logarithm indicator. The variable dependant is the company’s value, represented by the Tobins Q indicator, and the intervening variable is the revaluation of fixed assets, represented by the total logarithmic indicator of asset revaluations.

An instrument is valid if it can measure what should be measured (Blumberg et al., 2014). In this study, the validity test used convergent and discriminant validity methods. In validity testing, Convergent Validity was performed to see the loading factor value for each construction indicator, and the standard range for the load factor value should be more than 0.70. Meanwhile, the loading factor between 0.60 and 0.70 is still acceptable (Ghozali & Latan, 2015). A discriminant validity test uses cross-loading values. An indicator is declared to meet discriminant values when the value of the cross-loading indicator on the variable is the largest compared to the other variables.

In PLS, measuring the reliability of a structure with reflective indicators can be done with a composite reliability test with the condition that when the structure has a compound reliability value and a Cronbach alpha value greater than 0.7, it can be concluded that the manifest variable has good accuracy, consistency, and precision of the instrument in measuring a structure.

Hypothesis testing
The hypothesis is tested using a moderated regression analysis (MRA) with a pure moderated model. The hypothetical test is performed using the t-test, a partial test of the significance of the regression coefficient, the F test, and the determination value of the R-square.

Results and discussion
Descriptive analysis
This study examined 288 samples with three independent variables: liquidity via the quick ratio indicator (QR), ownership structure via the majority ownership indicator, and corporate size via the total asset natural logarithm indicator. The results of the descriptive statistics of this study are as follows:

Table 2. Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>Min</th>
<th>Max</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-Majority</td>
<td>64,404</td>
<td>63,389</td>
<td>24,460</td>
<td>99,980</td>
<td>18,988</td>
</tr>
<tr>
<td>LogTRA</td>
<td>7,807</td>
<td>7,481</td>
<td>2,193</td>
<td>13,541</td>
<td>3,499</td>
</tr>
<tr>
<td>QR</td>
<td>74,943</td>
<td>62,560</td>
<td>-74,310</td>
<td>747,000</td>
<td>88,143</td>
</tr>
<tr>
<td>TobinsQ</td>
<td>1,555</td>
<td>1,060</td>
<td>0,110</td>
<td>8,530</td>
<td>1,423</td>
</tr>
<tr>
<td>LnSize</td>
<td>22,691</td>
<td>20,380</td>
<td>7,810</td>
<td>35,726</td>
<td>8,141</td>
</tr>
</tbody>
</table>

Source: Own analysis.

The liquidity variable was calculated using the quick ratio indicator (QR), with a minimum value of -74,310 and a maximum value of 747,000. The standard deviation of 88,143 is more than
the mean value of 77,943. This demonstrates that the liquidity variable varies in a heterogeneous manner. The ownership structure variable received a minimum value of 24,460 and a maximum value of 99,980 via the ownership indicator. Meanwhile, for the standard value, the deviation of 18,988 is less than the average value of 64,404, indicating that the variation in the owners' structural variables is homogeneous.

The indicator of the total natural logarithm of assets produces a minimum value of 7,810 and a maximum value of 35,726 for the corporate size variable. The standard deviation of 8,141 is less than the average value of 22,691. This demonstrates that the corporate-size variable has a homogenous distribution. The asset revaluations produced a minimum value of 2,193 and a maximum value of 13,541 for the asset revaluation variable represented by the total logarithmic indicator. The standard deviation of 3,499 is less than the average deviation of 7,807. This suggests that the reset variable has a homogenous distribution. For the company value variable represented by TobinsQ, a minimum value of 0.110 is obtained and a maximum value of 8.530 with a standard deviation of 1.423. This rating is lower than the average of 1,555, which indicates that the company's value variable has a homogeneous variation.

Analysis results
Structural equation modelling analysis (sem)
This section discusses the results of the discriminant validity tests utilizing cross-loading values based on the validity test findings. When the cross-loading value on the variable is the greatest compared to the other variable, the indicator is considered qualified for discriminant validity. Each indicator's cross-loading values are as follows:

Table 3.
Cross Loading

<table>
<thead>
<tr>
<th></th>
<th>Liquidity</th>
<th>Company Value</th>
<th>Asset Revaluation</th>
<th>Ownership structure</th>
<th>Company size</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-Majoritas</td>
<td>0.058</td>
<td>-0.065</td>
<td>0.064</td>
<td>1.000</td>
<td>0.068</td>
</tr>
<tr>
<td>LogTRA</td>
<td>0.009</td>
<td>-0.096</td>
<td>1.000</td>
<td>0.064</td>
<td>0.844</td>
</tr>
<tr>
<td>QR</td>
<td>1.000</td>
<td>-0.075</td>
<td>0.009</td>
<td>0.058</td>
<td>-0.094</td>
</tr>
<tr>
<td>TobinsQ</td>
<td>-0.075</td>
<td>1.000</td>
<td>-0.096</td>
<td>-0.065</td>
<td>-0.184</td>
</tr>
<tr>
<td>lnSize</td>
<td>-0.094</td>
<td>-0.184</td>
<td>0.844</td>
<td>0.068</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: Own analysis.

The cross-loading results in the table above show that all structures or latent variables already have excellent discriminant validity, where the indicator on the construction block is better than the indicators on the other block. When the correlation between the structure and its indicators is greater than that of another block of construction, a measurement model has well-differentiated validity. The path coefficient, quality of fit, and hypothesis tests are employed as indicators in structural model measurement.
The evaluation of path coefficients reveals how powerful an independent variable's effect or influence on a dependent variable is, whereas the R-Square determination is used to determine how many endogenous variables are affected by other factors. Chin reports the R2 output of 0.67 for the endogenous latent variable in the structural model, suggesting a high effect of the exogenic (affecting) variable on the endogenic variable (affected). If the result is 0.33 - 0.67, it comes into the medium category, and if the result is 0.19 - 0.33, it falls into the weak category (Chin, 1998; Ghozali & Latan, 2015, p. 81).

Based on the figure above, the following structural equation model is obtained:

\[ Y = 0.089X_1 + 0.000X_2 + 0.853X_3 + □ \]
\[ Z = -0.112X_1 - 0.047X_2 - 0.395X_3 + 0.241X_4 + □ \]

Description:
X1 = Liquidity
X2 = Ownership Structure
X3 = Company size
Y = Asset Revaluation
Z = Company Value
□ = Residual or Error

According to the inner model scheme depicted in Figure 1, the regression coefficient value for the asset revaluation variable is influenced by liquidity of 0.089 points, ownership structure of 0.000 points, and corporate size of 0.853 points. Liquidity of -0.112 points, ownership structure of -0.047 points, business size of -0.395 points, and asset revaluation of 0.241 points all have an impact on the firm's worth.

*Figure 1. Full Model Structural results (Standardized Output) – PLS Algorithm*

Source: Own analysis.
A negative coefficient indicates that the greater the independent variable, the lower the company's value, while a positive coefficient indicates that the higher the independent variable, the higher the company's value. A positive coefficient indicates that the higher the independent variable, the higher its value, while a negative coefficient indicates that the lower the independent variable, the lower its value.

Goodness of fit
The determination coefficient is a number that represents the extent of the impact provided by the exogenous latent variable on the endogenic late variable. The following results were obtained based on the test results acquired using the SmartPLS 3.2.9 software:

Table 4.
\[ \text{Variable} \quad \text{R-Square} \]
\[
\begin{array}{ll}
\text{Asset Revaluation} & 0.722 \\
\text{Company's value} & 0.061 \\
\end{array}
\]

Source : Data analysed by SmartPLS (2023)

The R-squared value for the asset revaluation variable is 0.722, based on the data measurement in Table 4. The number reveals that 72.2% of the magnitude of the percentage of asset revaluations can be explained by liquidity, ownership structure, and firm size, with the remaining 27.8% related to other variables outside of this research. The firm value for the R-Square variable is 0.061. The value reveals that 6.10% of the business's value can be explained by liquidity, ownership structure, company size, and asset revaluation, with the remaining 93.9% related to other variables outside of this research.

Predictif – Relevance (Q^2)
The change in the R2 value is used to determine if assessing the exogenous latent variable against the endogenic latency variable has a significant impact. The effect size f^2 can be used to calculate it. The impact size F2 formula is as follows:

\[ \text{Effect Size } f^2 = \frac{R^2_{\text{included}} - R^2_{\text{excluded}}}{1 - R^2_{\text{included}}} \]

A model is considered to have a relevant predictive value if the Q-square value is greater than 0:

Q^2 = 1 - (1 - R_1^2) (1 - R_2^2) .... (1 - R_n^2)
Q^2 = 1 - (1 - 0.722) (1 - 0.192)
Q^2 = 0.775

The Q-Square calculation result in this study is 0.775. It means that variables, liquidity, ownership structure, size of the company, and revaluation of assets have good predictive relevance to the company's value.
Testing statistical hypotheses
The hypotheses are examined in this study utilizing the values acquired in the SEM analysis with the limit of the hypothetical test value. The following are the test findings for the whole model and the study’s hypothesis:

![Structural model result](image)

*Figure 2. Structural model result*

Source: Data analyzed by Smart PLS

The t-test is known as the partial test, which tests the influence of each free variable partially on the bound variable. This test can be done by comparing t counts with t tables. The basis of decision-making is:

1) Jika $t_{counts} < t_{table}$ thus $H_0$ is accepted
2) Jika $t_{counts} > t_{table}$ thus $H_0$ is rejected.

As for the $t_{table}$ value, the significance level of 0.10 or 10% is 1.65 (Latan & Ghozali, 2016). The $t_{counts}$ is obtained through SmartPLS 3.2.9 data processing, which is summarized as follows:

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Correlation between Variables</th>
<th>Path</th>
<th>$t_{Counts}$</th>
<th>$P-values$</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Liquidity $\rightarrow$ Asset Revaluation $\rightarrow$ Company Value</td>
<td>0.022</td>
<td>1.674</td>
<td>0.095</td>
<td>accepted</td>
</tr>
<tr>
<td>H2</td>
<td>Ownership structure $\rightarrow$ Asset Revaluation $\rightarrow$ Company Value</td>
<td>0.000</td>
<td>0.062</td>
<td>0.951</td>
<td>rejected</td>
</tr>
<tr>
<td>H3</td>
<td>Company size $\rightarrow$ Asset Revaluation $\rightarrow$ Company Value</td>
<td>0.206</td>
<td>2.556</td>
<td>0.011</td>
<td>accepted</td>
</tr>
</tbody>
</table>

*Source: Data analyzed by Smart PLS*
Results and discussion
Based on the results of the analysis, the magnitude of the direct influence of liquidity on the value of the company where the revaluation of assets as intervening is seen from the path coefficient value of 0.022 and the $t_{\text{count}}$ value of 1.674 > $t_{\text{table}}$ 1.65 with p-values of 0.095 < $\alpha$ 0.10. So this study concludes that liquidity has a positive influence on the company's value through asset revaluations and is in line with some previous studies (Bae et al., 2019; Datu & Nike, 2023; Rahman & Hossain, 2020; Widyasti & Putri, 2021).

The ownership structure shows the result of a path coefficient value of 0.000 and a $t_{\text{count}}$ value of 0.062 < $t_{\text{table}}$ 1.65 with p-values of 0.951 > 0.10 against the value of an enterprise with an asset revaluation as an intervening. This indicates that the ownership structure variables have no effect on the value of the company through the revaluation of assets. This result is supported by Rifai, Prihatni, R., & Sumiatu, A. (2023), although generally the research results suggest that ownership structures have a positive influence on the company's value through asset revaluations as an intervening variable (Alharasis, 2023; Jabbouri & Naili, 2020; Purba & Africa, 2019; Purnamawati et al., 2023; Raimo et al., 2020).

Similar to the liquidity variable, the size of the Company also has a positive influence on the value of the company by revaluing the asset as an intervening variable with a path coefficient value analysis of 0.206 and a $t_{\text{count}}$ value of 2.556 > 1.65 with p-values of 0.011 < 0.10. This study supports the results of some previous studies, among them are Jalih (2022), Munawar et al. (2022), Teruni et al. (2022).

Implication suggestions for further research
The results of this study provide empirical evidence that the revaluation of assets has a significant influence on the increase in the value of the company so that it can attract more investors, particularly on the variables of the company's size and liquidity. Thus, companies listed on the Indonesian Stock Exchange should encourage revaluation of their assets. The research also supported government policies in the V-tier economic policy package in 2015; hence, governments can formulate greater incentives for companies to carry out asset revaluations.

Further research is expected not only to examine the determinants of fixed asset revaluation that are projected variables of liquidity, ownership structure, and size of the company, but will better consider other corporate tax proxy, corporate governance mechanisms, audit quality, board of commissioners or independent commissioners that could possibly influence decisions to carry out fixed property revaluations.

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**Conflict of Interests**

No, there are no conflicting interests.

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