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The Impact of Debt Policy, Profitability, and Company Size on Firm Value

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Abstract

This study aims to analyze the impact of debt policy, profitability, and company size on firm value in companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The research adopts a quantitative approach, utilizing multiple regression analysis to evaluate the partial and simultaneous effects of the independent variables on firm value. The findings indicate that company size significantly influences firm value, as larger companies often exhibit operational stability and attract greater investor interest. The regression results show that company size (measured by the natural logarithm of total assets) has a t-value of -0.516 with a significance level of 0.610, indicating no direct effect on firm value. Profitability, measured by the gross profit margin, also shows no significant effect on firm value, with a t-value of -1.289 and a p-value of 0.206. Similarly, debt policy, represented by the Debt-to-Equity Ratio (DER), yields a t-value of 1.389 with a p-value of 0.174, suggesting that while debt policy has a positive direction, it does not significantly enhance firm value. The F-test result further confirms that the independent variables do not simultaneously affect firm value, with an F-statistic significance of 0.319 (greater than 0.05). These findings underscore the importance of optimizing company size, as larger firms inherently reflect better operational resilience and investment appeal. Additionally, the results highlight the need for careful management of financial risks associated with debt usage to maintain balance between growth and stability. This study contributes to the field of financial management by providing empirical evidence on the determinants of firm value in the Indonesian context.

Keywords: Firm Value, Profitability, Debt Policy, and Firm Size

INTRODUCTION

Investors' opinions of the company's performance and future prospects are reflected in its firm value. The value of a company is a critical measure that represents its financial health, market position, and ability to generate returns for stakeholders. A number of factors, such as business size, profitability, and debt policy, affect how much a company is worth. Company size, often measured by total assets, is frequently used as an indicator of operational stability and the firm's ability to manage risks effectively. Larger companies are presumed to have more resources to overcome market challenges and attract investor confidence due to economies of scale and easier access to external funding.

Profitability, which reflects the firm's ability to generate profit relative to its revenue or assets, is another vital determinant of firm value. High profitability is often viewed as a sign of efficient management and operational success. It attracts investors by showcasing the firm's potential to provide substantial returns. However, the relationship between profitability and firm value can be influenced by industry conditions and management strategies.

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Debt policy, represented by the Debt-to-Equity Ratio (DER), reflects a firm's approach to financing its operations through debt relative to equity. Theories such as Modigliani and Miller's capital structure theory suggest that moderate debt usage can benefit companies through tax savings. However, excessive debt levels increase financial risks and can harm firm value during economic downturns.

This study employs a quantitative approach and multiple regression analysis to examine the simultaneous and partial effects of company size, profitability, and debt policy on firm value. The research focuses on companies listed on the Indonesia Stock Exchange during the 2019–2023 timeframe. By exploring these relationships, the study seeks to contribute to the body of financial literature and provide practical insights for corporate management in enhancing firm value. This introduction sets the foundation for a deeper exploration of the determinants of firm value, supported by theoretical frameworks and empirical findings from prior studies.

RESEARCH METHODS

This study employs a quantitative research approach, chosen for its capacity to provide objective and measurable results. According to Creswell (2014), quantitative research involves the systematic empirical investigation of observable phenomena via statistical, mathematical, or computational techniques. In this context, the study applies multiple regression analysis to evaluate the partial and simultaneous effects of debt policy, profitability, and company size on firm value. Multiple regression analysis is a robust statistical tool that allows for the examination of relationships between multiple independent variables and a dependent variable. According to Ghozali (2011), this method is particularly suitable for studies aiming to determine the degree of influence of independent variables (such as Ln Total Assets, Gross Profit Margin, and DER) on a dependent variable (Price-to-Book Value).

The study's population includes companies listed on the Indonesia Stock Exchange (IDX) between 2019 and 2023. These companies were selected using purposive sampling, ensuring that the sample meets specific criteria relevant to the research objectives. For example, firms included in the sample must have complete financial data available for the specified period and meet criteria such as active trading status and financial stability. Data collection involved secondary data from financial statements, annual reports, and other publicly available records. Descriptive statistics were used to analyze the data’s central tendency and dispersion, including mean, median, standard deviation, and range values. Following the classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation), the regression model’s validity was confirmed to ensure reliable results. This methodology provides a comprehensive framework for understanding the determinants of firm value and aligns with best practices in financial research, as outlined by Sujarweni (2014)

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RESULTS AND DISCUSSION

Company Size

One of the key elements influencing firm value is company size. The ability of a firm to manage its operations, assets, and other resources is frequently described by its size. The company's total assets, yearly sales, or market capitalization are typically used to gauge this size. Larger businesses typically offer more operational stability, are better equipped to handle business risks, and are more appealing to investors, claim Brigham and Houston (2019). This is because big businesses typically have the resources necessary to overcome obstacles in the market, including the capacity to take advantage of economies of scale.

This theory is further supported by a different study by Fauzi and Idris (2022), which found that larger businesses are better equipped to capitalize on market opportunities and improve operational efficiency, both of which raise firm value. Furthermore, because of their reputation among investors and financial institutions, big businesses typically have better access to outside funding sources. It's crucial to remember, too, that an excessively large business can have its own drawbacks, such more intricate bureaucracy that influences strategic decision-making. As a result, one of the most important factors in guaranteeing that a corporation will contribute to the growth of its value is its ideal size.

$$Company\ size = (ln\ total\ assets)$$

Profitability

The ability of the business to turn a profit within a specific time frame is known as profitability. The ability of the business to effectively manage its capital and assets in order to turn a profit is demonstrated by its profitability. The gross profit margin approach (also known as the gross profit ratio) is one of the profitability measures that is frequently employed in research. Good financial performance is shown in high profitability, which attracts investors since it demonstrates the company's ability to generate sufficient returns on investments.

Kasmir (2016) asserts that a company's capacity to use its capital and assets effectively is reflected in its high profitability. Additionally, profitability serves as a gauge of a company's stability, which enhances investors' favorable opinions. According to Dewi and Suaryana's (2020) research, business value and profitability are positively and significantly correlated. This is due to the fact that profitable businesses demonstrate management's capacity to raise revenue and keep expenses under control, which boosts investor confidence. Conversely, low profitability may indicate issues with operational effectiveness or inefficient business plans, both of which can lower the value of the company.

$$Gross\ Profit\ Margin = \frac{Gross\ profit}{Net\ sales} \times 100\%$$

Debt Policy

A company's choice of how much debt and equity to use to finance its operations is known as its debt policy, or capital structure. Because it influences the risk and the amount of return that investors anticipate, this policy becomes one of the crucial elements in assessing the

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company's worth. According to the capital structure theory of Modigliani and Miller (1958), using debt might result in tax advantages through interest tax savings (a tax shield). Therefore, using debt in a specific amount might raise the company's worth.

However, an uneven debt strategy can present serious financial concerns, according to Brigham and Houston (2019). Businesses that depend too heavily on debt run a higher risk of going bankrupt, particularly during uncertain economic times. In order to optimize the advantages of employing debt without unduly raising financial risk, it is crucial for businesses to maintain an ideal capital structure. The Debt to Equity Ratio (DER) is typically used in research to measure debt policy. Depending on the market environment and industry sector, the impact of debt policy on firm value tends to differ.

$$Debt\ To\ Equity\ Ratio = \frac{Total\ debt}{Total\ equity}$$

Company Value

The firm value of the corporation reflects the views of investors regarding its future prospects. The ability of the business to provide returns for its stakeholders is commonly evaluated using this number. The firm value indicator used in this study is PBV. An elevated firm value signifies that investors have faith in the company's ability to grow and generate profits in the future.

Jensen and Meckling (1976) assert that external factors like market conditions, governmental restrictions, and industry trends have an impact on business value in addition to internal characteristics like firm size, profitability, and debt policy. Firm value, which represents the company's offered balance between risk and return, is frequently one of the pillars upon which investment decisions are made in the capital market. According to empirical research, businesses with strong financial results, substantial size, and an ideal debt management strategy typically have greater firm values. To gain investors' long-term trust, management of the company must, nevertheless, continue to uphold openness and sound governance.

$$Price\ To\ Book\ Value\ = \frac{Market\ price\ per\ share}{Book\ Value\ per\ share}$$

Research Results

The findings demonstrated that while debt policy has no discernible impact on business value, company size and profitability do. Larger businesses are more appealing to investors because they often exhibit operational stability, risk-taking capacity, and improved scale efficiency. A firm's capacity to effectively manage assets and generate profits is shown in its high profitability, as measured by its gross profit margin. This makes the company appealing to investors and a strong financial indication. In the meanwhile, company value is not significantly impacted by debt policy, despite it being in a good direction. This suggests that while using debt as a funding source can have advantages like tax savings in certain amounts, it must be used wisely to reduce the danger of bankruptcy. In general, internal criteria like business size and profitability—which indicate how well assets are managed and activities are carried out—have a greater impact on firm value.

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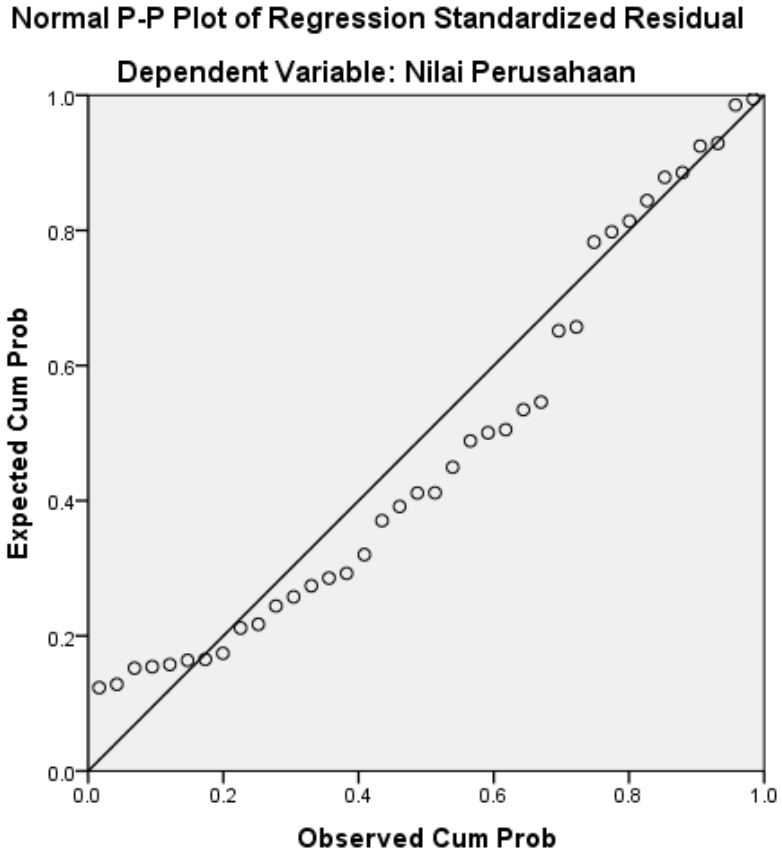
Normality Test (Kolmogrov-Smirnov)

Imam Ghozali (2011: 161) states that if the diagonal line appears in the data plot (dots) depicting the real data, the regression mode is considered to be regularly distributed. The Kolmogorov-Smirnov test can be used for further information.



In the kolmogorov-smirnov test table in the Asymp Sig Unstandardized Residual section, the value is 0.072. Which means that the data is normally distributed, because in its provisions if the Asymp Sig value <0.05 then the data is not normally distributed, and vice versa.

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One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		38
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.04260060
Most Extreme Differences	Absolute	.136
	Positive	.136
	Negative	-.113
Test Statistic		.136
Asymp. Sig. (2-tailed)		.072[c]

Multicollinearity Test

Imam Ghozali (2011: 107-8) asserts that if the tolerance value is greater than 0.100 and the VIF value is less than 10.00, there are no signs of multicollinearity.

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	3.073	3.320		.926	.361		
Company Size	-.061	.118	-.085	-.516	.610	.986	1.014
Profitability	-2.364	1.834	-.210	-1.289	.206	.998	1.002
Debt Policy	.500	.360	.228	1.389	.174	.986	1.014

The Coefficients table shows that the tolerance value> 0.100 and the VIF value < 10.00, proving that there are no multicollinearity symptoms.

Test of Heteroscedasticity

If there is no discernible pattern (wavy, broadening, then narrowing) in the scatterplot image, and the points are dispersed above and below the number 0 on the Y axis, then there is no heteroscedasticity, according to Imam Ghozali (2011: 139).

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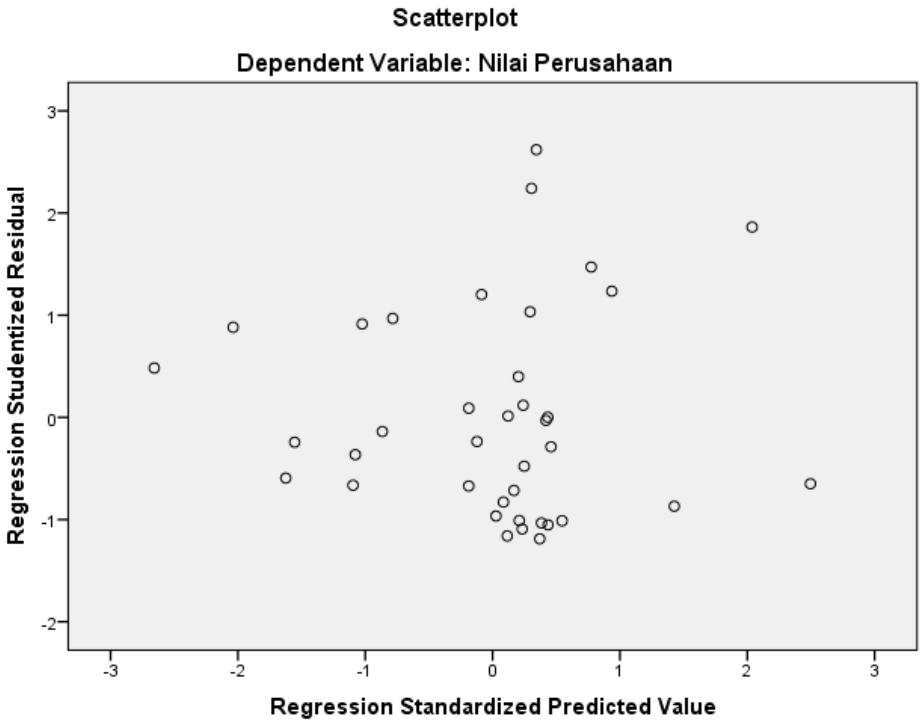


The scatterplots above demonstrate that heteroscedasticity symptoms are absent.

Autocorrelation Test

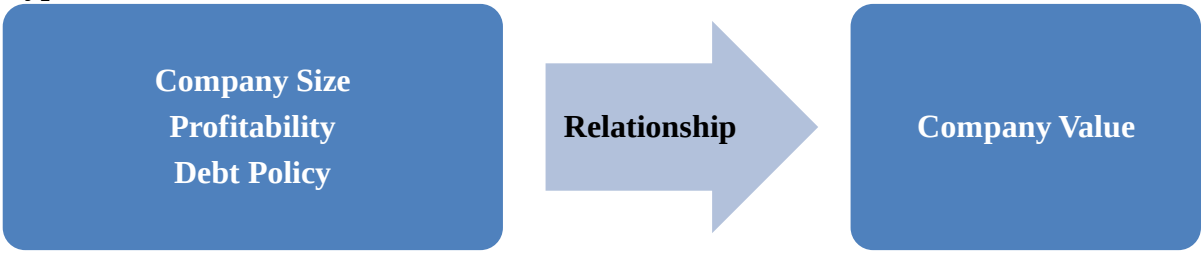
Imam Ghozali (2011: 111) asserts that if the durbin-Watson value falls between du and (4-du), there are no signs of autocorrelation.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.311[a]	.097	.017	1.087625	1.178

The distribution of Durbin-Watson table values based on k (3) and N (38) with 5% significance is searched for the du value. Durbin-Watson (1.178), 4-du (2.344), and du (1.656) are the Durbin-Watson table values at 5% significance. This indicates that autocorrelation symptoms exist because the Durbin Watson value falls outside of the du and (4-du) range.

Hypothesis Test



H_{01}: Company size has a significant effect on Firm Value
H_{02}: Profitability has a significant effect on Firm Value

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H_{03}: Company size has a significant effect on Company Value
H_{a1}: Company Size does not have a significant effect on Firm Value
H_{a2}: Profitability has no significant effect on Firm Value
H_{a3}: Company Size has no significant effect on Firm Value

- If the Sig value <0.05, then there is an influence of the independent variable (X) on the dependent variable (Y).
- If the Sig value> 0.05, then there is no effect of the independent variable (X) on the dependent variable (Y).

Partial Test

Formula t_{tabel} = (α/2; n-k-1) = (0.025; 34) = 2.032

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	3.073	3.320		.926	.361		
Company Size	-.061	.118	-.085	-.516	.610	.986	1.014
Profitability	-2.364	1.834	-.210	-1.289	.206	.998	1.002
Debt Policy	.500	.360	.228	1.389	.174	.986	1.014

The table above shows the Sig X1 value of 0.610, then H_{01} is rejected and H_{a1} is accepted. This means that there is no effect of Company Size on Company Value. Sig X2 value is 0.206, which means H_{02} is rejected and H_{a2} is accepted. This means that there is no effect of Profitability on Company Value. Sig X3 value of 0.174, which means H_{03} is rejected and H_{a3} is accepted, which means that there is no effect of Debt Policy on Company Value.

X1 t_{count} value of -.516
X2 t_{count}t value of -1.289
The t_{count} value of X3 is 1.389

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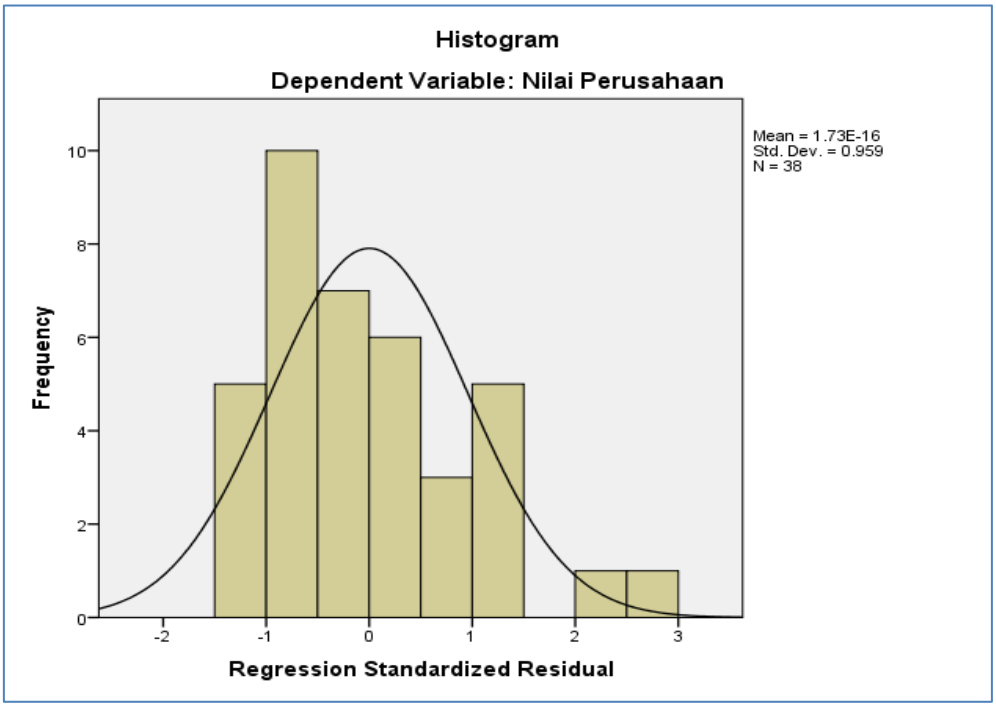

Based on the regression curve above, X1 has a negative effect on Y, X2 has a negative effect on Y, and X3 has a positive effect on Y.

Simultaneous Test

According to V. Wiratna Sujarweni (2014: 154) if the Fhitung> Ftabel value, it means that the independent variable (X) simultaneously affects the dependent variable (Y).

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.308	3	1.436	1.214	.319[b]
	Residual	40.220	34	1.183		
	Total	44.528	37			

The formula for finding F_{tabel} = (k; n-k) = (3;38-3) = (3;35) = 2.87.

Based on the table above, it shows the Sig value of 0.319, which means that the independent variable (X) does not simultaneously affect the dependent variable (Y).

CONCLUSION

Firm value is significantly impacted by the size of the company; a larger company is more appealing to investors and reflects operational reliability. Despite having a correlation with company value, profitability and debt policy do not significantly impact it. This implies that in order to maximize a firm's worth, management should concentrate on optimizing the firm's size.

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To reduce financial risk, debt policy should also be well handled. At the same time, company value is not significantly impacted by the independent variables of business size, profitability, and debt policy.

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