

PREDICTING THE INCREASE OF COMPANY VALUE BASED ON PROFIT AND DEBT GOVERNANCE POLICIES: A Case Study on Indonesian Automotive Companies

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ABSTRACT

For large companies that have gone public, corporate values are highly guarded and considered important. Because, the company is aware of the impact generated by the value of the company, namely the ease of obtaining investment funds. Due to the large benefits of corporate value for future business development on a large/global scale, various efforts have been made to maintain and continue to increase corporate value. Based on this point of view, this research was conducted to predict the increase in company value based on earnings and debt governance policies. The research method uses a quantitative approach and data is analyzed using linear regression. The research object is an Indonesian automotive company with financial report data as a research sample. The financial statements used are 11 data with purposive techniques. The results of the study show that the policy of controlling debt and profits directly affects the company's financial strength, and this has an impact on the income earned by investment. These conditions, have a positive impact on public assessment, which then increases the value of the company.

Keywords: Earnings Management, Debt Policy, Firm Value, Financial Performance, Automotive Companies

INTRODUCTION

The rapid development of technology and globalization today has created competition in a highly competitive business world. Most of what companies do aims to earn profits and increase corporate value which can be done through increasing the prosperity of ownership or shareholders (Palupi & Hendiarto, 2018; Siregar, et al., 2019). Car manufacturers in Indonesia are generally controlled by two large companies. One comes from the Astra conglomerate group – PT Astra Internasional Tbk (ASII), and the other is from PT Indomobil Sukses Internasional Tbk (IMAS) – a company whose majority shares are now controlled by Gallant Venture, a company from Singapore (Kusumawati & Rosady, 2018), in fact there are still very many foreign

automotive manufacturers who are interested in investing in our country, from year to year the Indonesian automotive community has witnessed various brands and types of cars that have just been launched by their manufacturers.

Based on the graph above, it can be seen that the value of companies based on PBV listed on the Indonesia Stock Exchange IDX for the period 2012 to 2021 has fluctuated. This could have been influenced by debt policy (DER) and profitability. Debt to Equity Ratio, is a financial ratio that reflects the company's ability to fulfill its obligations which shows how much of its own capital is used to pay the entire debt (Pertiwi & Hermanto, 2017; Rajagukguk, et al., 2019). Increasing the Debt to Equity Ratio will affect the value of the company, if investors consider companies that have a lot of debt will have the opportunity to use their capital for development with the hope that the more developed the company will be, the more profitable it will be for the company so that it will attract investors to buy shares, so that it will increase share price, the company value will also increase (Latifah, et al., 2020). One of the ratios that can affect company value is Return on Equity, Return on Equity is an indicator that is often used by investors in making decisions before starting a business or investment (Nurjanah & Purnama, 2021). ROE is a profitability ratio in measuring the extent to which a company is able to generate profits for investors (Astika, et al., 2019).

Financial reports are part of the financial reporting process, complete financial reports usually include: balance sheet, profit and loss, financial reports (which can be presented in various forms such as cash flow reports and other reports as well as explanatory material which are an integral part of financial reports), accountability company management is stated in the form of financial reports and operating results in a period according to accounting principles that are implemented consistently (Muarif, et al., 2021; Putri, et al., 2018).

THEORETICAL BASIS

Financial Ratios

According to Kasmir (2015: 93) explains that financial ratios are "the activity of comparing the numbers in the financial statements. Comparisons can be made by way of inter-components that exist between financial reports. According to Harapan (2018: 105) financial reports describe the financial condition and results of operations of a

company at a certain time or for a certain period of time, while the types of financial reports that are commonly known are balance sheets or profit or loss reports or business results.

Firm Value

According to Hery in (Suryanti, et al., 2021) "Company value is a certain condition that has been achieved by a company as an illustration of public trust in the company after going through an activity process for several years, starting from the company's founding until now" . According to Silvia Indrarini in Wahidahwati (2021) "Company value is an investor's perception of the level of success of managers in managing company resources entrusted to them which is often associated with stock prices".

Debt Policy

The definition of debt policy according to Bringham and Houston in Samosir (2017) "Debt policy is a policy regarding decisions taken by companies to carry out their operations using financial debt". Meanwhile, according to Kasmir (2015: 112) "Debt policy is a policy used to measure the extent to which company activities are financed with debt".

Profitability

According to Hery in Sinaga (2019) "Profitability is the ability of a company to earn profit (profit) in a certain period". According to Sutama & Lisa (2018) defines that "the profitability ratio is a measure of a company's ability to generate finance at a certain level of sales, assets, share capital".

METHOD

In expressing the research phenomenon, the scientific method is used as follows:

1. This study uses quantitative principles, namely research is carried out using numbers as the basis for testing phenomena.
2. Disclosure of phenomena using regression analysis techniques, in this case linear regression, which examines the causal relationship between the independent variables and the dependent variable.

3. The object of research is an automotive company, namely Astra International. This company was chosen because it has complete data, so that the research process can run effectively.
4. The source of data is financial reports
5. The amount of data used is 11 data
6. The data collection technique is purposive
7. The substance of research statistics is hypothesis testing and determination

RESULT

Normality Test

In this study, testing the normality of the data used the P-Plot graphic statistical test. The test results show that the data is spread linearly following the regression line, which means that the data has a reasonable level and can explain the research phenomenon. In addition, based on the results of the Kolmogorov Smirnov test, it is known that the residual value of the research data is 0.200 which is greater than 0.05, meaning that the data has a normal distribution. Thus, the data meets the assumptions of regression, to then be analyzed using the linear estimation method. Normal data indicate a good level of distribution, and have a tendency to represent the population.

Multicollinearity Test

Based on the partial statistical test, it can be seen that the VIF data of all research data is less than 10, while the tolerant statistical value is greater than 0.10, so it can be concluded that the research data does not have multicollinearity disturbances. Statistically, this data has a good level of independence, because one data with other data is not related to each other.

Heteroscedasticity Test

The results of the Scatter Plot statistical test show that the distribution of the data points above does not form a clear pattern. The points spread above and below the number 0 on the Y axis. So it can be concluded that there is no heteroscedasticity problem in the regression model.

Discussion of Research Results

The results of data processing obtained the regression equation $Y = - 4.295 + 0.052 (X1) + 0.611 (X2)$ with an explanation:

From the multiple linear regression equation above, it can be interpreted as follows:

1. The constant value of the equation above is -4,295 so that it can be interpreted that if the Debt to Equity Ratio and Return on Equity are zero (0), the Price to Book Value will be -4,295. This means that there will be a decrease in the value of the company if there is no debt and profit management. This illustrates a condition where companies experience business uncertainty, which results in lost investment opportunities, because no investor wants to experience losses.
2. The Debt to Equity Ratio variable has a positive coefficient of 0.052 if there is a change of 1 increase in the Debt to Equity Ratio variable, assuming the Return on Equity variable is constant, it will result in a positive change in the Price to Book Value variable of 0.052. These results indicate the small role/contribution of debt management to firm value, because the data used is quite limited. Thus, the increase in the value of the company does not have a significant magnitude for investment decisions (Awulle, et al., 2018).
3. The Return on Equity variable has a positive coefficient of 0.611. If there is a change of 1 increase in the Return on Equity variable, assuming the Debt to Equity Ratio variable is constant, it will result in a positive change in the Return on Equity variable of 0.611. This finding confirms that earnings management on the capital side has a large impact on increasing company value. Although it is understood that profits earned through business activities financed from debt or own capital are not directly related to an increase in company value. However, the inclusion of the increase in profits in the financial statements is positive information that is considered good by investors, so naturally, the company's value rises on the stock exchange.

Hypothesis Testing

Table 1. Hypothesis Testing

	t value	Significance
DER – Firm Value	0.403	0.699
ROE – Firm Value	2.993	0.046

Source: Research data, 2022

Debt to Equity Ratio terhadap Price to Book Value

The sig value is $0.699 > 0.05$ and the tcount value is smaller than ttable or $0.403 < 2.364$ so it can be concluded that the Debt to Equity Ratio has no significant effect on the Price to Book Value. This finding confirms that the effect of debt management is

very dependent on complete and detailed data, so as to provide a broader picture of the debt position on firm value.

In debt management, there is information that shows the balance of the ability to pay off obligations. That is, the amount of debt will be compared with the amount of profit and the amount of assets. So that investors assess as an ability in return on investment. In addition, debt management through the DER ratio can be an instrument for determining the amount of profit earned from the business being carried out. The assumption is that the company is able to pay debts if the business generates profits (Octaviany, et al., 2019). So thus, in earnings management two important information is visible, namely business profits and the ability to return on investment.

For companies, debt management is very important, because it involves guarantees for investment funds. So in large-scale businesses, debt management is one of the main requirements for companies going public to be seen by investors. Because of that, the value of the company will increase.

Return on Equity tidak terhadap Price to Book Value

The sig value is $0.046 > 0.05$ and the tcount value is smaller than ttable or $2.993 > 2.364$ so it can be concluded that Return on Equity has a significant effect on Price to Book Value. This finding explains that earnings management has a large impact on firm value. The size of the profit earned can be a trigger for how the market reacts. Thus, it is important for companies to have good governance, so that the business being run can provide good benefits for the company and shareholders (Lubis, et al., 2017).

Table 2. Simultaneous Test

	Information
Mean Square	50.310
F Count	11.533
Sig	0.006
df	2
Conclusion	Significant

Source: SPSS processed data, 2022

Based on the test results above, debt management and earnings together have a significant effect on firm value. This means that the existence of debt and profit for the company is very important, because it has a major impact on business growth and company value.

Table 3. Determination Coefficient Test

	Information
Correlation	0.87
R Square	0.76
Contribution	0.70
Error Standard	2.088
Conclusion	Contributing

Source: Research data, 2022

The relationship between earnings management, debt and company value is relatively close, with a percentage of 87%. While the contribution is 70%, meaning that the existence of earnings and debt management is highly considered by the stock market. Because the two financial instruments provide information about the two principles in the information, namely profit and return on capital. In general, investors only see these two things as a basis/consideration in investing.

CONCLUSION

Partial research results explain that earnings management is a factor that influences significantly. Meanwhile, debt management has a very small effect, with no significant category. In the simultaneous test, the two financial instruments have a very large impact, with a relationship percentage of 87% and a contribution of 70%. That is, in fact profit and debt are in the spotlight of investors in giving an assessment of a company.

The impact of the ratio of earnings management and debt shows that these two aspects are important instruments in the company's financial performance. Moreover, both are included in the financial report, which is important information for shareholders.

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