What are the Determinants of Company Value

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Abstract. The worth of the company is a significant consideration for shareholders when determining how to provide funding. The value of a corporation is influenced by a variety of factors, including profitability, dividend and debt policies, among others. Since they fall under the financial industry, banks were chosen in this instance as sample businesses. 45 on the Indonesia Stock Exchange listed banking companies make up the sample population for this study. Multiple Linear Regression is the method employed in this study to assess the statistical outcomes. According to the study's findings, business value is impacted by profitability and a changeable dividend policy. The debt policy has little impact on the corporate value, nevertheless.

Keywords: financial performance, business value, profitability, dividend policy, and debt management

1 Introduction

All businesspeople are urged to set up their enterprises for quick economic expansion in order to deal with challenges in the corporate sector. In this case, the banking firm is a service provider whose subpar performance could lead to issues down the road. Businesses that are unable to manage their operations effectively will fail [29]. To put it simply, every company strives to increase performance as much as possible in order to remain in operation. A company's performance can be used as a basis for decisions about accepting investment because it can send signals about the company's progress.

The value of the corporation plays a significant role in describing the welfare of corporate shareholders. Companies that have gone public on the capital market can be identified using company stock prices [35]. A company's value is determined by its market value of marketable capital and its outstanding shareholder debt. Among the factors that influence a company's value are its profitability, dividend policy, debt policy, and other factors (Setiawan et al., 2021).

Furthermore, prior studies [15] [14] demonstrate that profitability significantly influences business value. The profitability variable, according to research from [26] and [32] has little impact on business value. Next, numerous research have found that dividend policies have an impact on firm value [19] [16]. The findings of this study, however, go against those of other studies [26] [32] [4] [22], which claim that dividend policy has no bearing on firm value. Indicates that debt policy affects company value in a favorable and significant way. But this

ICEB 2023, August 02-03, Padang, Indonesia
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DOI 10.4108/eai.2-8-2023.2341087

isn't in the [25] findings that the variable debt or leverage policy has no discernible impact on business value are in accordance with [10].

The researcher is interested in performing additional study on the factors that affect business value due to the inconsistent nature of the research findings. Therefore, the purpose of this study is to determine whether profitability, dividend policy, and debt policy have an impact on business value.

2 Literature Review And Hypothesis Development

A contract between managers (agents) and shareholders (principals), according to Jensen and Meckling (1976), constitutes an agency relationship. Agents are independent contractors whom the principals have confidence in to handle the company. The principal, who is the owner or shareholder, is trusted by the agent to act on his behalf. In agency relationships, this typically leads to issues between corporate management and shareholders.

The problem that emerges is the problem of endangering one's own interests, also referred to as a conflict of interest. Each manager of a corporation with shareholders has a unique set of objectives they wish to accomplish. Investors anticipate greater and quicker returns on their capital. By earning the highest compensation or incentives for its management efforts, management strives to further its own interests. For managers, it is more advantageous to be able to gather information from investors who are external parties than from internal parties [11].

[3] define profitability as a corporation's capacity to produce profits or income at specific levels of sales, share capital, and assets. At these levels, the company may produce sizable earnings and have a favorable effect on its surroundings. Due to its importance in influencing firm performance, profitability is also taken into account as an evaluation indicator when examining the company's sustainability in the future [28]. Profitability, which also demonstrates how investors are compensated more by the company, directs the company's financial decisions and actions [7].

According to [2] profitability can be utilized to evaluate business prospects and discover organizations with dividend policies. As a result, profitability increases the dividend distribution policy to succeeding shareholders, which will have an effect on the value of the company [33]. Profitability can be assessed using Return on Assets (ROA), which is calculated as Profit After Tax divided by Total Assets multiplied by 100%. The business must attain high levels of profitability in order to keep its high dividend policy and to appear to investors to have a high opinion of the company.

Researchers [6] found that a company's capacity for optimal and consistent profitability tends to rise along with its size. Typically, larger companies perform better and are easier to manage than smaller companies. According to research by [34] high profitability can lower risks that will have an influence on investors. Companies must make as much profit as they can in order to maximize size and enhance company value.

A company's ability to profit from all of its assets is measured by its profitability [34]. Because it assesses cost-cutting and economic success, profitability is a crucial aspect of financial. While small firms can make a profit, they have a much higher probability of doing so than larger companies. Additionally, according to [8] a company's size might have an impact on its profitability.

Because a corporation can distribute money to shareholders and pay off debt when it is profitable, shareholders should take this factor into account when evaluating a company [28]. Company size is employed as a moderating component together with the size of the capitalization value and market influence between profitability and firm value. Therefore, the corporation will be more profitable and valuable the higher its market capitalization value. Additionally, it is believed that adding firm size as a moderating factor might either strengthen or weaken the relationship between these factors [1].

Dividend policy and stock prices are used to project future earnings or profits. From a different angle, if a corporation has an aggressive dividend policy, huge profits are probably in store for the future, and vice versa. By contrasting the nominal amount to be received with the rate of return, investors can determine which will result in a higher capital gain in the future. The dividend policy is one of the policies used by corporations to determine how earnings will be distributed to shareholders at the General Meeting of Shareholders (GMS).

When a company is able to give a high dividend policy in accordance with its shareholders' preferences, it will become a separate company and be valued by those shareholders. Additionally, the company's value can be judged by its capacity to put into practice a perfect dividend policy that will raise share prices and benefit shareholders . Companies who are successful in putting a dividend policy into place will also be successful in maximizing firm value and boosting shareholder confidence in the business.

[12] claim that a debt policy governs the capital structure, which serves as a source of funding for corporate operations. Due to their responsibility to pay interest, businesses with capital structures that incorporate a moderate level of debt frequently run into financial difficulties. will raise the stock price, which in turn will raise the company's value. The percentage of the capital structure that is financed by debt as opposed to equity may lessen shareholders' enthusiasm. Increasing debt ownership is seen to be against the interests of shareholders even when management employs debt to improve the company's capital structure.

Managers can borrow money with less strict conditions, but the interest rate will be higher. A knowledge asymmetry between managers and shareholders increases as a result of the acquisition of managers' debt, which lowers shareholder trust. As a result, the moderating variable of debt policy used in this study is pertinent. A company's choice regarding outside investment is known as its debt policy [1].

According to research by [24] capital is handled not only for the advantage of shareholders but also for the profit of business managers personally. Therefore, the company's decision to establish a high dividend policy will have a favorable impact on the business value. Depending on the size of the firm, it is expected that the impact between the two will either grow or shrink. The amount of net profit that will be paid out as dividends to shareholders and how much will be held back to be reinvested in the future are determined by the company's dividend policy. The distribution of the company's net profit can be done in accordance with Law No. 40, Article 71, Concerning Limited Liability Companies from 2007. Following the creation of required reserve funds and in compliance with five legal provisions, dividends are distributed to shareholders.

Funding for a company's operating expenses is made up of equity and debt [20]. The company needs to be aware of the best time to raise its value. Corporate debt offers a chance to restrict cash flow and have a detrimental effect on the company's financial performance [23]. Shareholders do not want to be burdened with a high level of debt because it will negatively affect their wealth and the amount of returns distributed.

Businesses must understand when to collect financing in accordance with the packing orders principle in order to raise the company's value. The company's debt will restrict cash flow, which will hurt its ability to succeed financially [23]. The ability to handle debt as it matures will be present in large enterprises with high market capitalization values [9]. Businesses will also be able to create an efficient debt management strategy, which will increase the value of the organization.

H1: There is an influence between profitability on firm value

H2: There is an influence between dividend policy on firm value

H3: There is an influence between debt policy and firm value

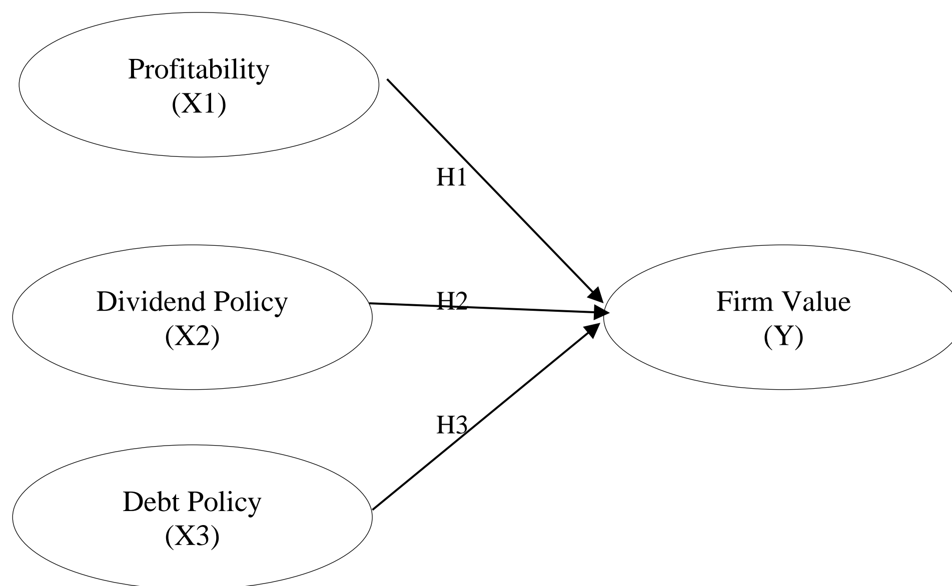

Fig 2.1 Research Design

3 Research Methods

According to the goals of this study, causality research was used [18] 45 banking companies that are all active in the financial sector and are listed on the Indonesia Stock Exchange made up the study's population. Ten banks made up the sample size for this study, including Bank Rakyat Indonesia Tbk (BRI), Bank Tabungan Negara Tbk (BTN), Bank Mandiri Tbk, Bank Tabungan Negara Tbk (BTN), Bank Amar Indonesia Tbk, Bank Central Asia Tbk (BCA), Bank Arthos Indonesia Tbk, Bank Ganesha Tbk, Bank Yudha Bhakti Tbk, and Bank Harda Internasional. Selected businesses in the financial industry (Bank) that were listed on the Indonesia Stock Exchange (IDX) for the years 2015 through 2019.

The following criteria were utilized in the study's purposive sampling strategy: Companies that have at least completed an IPO in 2012, have released financial reports for the year ending December 31, 2019, have financial reports in rupiah, present complete research variable data, and have all of the aforementioned characteristics. The hypothesized variables are then

multiplied by the independent variables [30] and [13] to perform the Multiple Linear Regeri test.

$$Y_{it} = \beta_0 + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Information :

Y = Number of variables Price earning ratio (PER)

i = corporate entity

t = year period

β = constant

β 1 = ROA variable regression coefficient

β 2 = regression coefficient of the DPR variable

β 3 = regression coefficient of the DER variable

X1 = total variable Return On Assets (ROA)

X2 = total dividend payout ratio (DPR) variable

X3 = Number of variables Dividend Earning Ratio (DER)

e = error

4 Results And Discussion

4.1 Results

Tabel 1 Result

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-117111.706	52917.503		-2.213	.032
	X1_DPR	5359.548	1203.760	.530	4.452	.000
	X2_ROA	20592.627	8808.899	.278	2.338	.024
	X3_DER	530.113	6572.335	.010	.081	.936

a. Dependent Variable: Y_PER

$$PER_{it} = -117111{,}706 + 5359{,}548\ DPR_{it} + 20592{,}627\ ROA_{it} - 530{,}113\ DER_{it}$$

As shown in the table above: The average PER is -117111.706 if the dividend policy values (X1), profitability (X2), and debt policy (X3) are all equal to zero, according to the intercept value, which is about -117111.706. If all other variables remain constant, an increase in the DPR variable of 1% will cause an increase in the PER variable of 5359.548% because the coefficient of the X1 value is 5359.548. If all other variables remain constant, an increase in the ROA variable of 1% will result in a rise in the PER variable of 20592.627%, according to

the calculation of the X2 coefficient, which yields a value of 20592.627.

4.2 Discussion

Because profitability has a positive and sizable influence on firm value, businesses that reach high levels of profitability will be able to grow their firm worth. Company value is a crucial factor that can affect how shareholders regard the company and can reflect company performance, according to [31]. According to the signaling theory, a company is viewed as a good investment if it makes substantial profits given its performance. It demonstrates how profitability enhances corporate value. As a result, the better the company's profitability, the larger the value of the performance of the company can be represented.

The company's value will be best represented by how profitable it is, according to [24]. In essence, profitability relates to a company's ability to manage operations, maximize earnings, and reduce operating expenses. The study's findings are in line with the Signal Theory, which contends that a company's low profitability can be a hint for its value to rise.

Because the dividend policy has a good and significant impact on the value of the firm, it will be feasible to raise the value of the company when it is increased. The business must be able to sustain shareholder confidence in this circumstance by enhancing performance. In order for a high dividend policy to accurately reflect shareholder wealth. Dividend payments have a bigger impact on a company's value than non-financial payments, according to research by [16].

The findings of this study are supplemented by [10] and [27] who draw the conclusion that the low dividend policy established by shareholders can effect firm value. A company's dividend policy is a policy since it specifies the proportion of profits that will be delivered to shareholders. The Bird in the Hand Theory, which contends that shareholders favor dividends above capital gains, is similarly consistent with the study's findings [32]. Consequently, a high dividend policy can raise the company's worth.

The debt policy has no impact on the company value, so when the firm decides on a debt policy, there is no impact on the value of the company. A corporation can use the profit made by its function to support business operations or pay dividends to shareholders, and vice versa, the lower the DER, according to research by [5]. As a result, the company's worth cannot be impacted by the amount of debt it has because it depends on how well it manages its debts. The research of [17] is consistent with the conclusions of this study. investors are interested in learning more about how businesses can manage their money, thus they believe that claim payout policies have no bearing on the firm worth.

Furthermore, investors will think that a firm would go bankrupt if it is unable to make payments, which will actually lower the value of the company when it has a high debt load. In contrast, a company's value will be high if its debt is modest, assuming it can manage it, because debt is managed well.

5 Conclusion

A company's value is positively impacted by profitability, thus when it becomes more profitable or experiences an increase in revenue, its value rises and symbolizes a company's good future prospects. Because dividend policy has a positive effect on firm value, when a corporation offers dividends to high shareholders, it will symbolize the success of those shareholders and increase the value of the company. Because the debt policy does not have a positive effect on the firm's

worth, it will not matter if a company is unable to balance funding from stock and debt.

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