Debt Policy, Investment Decisions, and Profitability in Leveraging Company Value

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ABSTRACT: The purpose of this study was to determine and explain the effect of debt policy, investment decisions and profitability on their relationship in leveraging firm value. The method used in this research is quantitative research with an explanatory research approach. The sample used in this research is consumer goods companies listed on the Indonesia Stock Exchange in 2019-2021 using multiple linear regression as a data analysis tool. The results of the study show that partially the investment decision variable has a positive and significant effect on firm value. The variables of debt policy and profitability partially have no effect on firm value. The results showed debt policy, investment decisions, profitability, simultaneously have a significant effect on firm value.

KEYWORDS: debt policy, investment decision, profitability, firm value

I.   INTRODUCTION

Economic development in Indonesia has experienced very rapid progress, resulting in very tight competition in all business fields including manufacturing companies. Competition of manufacturing companies will encourage company managers to develop their business while also thinking of creative and innovative ideas in developing their business to achieve company goals. According to Endarmawan (2014), the purpose of establishing the company is to achieve maximum profit or prosper the company's owners and maximize the value of the company reflected in its share price (Murniati et al., 2019).

Maintaining company continuity is an important element that must be maintained by a company that is running its business, in developing its business a company definitely requires very large capital, which generally consists of internal financing sources and company external financing sources. The company's internal funding sources include: 1) personal assets or capital of the owner of the company itself, 2) retained earnings / the amount of company profit earned or generated in a certain period that is not distributed as dividends by the company. 3) depreciation. External funding sources come from creditors and debts to banks or to other sources of funds outside the company. This funding is often referred to as debt financing.

In getting a source of funding, the company must have a high company value. Company value is the company's performance which is reflected by stock prices formed by capital market demand and supply which reflects people's assessment of company performance (Murniati et al., 2019). High corporate value is one of the goals of the company. Company value is an investor's perception of the company's success rate which is often associated with the stock price.

To increase value, one of the important decisions that companies take is investment decisions. Investment decisions are made to increase company value and maintain the company's existence. One of the investments made by the company can be financed with debt, so that debt policy is something that needs serious thought for the company. Debt policy is a company policy on how far the company uses debt as a source of funding. The use of debt policies can be used to create the desired corporate value. The use of debt must still be managed properly because it is a sensitive thing for companies to high and low company values. The higher the proportion of debt set by the company at a certain level, the higher the value of the company, but if the level of debt exceeds the proportion set by the company, what will occur is a decrease in the value of the company.

Investment decisions as well as the use of debt will affect the profitability of the company. Profitability is a ratio to assess a company's ability to seek profit (Kasmir, 2019). Profitability shows the effectiveness of the company in generating profit levels with a series of asset management owned by the company. A high level of profitability will be able to increase the value of the company, because the level of public confidence, especially investors, will increase. Based on the description that has been explained, the purpose of this study is to determine the influence of debt policy, investment decisions and profitability in increasing company value.

II.   LITERATURE REVIEW

Debt policy is a company's funding policy sourced from external. Debt policy describes the long-term debt owned by a company to finance the company's operations. The determination of debt policy is related to the capital structure because debt is one of the compositions in the capital structure. According to (Harahap et al., 2020) companies are considered risky if they have a large portion of debt in the capital structure, but if the company uses small or no debt, the company is considered unable to utilize additional external capital that can improve company operations. Research conducted by (Jonnardi, 2020) found that debt or leverage policies have an insignificant effect on company value. Insignificant results indicate that the debt policy that has been set by the company does not have a large enough influence on the value of the company.

Investment decisions are measured using the Price Earning Ratio (PER). The increase in corporate value from this investment will be reflected in the increase in share price. In other words, investment decisions must be assessed in relation to their ability to generate profits equal to or greater than those required by the owner of capital. The definition of value here is the intrinsic value of the investment which is nothing but the present value of the expected cash flow of the investment. Research conducted by (Murniati et al., 2019) and (Shen et al., 2020) which states that the value of companies formed through stock market value indicators is strongly influenced by investment expenditures and discretionary expenditures in the future.

Profitability is a reflection of management's performance in running the company. According to (Zakari &; Ibrahim, 2021), profitability is the company's ability to earn profits in relation to sales, total assets and own capital. Profitability can be measured by return on equity, return on assets, this ratio reflects the rate of return obtained from the company's assets and capital. Research conducted by (Dewi &; Rahyuda, 2020) regarding the influence of profitability, growth opportunity, capital structure on company value in public companies in Indonesia which states that profitability has a positive and significant effect on company value. This research is in line with research conducted by (Izfs et al., 2022) saying that profitability has no affects on company value.

From the contradiction of the results of previous research, the hypothesis in this study is formulated as follows:

H1 : Debt policy has no positif influence on the value of the company's value

H2 : Investment decisions have a positif influence of the company's value

H3 : Profitability has no significant influence on the value of the company's value

H4 : Debt policy, investment decisions, and profitability simultaneously influence the value of a company

III.   MATERIAL AND METHODS

The type of research used by researchers is the type of explanatory research (Explanatory Research). The sample in the study is food and beverage companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period, a total of 12 companies using the purposive sampling method. The data analysis technique used is multiple linear regression.

The operational definition, indicators, and measurement scales of variables are described as follows

Variable	Measurement
Dependent Variable	
Company Value (PBV)	$Price\ to\ Book\ Value\ (PBV) = \dfrac{Market\ Price\ per\ share}{Book\ Value\ per\ share}$
Independent Varible	
Debt Policy (DER)	$Debt\ to\ Equity\ (DER) = \dfrac{Total\ Liabilities}{Total\ Shareholders'Equity}$
Investment Decision (PER)	$Price\ to\ earnings\ ratio\ (PER) = \dfrac{Market\ value\ per\ share}{Earnings\ per\ share}$
Profitability (ROA)	$Return\ on\ Assets\ (ROA) = \dfrac{Net\ Income}{Total\ Assets}$

IV.   RESULT AND DISCUSSION

Model Estimation Comparison

The Chow test is performed to compare the estimation of the common effect model with the fixed effect. Based on table 1, the value of cross-section F shows the numbers $0.000 < 0.05$, meaning that the estimated model chosen is fixed effect.

Table 1. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	12.672962	(11,21)	0.0000

Source: Data processed (2023)

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Table 2 shows the results of the Hausman test, a comparative evaluation of the estimation model between fixed effect models and random effect models. The test results showed a random cross-section significance value of $0.1963 > 0.05$, which indicates that the estimated model chosen is a random effect model (Studenmund, 2017).

Table 2. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.685748	3	0.1963

Source: Data processed (2023)

Furthermore, to ensure the estimation of the last model chosen, it is necessary to test the Lagrange Multiplier to compare the estimation of the common effect model with the random effect. Based on table 3, the Breusch-Pagan significance value is $0.000 < 0.05$, meaning that the random effect model estimate was selected.

Table 3. Lagrange Multiplier Test

| | Test Hypothesis | | |
	Cross-section	Time	Both
Breusch-Pagan	15.24905 (0.0001)	1.376172 (0.2408)	16.62522 (0.0000)

Source: Data processed (2023)

Figure 1 shows the normality test results using the Jarque-Bera Probability parameter which shows a significance value of $0.731362 > 0.05$ meaning that the data is normally distributed.

Series: Standardized Residuals	
Sample 2019 2021	
Observations 36	
Mean	-4.93e-17
Median	-0.115499
Maximum	1.458875
Minimum	-1.488835
Std. Dev.	0.718854
Skewness	0.172605
Kurtosis	2.454143
Jarque-Bera	0.625694
Probability	0.731362

Figure 1. Normality Test
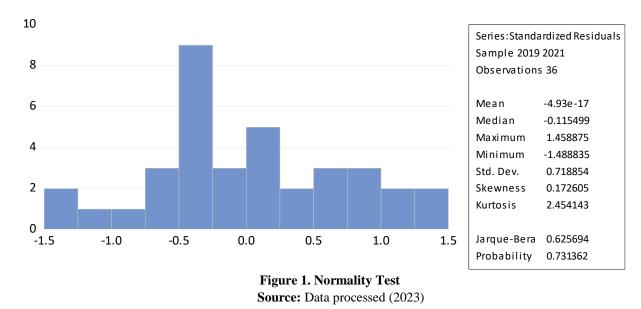**Source:** Data processed (2023)

Table 4 shows the results of the heteroscedasticity test using the Chi-Square Breusch-Pagan-Godfrey probability parameters of $0.7053 > 0.05$, meaning that the data are homogeneous or there are no symptoms of heteroscedasticity.

Table 4. Heteroskedastisitas test

F-statistic	0.775093	Prob. F(3,32)	0.5165
Obs*R-squared	2.438728	Prob. Chi-Square(3)	0.4865
Scaled explained SS	1.400991	Prob. Chi-Square(3)	0.7053

Source: Data processed (2023)

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Table 5 shows the results of the multicollinearity test using the variance inflation factors (VIF) value parameters of each variable. Where, all VIF values of each independent variable show a value of < 5, meaning that there are no symptoms of multicollinearity.

Table 5. Multikolinearitas Test

Variable	Centered VIF
C	NA
X1	1.551503
X2	1.241689
X3	1.641200

Source: Data processed (2023)

Autocorrelation tests are used to determine whether there is a strong relationship between time-series data or recent period data and previous periods. Good data is data that has no symptoms of autocorrelation. Autocorrelation tests can use Durbin Watson parameters. Where the Durbin Watson value must be in the range of DU values (1.6539) with 4-DU (2.3461). Table 6 shows that the durbin Watson value is 1.4757 so that it can be concluded that autocorrelation symptoms occur. Nevertheless, regression models can still be used because random effect model estimation can ignore the assumptions of normality and autocorrelation (Gujarati, 2014). After the classical assumption test is all fulfilled, the regression equation is obtained as follows :

PBV = 1.097837 – 0.025334 (DER) + 0.001638 (PER) + 3.181329 (ROA)

Where, if the DER is increased by one point and another variable remains, the PBV value will decrease by 0.025334 points. if, PER increases by one point and other variables remain then, the PBV value will increase by 0.001638 points, while if the ROA is increased by one point and other variables remain then the PBV value will increase by 3.181329 points.

Coefficient of determination

The coefficient of determination is a test used to measure the extent to which the contribution of DER, PER, and ROA affects PBV. Table 6 shows an adjusted R^2 value of 0.2673 meaning that DER, PER, and ROA on PBV of 26.73% and 73.17% are influenced by other independent variables that were not examined in this study.

Table 6. Autocorrelation Test, Coefficient of Determination, and Hypothesis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.097837	0.378812	2.898102	0.0067
DER	-0.025334	0.308928	-0.082007	0.9352
PER	0.001638	0.000409	4.006595	0.0003
ROA	3.181319	2.449651	1.298683	0.2033
	Weighted Statistics			
Root MSE	0.324819	R-squared		0.330176
Mean dependent var	0.383221	Adjusted R-squared		0.267380
S.D. dependent var	0.402511	S.E. of regression		0.344522
Sum squared resid	3.798258	F-statistic		5.257910
Durbin-Watson stat	1.475779	Prob(F-statistic)		0.004605

Source: Data processed (2023)

The hypothesis

Table 6 shows DER significance values of 0.9352 > 0.05 and t-stat (-0.082007) < t-tab (-1.96), meaning that there is no significant effect of DER on PBV.

On the other hand, the significance value of PER shows a value of 0.0003 < 0.05 and t-stat (4.006) > t-tab (1.96), meaning that there is a significant positive effect of PER on PBV.

In line with DER, the significance value of ROA shows a value of 0.2033 < 0.05 and t-stat (1.298) < t-tab (1.96), meaning that there is no significant effect of ROA on PBV.

Table 6 also shows significance values of F of 0.004605 < 0.05, meaning that simultaneously, DER, PER and ROA have a significant effect on PBV.

V.   CONCLUSIONS

Based on the research findings that have been described, there are several conclusions that can be drawn in this study. Debt policy has no effect in leving/increasing the value of the company. The use of debt can decrease the value of the company if the benefits of the debt are less than the costs incurred by the debt. The use of debt will only increase costs for the company while the benefits caused by debt are smaller so that investors view the company will experience bankruptcy with high debt costs. Investment decisions are influential in leveraging / increasing company value. Investment decisions related to how much funds we invest in an asset will be able to provide a rate of return in the future, if the investment decision is able to provide profitable returns it will also increase the share of profits that will be enjoyed by shareholders which of course this will all increase / leverage the value of the company. Profitability has no effect on leveraging / increasing the value of the company. Profitability, on the other hand, has no real impact on a company's value. Although the company experienced an increase in profits, the company used the profits for retained earnings and was not distributed to shareholders. So investors consider it a negative signal and have an impact on the value of the company.

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