Effect of Profitability, Size And Debt Policy To Company Value (Study on Business-27 Company Listed On BEI)

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ABSTRACT

Firm Value is influenced by the financial performance of a company. Financial performance is reflected by stock prices and shown in a good performance as well as how the company uses its assets to get maximum profit. The purpose of this study wasto determine the impact of profitability, size, and debt policy to firm value on companies in business27 index at the Indonesia Stock Exchange. The analysis of the data used in this research was multiple linear regression. The result showed that the profitability had significant effect on value of firm. The size had significant effect on firm value. The debt policy had significant effect on firm value. The F test results showed that Profitability, Size and Debt Policy had significant effect on firm value at the companies in business27 index atthe Indonesia Stock Exchange.

Keywords : Profitability, Size, Debt Policy, and Corporate Value.

1. Introduction

Capital market is space for various parties, especially companies selling stocks and bonds with the aim of raising fund or strengthening company funds (Fahmi, 2009). In addition, Tandelilin (2010: 26) explains, "the capital market is the market used for selling securities (stocks and obligation) with more than one year duration." Capital market controls the national economic regulation. Moreover, the capital market becomes an indicator to measure in national economic level. In Indonesia, capital market is familiar with various capital market activities with e.g., stock transactions, company performance, stock price, profit, dividend policy, and so forth. The growth of this capital market in Indonesia can be seen from the real estate and property companies in Indonesia listed on Indonesia Stock Exchange. The real estate and

property companies become an alternative to attain profits for the company development.

The global financial crisis recedes in the late 2008 due to US government aid "*bailout*" on the companies which have problematic assets. This is performed to save American companies from bankruptcy. It rises steeply in 2010 so that the real estate and property stock values on the stock exchange around the world are strengthened and stabilized. The stock rises due to rising investment activity and the real estate and property transactions (Sugiono, 2008). This phenomenon creates the attention for investors because stock prices of the real estate and property are fluctuated in recent years. This fluctuation causes investors to conduct an analysis on the stock price for finding the best return and the minimum risk in investment. The analysis used by investors in conducting stock price analysis can be done by two approaches. They are: the fundamental analysis (internal company analysis) and the performance management analysis (external analysis company). Sari (2005) says, "Profitability ratio is a key success to measure the company profit so that investors and shareholders continuously provide the capital for the company".

By analyzing this ratio, the investors receive a return prediction if they invests. The higher return is obtained on condition that the demand for the stock is higher too so that it raises the company stock price. Profitability is very important for the company in order to maintain a continuity of the long-term business because profitability is the indicator of a good prospect in future for companies. Sofyan Syarif (2011) explains that profitability is a factor affecting the company value..

The company cash flow is classified into three groups i.e, operating cash flows, investment cash flows, and financial cash flows. Operating cash flows are the various activities in effort to produce and sell the product. Investment cash flows are all activities related to buying and selling the company property as the company leverage. Financial cash flows are the activities in effort to support the operating company through the necessary funds from various sources.

The company value is affected by many factors. One of them is the company growth. Information about the company growth is positively responded by investors so it increases the stock price. Growth is the company size seen from their involvement in the economic system in the industry. Fast-growing company gains a positive effect due to the position consolidation in this competitive era so that they sense the increasing sales in line with the increasing market share. Companies must have operating control on the cost control emphasis. Research conducted by Dewi et al. (2014) shows the effect beween the company growth and the company value.

Literature Review

Accoring to theory of the firm, the goal of companies is by maximizing the company value (Kallapur et all, 1999). Maximizing the company value is very important because maximizing the company value is the same as maximizing the shareholders for the continuity of the company management (Brigham and Daves, 2010). Although the company has the other goals, maximizing stock prices is also the most important goal (Brigham and Houston, 2011). To find out the goal of financial management can help the company to decide the financial decisions. Improving the company value must be followed all decisions decided by the management company.

The company value is not only formed by the stock market indicators but it is also affected by the financial decision made by finance managers. The right decision raises company value and affects shareholders' prosperity. Husnan (2008) says that the company value is the price paid by the prospective buyer on condition that the company has already been sold. If the company offers shares to publics, the company value is reflected on its share price so that it affects to the rise of stock prices, the company value, market trust, and company performance. Moreover the company has also an initiation to bring financial report to external party. This initiation is implemented because there is an information asymmetry between the company and the external party which mean that the company knows more about the company and its prospects than the external party (investor, creditor).

The Company Value

Company is the organization combining and organizing resources in order to produce goods and or services for sales (Kallapur et all, 1999). The company becomes very inefficient and expensive for the business actors to enter and make contracts with workers and shareholders, capital owners, land owners, and other resources for each production and distribution phase. On the other hands, business actors usually start the business into large, long-term contracts with workers to perform various tasks with certain wages, and the other benefits. These general contracts are much cheaper than some specific contracts. Moreover, these contracts are very beneficial for business actors, workers, and the other resource owners.

Financial Statements

According to the Indonesian Accountants Association (2012: 5), the financial statement is the structural form used to present the financial position and financial performance in an entity. The general purpose of the financial statements is to provide financial position, financial performance, and cash flows of an entity used to make economic decisions for users. To achieve this goal, the financial statements provide information about the entity i.e., assets, liabilities, net worth, expenses, income (including gain and loss), changes in equity, and cash flows. This information is followed by the report because it is used to predict the future cash flows.

The Purpose of Financial Statement

Financial statement for a company is as a testing tool for accountants. However, the financial statement is used to make the financial position evaluation. Finally, the financial statement is used to meet the short-term and long-term obligations, capital structure, distribution of assets, effectiveness of asset usages, income or achieved business results, fixed costs for payment, book values of each share.

Cash Flow Classification

Cash flow classification is as follow:

a. Operational Activity

The amount of cash flows produced from operational activities is the indicator to determine whether its operations can produce sufficient cash flow to pay off the loan, maintain the company operation, pay dividends, and make new investments without relying on external funds. Information about certain elements of historical cash flows is useful in predicting future operating cash flows.

$$OCF = \frac{\text{Operating cash flow}}{\text{Current Liabilities}}$$

Some transactions for the factory equipments can cause gain or loss incurred in the net profit or net loss. Cash flows related to the transactions represent the investment activity cash flows. Security companies can have securities used for trade so that they are regarded as purchased and sold product so that securities are classified as the operational activities. Lending rate performed by financial institutions should also be classified as operational activities because it is related to the income-generating activities.

b. Investment Activity

The separated disclosure of cash flows from the investment activity needs to be done because the cash flow is part of income and expenditures in respect of intended resources to generate future income and cash flows. Some examples of cash flows are:

Investment cash flow is measured by:

Investment cash flow ICF = Current Liabilities

c. Funding Activities

Separated disclosure of cash flows from financing activities is necessarily done because it is useful for predicting claims on the future cash flows by the company capital suppliers. Some examples of cash flows from the funding activity are: funding cash flow can be measured by:

$$\text{Funding Cash Flow} = \frac{\text{Funding Cash Flow}}{\text{Current Liabilities}}$$

Company Growth

Growth is expressed as the total asset growth in which the past asset growth illustrates future profitability and growth (Taswan, 2003). Growth is the total of changing assets (decrease or increase) owned by the company. Asset growth is calculated as the percentage of the changing asset at a certain time from the previous year (Saidi, 2004). Based on the definition above, it can be explained that the growth is the total of changing assets either in the form of increase or decrease experienced by the company during one period (one year).

The asset growth represents the growth of company assets affecting the company profitability. The company believes that the percentage of the changing asset on total of assets is a better indicator to measure the company growth (Putrakrisnanda, 2009). The indicator used in this matter is by measuring the increasing or decreasing asset proportion. In this research, the company growth is measured by the changing asset proportion because it is used to compare the increase or decrease on total of assets owned by the company. A company growth rate shows to what extent the company uses its debt as a financial source. In conjunction with leverage, companies with high growth rates should use equity as a funding source in order to avoid the agency costs between shareholders and company management. On the other hands, companies with low growth rates should use debt as a financing source because the use of debt as the requirement to pay interest on a regular basis.

Tobin's Q

Tobin's Q or Q ratio or Q Theory is firstly introduced by James Tobin in 1969. James Tobin is an American economist who won the Nobel Prize in economics by proposing the hypothesis in which the company market value should be equal to changing asset cost so that the equilibrium is created. This ratio is the valuable concept because it shows the current financial market estimation on the return value obtained from each incremental investment dollar. Tobin's Q is calculated by comparing the stock market ratio the company with the book value of the company equity. The formula is as follows:

(EMV + D)

=

(EBV + D)

= Company Value EMV = Equity Market Value EBV = Book Value of Total Assets = D = Book Value of Total Liabilities

2. Research Method

Type of this research was the associative research. The associative research was the research with the aim of determining the effect or correlation between two or more variables. This research had hypothesis about the correlation among variables in the population from which the samples were used to study the correlation among variables (Sugiyono, 2009: 224). Type of the associative research was "causal" which meant that the correlation had cause and effect from which the variable was caused or determined by the one or more other variables.

The Source of Data

This research used secondary data (Sekaran, 2008). The required data were the data in the form of accounting and capital data of property and real estate companies listed on the Indonesia Stock Exchange. The data were financial statements, closing price in the end of a year, and financial performance summary. In this research, the data used in this research was obtained from the financial statement database published by the company. This research used the secondary data taken from the capital market reference center (BEI, JSX Statistics, and the other relevant information sources). Data used in this research were annual financial reports during the period of 2013-2015.

Research Variable

Research variables is anything set and studied by the researchers used to find the information from which conclusions were drawn (Sugiyono, 2014: 58). This research used one dependent variable and 2 independent variables and one moderation variable.

1. Independent Variable (X)

The independent variables used in this research are:

a. Net Operating Cash Flow (X_1)

It was the total net cash flow set by the company from the main operational activities within a certain period. The amount of net cash flows was directly determined from the annual cash flow statement in operational activities.

$$OCF = \frac{\text{Operating Cash Flow}}{\text{Current Liabilities}}$$

b. Profitability (X_2)

Profitability used a ratio. The ratio used in this research was Net Profit Margin (NPM) to measure net income after tax which was compared with sales volume. This ratio was calculated by the formula as follow:

Net Profit Margin = Net Income After Tax

2. Dependent Variable (Y)

The dependent variables are company value (Tobin's Q). The company value was the combination value between tangible assets and intangible assets and low Tobin's Q company value between 0 and 1. It indicated that the company asset change cost was greater than a market value of the company with the formula as follows:

$$= \frac{(EMV + D)}{(EBV + D)}$$

3. Moderation Variable (Z)

In this research, the moderation variable was the company growth as it was measured by growth opportunity. It was the chance of company growth for the future (Harahap, 2002. 309). The formula was as follow:

$$\text{Growth Opportunity} = \frac{\text{Market Value}}{\text{Book Value}} \times 100\% \;/\; \text{Sales}$$

3. Discussion

Research Findings

1. **Effect of Operating Cash Flow(X_1) on Company Value (Y)**

Effect of Operating Cash Flow on Company Value with hypothesis was as follows:

H_{01}: Operating Cash Flow (X_1) and H_{02} were rejected. So it was concluded that there was no significant effect on company value (Y) on property and real estate companies.

H_{a1}: Operating Cash Flow (X_1) had a significant effect on company value (Y) in property and real estate companies.

Based on the result of the calculation of coefficients table above, the significance value 0.581 > alpha (0.05). It meant that H_{01} was accepted and H_{a1} was rejected. Thus, it was concluded that the operating cash flow (X_1) had no significant effect on company value in property and real estate companies.

2. **Effect of Profitability (X_2) on Company Value (Y)**

Effect of Profitability on company value with the following hypothesis was as follows:

H_{02}: Profitability (X_2)

Company (Y) on property and real estate companies.

H_{a2}: Profitability (X_2)

It had a significant effect on company value (Y) on property and real estate companies. Based on the result of the calculation of the coefficients table, the significance value 0.003 < alpha (0,05). It meant that H_a was accepted and the Profitability (X_2) had a significant effect on the company value in the property and real estate companies.

3. **Effect of Cash Operations (X_2) on Company Value (Y) with Company Growth Variable (Z) As The Moderating Variable**

   Effect of profitability on company value with the following hypothesis was as follows:

   H_{02}: Operating Cash Flow (X_1) moderated by the company growth (Z) had no significant effect on the value.

   The hypothesis test was conducted to describe a level of effect between

   Based on the result of the calculation on the coefficients table above, there was a significance value seen from 0.11 > alpha (0.05). It meant that H_{03} was accepted and H_{a3} was rejected.

   It was concluded that the operating cash flow (X1) moderated by the company growth (Z) had no significant effect on the company value in property and real estate companies.

4. **Effect of Profitability (X_2) against Company Value (Y) with Company Growth variable (Z) as a moderation variable**

   The Effect of Profitability on Company Value with the following hypothesis:

   H04: Profitability (X_2) which was moderated by Company Growth (Y) variables had no significant effect on Company Value (Y) on property and real estate companies.

   Ha4: Profitability (X_2) which was moderated by Company Growth (Y) variables have significant effect on Company Value (Y) on property and real estate companies.

   Based on calculation of the table stated that 0.003 <alpha (0.05) means H_{c4} accepted and H_{04} rejected.

   Then it can be concluded that Profitability variables (X2) were moderated by growth variables The Company (Z) had a significant effect on the value of the company in the property and real estate companies.

Hypotheses

1. **Coefficient of Determination (R Square)**

   The coefficient of determination for R2 (R Square) was 0.27. it indicated that the X1 (Operating Cash Flow) and X2 (Profitability) with the company growth as the moderating variable used to explain Y (company value) variable was 27.2%; while, the rest (72.8%) was explained by the other factors or external factors.

2. **Effect of Operating Cash Flow on Company Value**

   The result of **hypothesis 1** showed that the amount of cash flow generated from operational activities was an indicator determining whether the company operation can generate sufficient cash flow to repay the loan and maintain the company operation. The coefficients indicated that the funding source was significant. However, the increase or decrease of the cash flow was not used as a benchmark in assessing the success of the company.

   Low or high operating cash flow value did not prove that companies were more effective and efficient in managing assets which were used to cover their short-term debt so that the company value was not predictable to attract investors to the company.

3. **Effect of Profitability on Company Value**

The result of **hypothesis 2** indicated that the profitability ratio was used to measure and generate profits by using both all existing assets and using own capital. The profitability is the net income affected from sharing policy and management decisions. The hypothesis states that the profitability significantly affected the company value in the property and real estate companies. The result of this test proved that the profitability with NPM analysis had no significant effect on the company value. It meant that the profitability change affected the company value changes. The profitability significantly affected the company value. It was reinforced by an increase in the company value which showed a better increase and the fluctuated NPM value tended to increase. Consequently, the profitability was better in line with the high profit so that the company value was good in publics' eyes. Therefore, the profitability gave a positive signal captured by investors in predicting the profit. The data on the profitability became the investors' consideration for their investment decisions in property and real estate companies.

4. **Effect of Operating Cash Flow to Company Value on Company Growth variable input as a moderating variable.**

The result of **hypothesis 3** indicated that the amount of cash flows from operational activities is the indicator determining whether the company operation was able to generate sufficient cash flow to pay off the loan, maintain the company operation, pay dividends, and make new investments without relying on external funding sources.

The amount of cash flows from operating activities was the indicator determining whether the company operation generated sufficient cash flow to pay off the loan, maintain the company operation, pay dividends, and make new investments without relying on external funding sources.

However, the increase or decrease of cash flow was not as a benchmark in assessing the success of the company. Thus, the hypothesis about operating cash flow moderated by company growth significantly affecting the company value in property and real estate companies was accepted.

5. **Effect of Profitability on Company Value with Company Growth as the moderating variable.**

The result of **hypothesis 4** showed that the profitability ratio was the ratio to assess the company capability in the search for profit. The investor considered that the profitability was important to assess the company prospects in the future and also to observe the profitability growth of the company. Profitability ratio provided an overview of the company management effectiveness.

Profitability reports of companies was the vital point because the good profitability report was the indicator to manifest better financial performance of companies. Therefore, the hypothesis showed that the profitability significantly affecting the company value in the property and real estate companies was accepted.

Based on the results of this analysis, the conclusions of this research are as follows:

1. Based on the results of ***"t"*** test through multiple regressions, the operating cash flow has no significant effect on the company value. Low or high operating cash flow value is not able to prove that companies are more effective and efficient in managing assets to cover their short-term debt which can lead the investors not to be interested in investing into the companies. As the investor invests the shares to the company, the investor or prospective shareholder wants the cash flow capability to finance or pay for the operational activities. Thus, the cash flow

cannot be predicted to attract investors to invest the share to the company.

2. Based on the results of ***"t"*** test through multiple regressions, the profitability significantly affected the company value. Therefore, the profitability gives a positive signal captured by investors in predicting the profit. The data contained in the profitability becomes the investors' consideration to make investment decisions.
3. Based on the results of *Moderated Regression Analysis*, the operating cash flow on the company value with company growth as the moderating variable has no significant effect on company value. The company was an input to the company growth for the future and it is not the good performance indicator for the company. Therefore, the good operating cash flow without good performance and future
4. growth opportunities does not change the company value.
5. Based on calculation result of *Moderated Regression Analysis*, the profitability on the company value with the company growth as the moderating variable has significant effect on the company value. As the investors would like to invest to the company, they previously conducted an analysis by using existing methods. It is because they need to know to what extent the company gets a better profit and the

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