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Effects of Profitability, Company Size, and Leverage on Company Value

(Empirical Study of Mining Companies on the Indonesia Stock Exchange (IDX) 2018-2020)

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Aabstract: The worth of a firm is the price that investors are willing to pay for a company, as measured by the price-to-book value ratio. Profitability, firm size, and leverage are all elements that might influence a company's value. The purpose of this research is to estimate the impact of profitability, business size, and leverage on company value in mining companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020. The purposive sampling methodology was utilized to obtain a sample of 24 mining businesses, and the data analysis method was multiple linear regression analysis. The information was derived from the 2018-2020 financial reports of manufacturing businesses listed on the Indonesia Stock Exchange (IDX).
The test results suggest that profitability and company size have an impact on firm value, while leverage has no impact.

Keywords: Value of Firm, Profitability, Firm Size, Leverage

I. INTRODUCTION

The increasing degree of competition in the business world forces business owners to apply various techniques in order to reach the major objectives of the business, therefore in order to achieve those aims, the firm must pay attention to multiple things, one of which is the company's value. The firm's high worth demonstrates the well-being of the assured owners and can entice future investors to invest in the company. The price of a company's shares sold on the market reflects its worth. For 24 publicly traded firms the price of the firm's stock will reflect the company's value in the capital market, however for the company that has While for companies that have not gone public, the company value will be achieved if the firm is sold, the outlook of the company, the risk of the enterprise, the environment in which the business operates, and other factors.

Not all businesses can boost their company's value. This is due to the fact that management is not a stakeholder. When the managers entrust the management of the firm to others, the shareholders will expect the management to do all efforts to improve the company's worth, which will increase the wealth of the stockholders. Shareholders will pay management for professional services in order for management to pay more attention to shareholders' interests, which is the shareholder's well-being.

According to the agency theory, management will prioritize its own interests (Jensen dan Meckling 1976) [1]. As a result, there will be an agency conflict between shareholders and the management party. The lack of income can also be attributed to management's failure to consider a variety of issues that can affect the company's worth. These elements might be both internal and external to the firm.

The demand for the company's shares can be used to evaluate its value. (2016) (Suharli) [2]. Internal elements that might maximize a firm's value include tax payments, corporate size, growth, uniqueness, financial risk, value of assets declared profitability, dividend payment, and non-debt tax shield. The corporation has control over the variables in these internal components. The company's value is crucial to the company since it determines the valuation of the company will be regarded as the key benchmark for investors purchasing shares. Increased company value will be accompanied by increased shareholder wealth. The higher the stock price, the greater the company's value.

Price Book Value (PBV) is a ratio that compares how much a stock's price is marketed to its book value. Irham Fahmi (2012):83 [3]. The greater the value of this ratio, the more confident the market is in the company's prospects. The

stock price is determined by the interaction of demand and supply on stocks, which is caused by a variety of circumstances. Wulandari (2013):456 [4]. Profitability, leverage, size, and growth potential are among these criteria.

The researchers selected only three variables based on a study of the theory and research gap of multiple previous studies: profitability, leverage, and company size. (size). Profitability refers to a company's ability to create profits based on sales, total assets, and own capital. 2015 (Sartono) [5]. Businesses that can create big profits are more likely to use funds rather than loans to seek tax breaks. Profitability is the ratio of management's effectiveness in generating returns from sales and investment activities.

Previous research (Rachmawati&Pinem, 2015) [6] on the impact of profitability, firm size, and leverage on company value is cited in this paper. The distinction between this research and prior research is that the sector of the company being addressed is the Mining Company.

II. HEADINGS

Agency Theory

The theory of agency describes the existence of a separation of authority between the company's owners and executives, which attempts to keep the company's performance operating smoothly. The company's goal is to maximize the wealth of its owners, which is understood as increasing the stock price. The agency thesis refers to the idea that shareholders empower a company's management to make decisions that may result in a conflict of interest. 2017 (Wiyono dan Kusuma) [7].The agency relationship will cause problems when the party of the principal agent has different goals and the agency problems that arise will result in losses. Agency costs have a close relationship with bankruptcy costs related to their influence on the structural and capital value. Agency costs arise because the company wants to ensure that agency conflicts do not arise that could potentially interfere with the achievement of the company's value.

Signaling Theory

According to the Signaling Theory, a company that has quality both directly and indirectly will send a favorable signal to the market, and the market is supposed to be able to differentiate between good and bad organizations.

According to this hypothesis, investors can tell the difference between enterprises with a high and low value. Investors will be able to readily put capital and money into profitable enterprises as a result of this.

With the presence of asymmetric information, a manager will be motivated to communicate good information about his company to the public as soon as possible, with the presence of asymmetric information giving signals to investors through the decision of the managers is very important for the company. The corporation becomes a barometer of public trust in its performance and future prospects. 2015 (Stacia dan Juniarti) [8].

Company Value

To determine the worth of a corporation, use Price to Book Value (PBV). Price to Book Value (PBV) assesses the worth of a stock by determining how well management can use economic resources in its policies to make investment decisions and the possible growth of a firm in the future.

Profitability

Profitability is a company's ability to create profits and measure the level of efficiency of operational activities and asset utilization. (Chen, 2008) [9]. The profitability metric utilized in this study is Return on Equity, which relates to the company's level of efficiency in managing all of its assets to generate money.

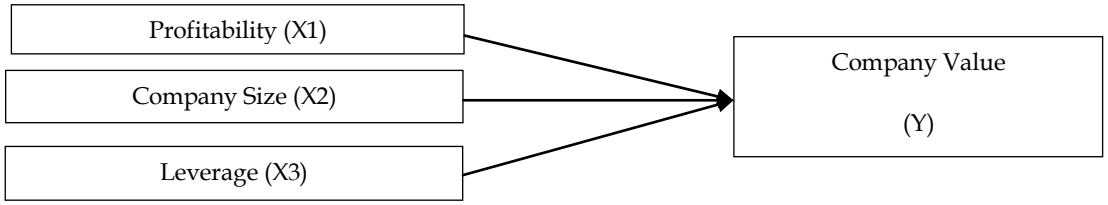
Company Size

Company size, according to Jones in Saidi (2014) [10], represents the smallness of a firm by defining the scale of the company, which may be estimated based on total sales, total assets, average sales rate, and average total asset. The size of the corporation refers to the number of assets possessed by the company. The measurement of the company's size in this study refers to the study of Krishnan and Moyer (2013) [11], in which the company's size is measured using the logarithmic value of the total asset.

Leverage

This is the total debt to total assets ratio. As a result, this ratio indicates the extent to which the asset can cover the debt. According to Sawir (2008:13) [12], the debt ratio is a ratio that depicts the relationship between the commitments owing and the total amount owed. The company's debt grows as the debt ratio rises while the proportion of total assets remains constant.

Research Framework



III. INDENTATIONS AND EQUATIONS

Types of research

This sort of research employs quantitative research through testing theories. The data used is secondary data, namely a financial report on mining businesses listed on the Indonesian Stock Exchange (BEI) from 2018 to 2020. The purpose of this study is to determine the impact of profitability, company size, and leverage on the value of a company.

Data and Data Source

This study requires secondary data as a data source. The Financial Report of manufacturing businesses listed on the Indonesian Stock Exchange (BEI) in 2018-2020 was collected from the official website of Bursa Efek Indonesia (www.idx.co.id) and the connected companies.

Population and Sample

In this study, sampling is done the approach utilized for sample collection in this study is called purposive sampling. This study's population consists of mining businesses registered on the Indonesia Stock Exchange (BEI) between 2018 and 2020.

Method of Collecting Data

The data for this study was gathered through documentation, namely by reviewing the financial statements of companies listed on the Indonesian Stock Exchange (BEI) from 2018 to 2020. Researchers use this technique to collect information about profitability, liquidity, company size, and sales growth.

Data Analysis Method

The following data analysis methods were employed in this studydescriptive statistical analysis, classical assumption test, double linear regression analysis, and hypothesis test in the form of test t, test f, and determination coefficient (R^2) using SPSS 21 test tools.

In the study of multiple linear regression analysis, the following equations are used:

$$CV = \alpha + \beta 1\ PROF + \beta 2\ CZ + \beta 3\ LV + e$$

Information:

CV = Company Value

A = Constant

β1 – β3= Regression coefficient

PROF = Profitability

CZ = Company Size

LV = Laverage

e = Errors

IV. FIGURES AND TABLES

IV.1 Descriptive Statistical Analysis

Table 1. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Nilai Perusahaan	64	,001	6,986	1,6858	1,45516
Profitability	64	,003	,456	,0838	,07538
Company Size	64	18,055	25,351	22,0889	1,76249
Leverage	64	,209	8,694	2,7801	2,12862
Valid N (listwise)	64				

Source: data processed by the author, 2023

Based on table 1 it is known that the number (N) is 64 company data. The results of the descriptive analysis in table 1 can be explained as follows:

1. The company value has a minimum value of 0.001 in the 2019 BTON stock code, a maximum value of 6.986 in the 2020 MDKA stock code, while the average value (mean) is 1.6858 and the standard deviation value is 1.45516.
2. Profitability has a minimum value of 0.003 in the 2020 INAI stock code, a maximum value of 0.456 in the 2018 BYAN stock code, while the average value (mean) is 0.0838 and the standard deviation value is 0.07538.
3. The company size has a minimum value of 18.055 in the 2018 OPMS stock code, a maximum value of 25.351 in the 2018 ADRO stock code while the average value (mean) is 22.0889, and the standard deviation value is 1.76249.
4. Leverage has a minimum value of 0.209 in the 2019 OPMS stock code, a maximum value of 8.694 in the INAI stock code in 2020, while the average value (mean) is 2.7801, and the standard deviation value is 2.12862.

IV.2 Classical Assumption Test

IV.2.1 Normality Test

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		64
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	1,15347632
Most Extreme Differences	Absolute	,108
	Positive	,108
	Negative	-,080
Kolmogorov-Smirnov Z		,861
Asymp. Sig. (2-tailed)		,449

a. Test distribution is Normal.

b. Calculated from data.

Source: data processed by the author, 2023

The Kolmogorov-Smirnov test is used to calculate the results of the normalcy test. The Asymp value was generated in this investigation. Sig. (2-tail) = 0.861. The Asymp value indicates that the residual data in this regression model is normally distributed. Sig. (2-tailed) greater than 0.05.

IV.2.2 Multicollinearity Test

Table 3. Multicollinearity Test Results

Coefficients[a]				
Model		Collinearity Statistics		
		Tolerance	VIF	**Conclusion**
1	(Constant)			
	Profitability	0,703	1,423	There is no multicollinearity
	Company Size	0,930	1,075	There is no multicollinearity
	Leverage	0,697	1,435	There is no multicollinearity

Source: data processed by the author, 2023

According to the findings of the multicollinearity test analysis, the VIF values vary from 1.075 to 1.435, with all of them having values less than 10, and the tolerance values for all variables being greater than 0.10. As a result, the regression model in this study does not exhibit multicollinearity symptoms and can be employed for further investigation.

IV.2.3 Heteroscedasticity Test

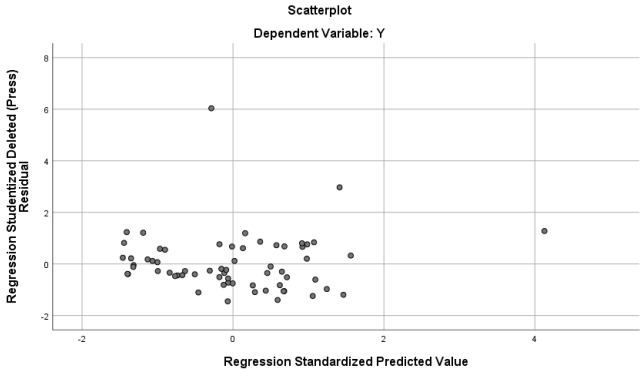


Figure IV.1 Heteroscedasticity Test

Based on the heteroscedasticity test results, the Scatter Plot graph above has a distribution pattern with data patterns dispersed above and below 0 on the Y axis, indicating that the regression model has no heteroscedasticity symptoms.

IV.2.4 Autocorrelation Test

Table 4.Autocorrelation Test

Runs Test

	Unstandardized Residual
Test Value[a]	-,28295
Cases < Test Value	32
Cases >= Test Value	32
Total Cases	64
Number of Runs	32
Z	-,252

Asymp. Sig. (2-tailed)	,801

a. Median

Source: data processed by the author, 2023

Table 4 shows that the sig asymp value is 0.801 > 0.005, implying that there is no autocorrelation and that the regression model for this study is adequate.

IV.3 Multiple Regression Analysis

Table 5. Results of Multiple Regression Analysis

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3,132	1,988		-1,576	,120
	Profitability	8,684	2,357	,450	3,685	,000
	Company Size	,194	,088	,234	2,210	,031
	Leverage	-,067	,087	-,097	-,794	,430

Source: data processed by the author, 2023

Based on the results of the multiple linear regression analysis above, the regression equation model is as follows:

$$CV = -3,132 + 8,684\ PROF + 0,194\ CZ + (-0,067)\ LV + e$$

-3,132 is the constant value. This result can be understood as follows: if the value of all independent variables is 0, the value of financial performance is -3,132.

IV.3.1 Test of the Coefficient of Determination (R2)

Table 6. Test Results for the Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,610[a]	,372	,340	1,18196

Source: data processed by the author, 2023

It is calculated using the corrected R-Square value of 0.340 in table 6. This suggests that the six independent variables can explain just 34% of the model variance. Whereas factors outside the model explain 66% of the variance.

IV.3.2 Simultaneous Test (Test F)

Table 7. Simultaneous Test Results (Test F)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49,581	3	16,527	11,830	,000[b]
	Residual	83,822	60	1,397		
	Total	133,403	63			

Source: data processed by the author, 2023

Table 7 reveals that the F test has a significant value of 0.000. The significance level is lower than 0.05. This suggests that the independent variable has an influence on the dependent variable at the same time. As a result, profitability, firm size, and leverage all have an impact on corporate value.

IV.3.3 Partial Test (T Test)

Table 8. T test results

Variabel	T_{count}	T_{table}	Sig	Information
Profitability	3,685	1,671	,000	**Be accepted**
Company Size	2,210	1,671	,031	**Be accepted**
Leverage	-,794	1,671	,430	**Rejected**

Source: data processed by the author, 2023

According to table 8, profitability and firm size have an impact on company value. The sig profitability value of 0.000 0.05 and the sig firm size value of 0.031 0.05 attest to this. Whereas the leverage variable has no influence on the value of the firm. It has been established that the sig leverage value is more than 0.05.

IV.4 Discussion of Analysis Results

Effect of Profitability on Company Value

The profitability variable has a t caunt value of 3.685 more than the t table value of 1.671, with a significance value of 0.000 less than 0.05, suggesting that H1 is acceptable based on the t test findings. Profitability has an influence on business value, according to this study.

This is due to the fact that a high level of profitability ratios implies that the firm is able to produce a large net profit from its operations, signaling that the company's operational activities are successful and efficient. Investors will be enticed to invest in the firm due to its strong profitability rates. The higher the value of the profitability ratio, the greater the company's worth.

Effect of Company Size on Company Value

According to the t test findings, the firm size variable has a computed t caunt value (2.150) > t table (1.671), with a significant value of 0.031 0.05 H2.

This indicates that the size of a corporation is an indicator of its financial strength. The total assets on the balance sheet at the end of the year represent the size of the firm. Because businesses tend to have more sources of money to support their operational operations, the larger the firm, the simpler it is to access finance sources, both external and internal, therefore corporations tend to have more sources of funds to support their operational activities.

Effect of Leverage on Company Value

The t test results reveal that the leverage variable has a t value of (-0.794) t table (1.671). H3 is rejected with a significant value of 0.430 > 0.05. This study demonstrates that leverage has no influence on business value.

This shows that leverage has a significant negative influence on corporate value. As the leverage variable increases, the dependent variable, firm value, decreases, and vice versa. This is due to the fact that leverage may be viewed as a risk assessment of a firm. Since leverage is defined as the ratio of total assets to total debt.

V. CONCLUSION

Based on the findings of the previous chapter's tests, it is possible to infer that profitability has an influence on company value with a significance value of 0.000 0.05, implying that H1 is accepted. H2 is accepted because company size has a significant influence on firm value with a significance of 0.031 0.05, while H3 is denied because leverage has no effect on firm value with a significance of 0.430 > 0.05.

Limitations

Some of the limitations of this research include:

1. The sample in this study only covers the main sector, namely mining companies on the Indonesian Stock Exchange (IDX) in 2018-2020.
2. The factors that affect firm value in this study consist of only three variables, namely profitability, firm size, leverage with an Adjusted R Square (R^2) value of 0.340 while the leverage variable has no effect and there are many other factors that can influence the value company.

Suggestion

Based on the study's findings and limitations, the researchers make the following recommendations for further research:

1. Further research is expected to expand the research sector or even use all companies listed on the Indonesian Stock Exchange (IDX).
2. It is anticipated that the remaining analysis will include additional variables that do not have a relationship to company size, such as investment intent, personnel decisions, organizational structure, inflation rates, and other similar factors.
3. It is anticipated that the remaining analysis will include variables that affect a company's valuation, such as dividend yield, long-term debt to equity ratio, cash ratio, and other factors as well.
4. Increasing the time period of the studied years in order to obtain a high Adjusted R Square (R^2) value.

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