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Profitability, investment, and financing decisions and their impact on firm value in the basic industry and chemicals sector

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ABSTRACT

The aim of this research is to find out how profitability, investment decisions and funding decisions influence company value in Basic Industry & Chemicals sector companies listed on the Indonesia Stock Exchange from 2019 to 2021. In reality, high company value does not necessarily indicate good company performance. tall. In practice, not all companies want share prices that are too high, because they are afraid that investors will not be interested in buying them. The method used in this research is a quantitative method. The data used are manufacturing companies in the Basic Industry & Chemicals sector registered on the IDX during the 2019 - 2021 period. Based on the research results, it can be concluded that profitability and funding decisions have a positive and significant effect on company value. And Investment Decisions have a positive and insignificant effect on company value.

INTRODUCTION

The economic development in Indonesia has consistently increased from year to year. This development occurs due to globalization, which drives progress in technology and communication, thereby providing opportunities for the public to establish businesses or conduct cross-border transactions. The rapid development that occurs intensifies competition due to the emergence of new companies. Intense competition will drive companies to maximize their performance in achieving corporate goals. Generally, the primary objective of a company is to generate profit by utilizing its resources. (Sugeng, 2019)

Several factors influence firm value, including profitability, investment decisions, financing decisions, and other aspects studied by various researchers with differing results. In this study, the researcher will examine the influence of profitability, investment decisions, and financing decisions on firm value. This drives companies to maximize management efforts to improve performance in order to enhance firm value. According to Sugeng (2019), firm value is the total net wealth attributable to the company's owners (shareholder wealth). Therefore, company owners will strive to increase firm value, as their wealth grows in line with the company's value.

Profitability generally refers to the ability to generate profit. This profit is derived from the capital owned by the company. For long-term sustainability, profitability is a crucial element for a company's future survival. A company's success is measured by its ability to compete and sustain its position in the market. Naturally, every company owner and management team aims for maximum profitability.

An investment decision can be understood as an investment policy. According to Sugeng (2019), investment policy can be interpreted as the decision to select an investment that provides returns to the company. The investment decisions made by a company can impact its long-term growth and risk. If a company fails to make appropriate investment decisions, it may incur losses that could threaten its business continuity.

Financing decisions can be interpreted as funding policies. According to Sugeng (2019), funding policy is a management decision in selecting the best and most profitable approach to meet the company's funding needs. To understand the composition of financing decisions, a comparison between debt and equity financing is conducted. An optimal financing decision requires a combination of long-term debt, short-term debt, and equity, positioning the company's finances to withstand fluctuating interest rates.

Based on the background and problem limitations, the research question can be formulated as follows: "Do profitability, investment decisions, and financing decisions influence firm value?"

LITERATURE REVIEW

Signaling Theory

According to Brigham & Houston (2019), signaling theory arises due to information asymmetry between the information held by company management and investors. Company management often possesses deeper and more detailed information (information asymmetry) regarding a company's prospects, which impacts and influences the company's capital structure.

Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH) is a theory discussing how the market price of an asset or a company's stock is equal to its intrinsic value. If a company's stock price or market price is lower than its intrinsic value, rational traders or investors will seize the opportunity to buy the stock. Conversely, if a company's stock price is too high or exceeds its intrinsic value, rational investors and traders will sell the stock. The actions of rational traders and investors create a point of equilibrium and market efficiency in the company's stock price (Brigham & Houston, 2019).

Firm Value

The definition of firm value according to Sugeng (2019) is the net wealth attributable to the company's owners (shareholder wealth). Firm value is one of the main objectives of company owners because an increase in a company's value reflects an increase in the wealth owned by the company's owners.

Profitability

According to Gunardi et al (2023), profitability is also a ratio to measure a company's ability to generate profit by examining levels of sales, assets, certain shareholder equity, and a group of ratios that reflect the combined effects of liquidity, asset management, and debt on operating results. This ratio illustrates the company's ability to generate profit through all its capabilities and resources, derived from sales activities, asset utilization, or the use of capital.

Investment Decision

According to Sugeng (2019), investment policy is a company's decision related to selecting the most profitable investment objects into assets or other economic resources when utilizing the company's financial resources. Investment decisions made by a company can impact the company's growth and risk in the long term. If a company cannot make appropriate investment decisions, it may incur losses that could threaten its business continuity.

Financing Decision

According to Sugeng (2019), financing policy is a decision made by company management regarding the selection of the most advantageous option to meet the company's funding needs. To determine the composition of financing decisions, a comparison between debt and equity financing is conducted. An optimal financing decision requires a combination of long-term debt, short-term debt, and equity that positions the company's finances to withstand fluctuating interest rates.

Trade-Off Theory

The Trade-Off Theory, proposed by Modigliani & Miller (1963), discusses the balance between costs incurred and benefits obtained by regulating the amount of company debt and equity. This theory suggests that an optimal level of debt and equity can enhance firm value.

Hypotheses

1. H1: Profitability has a positive effect on Firm Value.
2. H2: Investment Decisions have a positive effect on Firm Value.
3. H3: Financing Decisions have a positive effect on Firm Value.

METHODS

In this study, the research object used by the researcher is companies in the Basic Industry and Chemicals sector listed on the Indonesia Stock Exchange (IDX). The data are sourced from the companies' financial reports for the period 2019–2021.

This research employs a quantitative method. The quantitative method involves procedures to test specific theories by examining relationships between variables (Creswell, 1994). In the quantitative method, variables are measured using research instruments and analyzed through statistical testing. This study uses data collection techniques based on secondary data from the financial reports of companies listed on the Indonesia Stock Exchange in the Basic Industry and Chemicals sector for the 2019–2021 period.

The sampling technique used is purposive sampling. In addition, the researcher also conducts an evaluation to detect data outliers. Outliers identified by the researcher are data influenced by values that are either too small or too large and significantly deviate from other average values, appearing as extreme values in the study.

RESULT AND DISCUSSION

Research Results

Descriptive Statistical Analysis

Based on the analysis results, the following conclusions can be drawn. The data above shows that the maximum profitability (ROE) value was 24.12% at PT. Unggul Indah Cahaya Tbk in 2021, which experienced a significant increase in company revenue. The minimum value was 0.74% at PT. Betonjaya Manunggal Tbk in 2019. On average in the Basic Industry and Chemicals sector, profitability increased from 2019 to 2021, as seen from the average data of 2019–2021, with the highest average in 2021 at 8.95%.

Table 1. Results of Descriptive Statistical Analysis

Year	N	ROE (%)	INVESTMENT (%)	DER (x)	PBV (x)
Minimum 2019	23	0.74	-9.75	0.11	0.07
Minimum 2020	24	0.84	-12.76	0.09	0.05
Minimum 2021	26	1.49	-9.73	0.09	0.17
Maximum 2019	23	14.7	11.35	1.7	1.89
Maximum 2020	24	13.74	14.41	1.74	1.58
Maximum 2021	26	24.12	6.61	1.74	2.16
Mean 2019	23	5.49	1.59	0.79	0.7
Mean 2020	24	6.3	1.43	0.78	0.74
Mean 2021	26	8.95	-0.29	0.74	0.86
Std. Deviation 2019	23	3.89	6.03	0.47	0.48
Std. Deviation 2020	24	3.58	5.82	0.5	0.47
Std. Deviation 2021	26	5.81	3.94	0.46	0.51

Furthermore, the data indicates that Investment Decisions had a maximum value of 14.41% at PT. Tunas Alfin Tbk in 2020 and a minimum value of -12.76% at PT.

Kirana Megatara Tbk in 2020. On average in the Basic Industry and Chemicals sector, investment decisions experienced a decline from 2019 to 2021, with the lowest average in 2021 at -0.29%.

Regarding Financing Policy (DER), the maximum value was 1.74 at PT. Solusi Bangunan Indonesia Tbk in 2020 and PT. Kirana Megatara Tbk in 2021, while the minimum value was 0.09 at PT. Emdeki Utama Tbk in 2020 and 2021. On average in the Basic Industry and Chemicals sector, financing policy also experienced a decline from 2019 to 2021, with the lowest average in 2021 at 0.74.

Finally, Firm Value (PBV) had a maximum value of 2.16 at PT. Indocement Tunggal Prakarsa Tbk in 2021, which is categorized as the most expensive stock price, and a minimum value of 0.05 at PT. Mulia Industrindo Tbk in 2020, categorized as the cheapest stock. On average in the Basic Industry and Chemicals sector, firm value experienced an increase from 2019 to 2021, with the highest average in 2021 at 0.86.

Multiple Linear Regression Analysis

From the research results, it can be concluded that the Price Book to Value (PBV) value is 0.817 when there are independent variables and error. The regression coefficient value for ROE (X1) is 0.026, meaning that if the ROE value increases by 1% while the values of other independent variables remain constant, the Price to Book Value will increase by 0.026. A positive ROE coefficient indicates a positive relationship between ROE and PBV; therefore, when ROE increases, the PBV value will also rise. Similarly, the regression coefficient value for Investment (X2) is 0.002, meaning that if the Investment value increases by 1% and other independent variables remain constant, the Price to Book Value will increase by 0.002. A positive Investment coefficient suggests a positive relationship between Investment Decisions and PBV; however, Investment Decisions are not significant in relation to PBV. Furthermore, the regression coefficient value for DER (X3) is 0.305, meaning that if the DER value increases by 1 unit and other independent variables remain constant, PBV will increase by 0.305. A positive DER coefficient indicates a positive relationship between Financing Decisions and PBV, implying that as DER increases, the PBV value will also increase.

Table 2. Results of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients (B)
(Constant)	0.341
ROE	0.026
INVEST	0.002
DER	0.305

The regression equation from the table above is **PBV = 0.341 + 0.026 ROE + 0.002 INVESTMENT + 0.305 DER +** ***eit***

Normality Test

Based on the results of the normality test in Table 3, it can be seen that the Asymp. Sig. (2-tailed) value is 0.083 > 0.05. This indicates that the research data is normally distributed.

Table 3. Results of Normality Test

Model	Unstandardized Residual
Asymp. Sig. (2-tailed)	0.083

Multicollinearity Test

Based on the multicollinearity test results by examining the Tolerance & Variance Inflation Factor (VIF) values obtained for each variable, it can be concluded that there is no multicollinearity among the independent variables.

Table 4. Results of Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
ROE	0.979	1.022
INVEST	0.962	1.04
DER	0.979	1.021

Heteroscedasticity Test

Based on the test results, the scatter diagram shows a spread and the pattern does not form any specific shape, meaning there is no heteroscedasticity. This test result can also be referred to as having a homogeneous variance, which means there are no symptoms of heteroscedasticity.

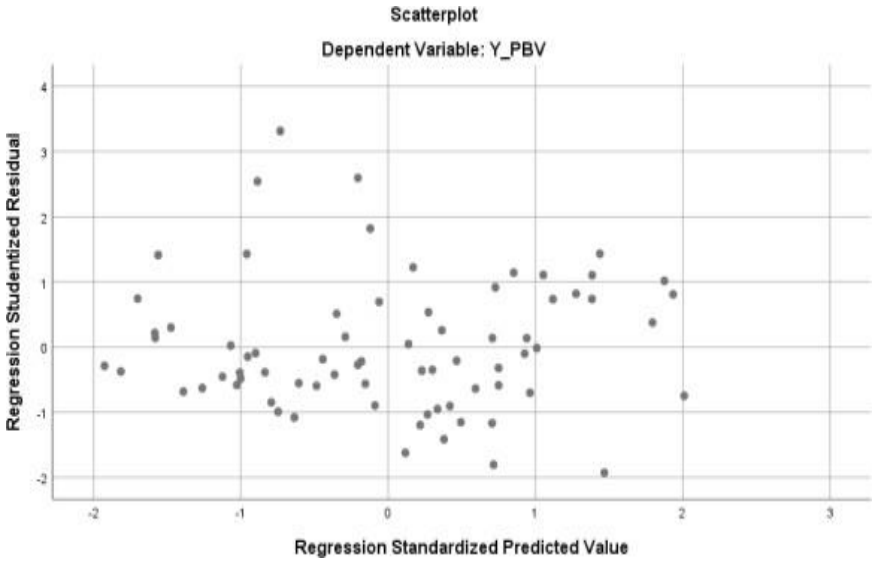

Figure 1. Results of Heteroscedasticity Test

Autocorrelation Test

Based on the test results, the Durbin-Watson value is 1.724 and the du value is 1.7067. Therefore, the value is DW > DU and DW < 4-DU, i.e., 1.7067 < 1.724 < 2.2933, which means there is no autocorrelation in this research.

Table 5. Results of Autocorrelation Test

Durbin Watson	DW<4-DU
1.724	1.7067 < 1.724 < 2.2933

Model Feasibility Test (F Test)

Based on the test results, the calculated F (Fhitung) is 3.154, and the F table value (Ftabel) is known to be 2.737, so H0 is rejected. Additionally, Fsigα is 0.030 < 0.05, so

it can be concluded that the three independent variables simultaneously influence the dependent variable.

Table 7. Results of F Test

Model	F	Sig.
(Constant)		
ROE		
INVEST	3.154*	0.030*
DER		

Hypothesis Testing (t Test)

Based on the test results, the following conclusions can be drawn. The calculated t-value for ROE (X1) with Price to Book Value (Y) is 2.143, while the t-table value is 1.994. The calculated t-value is greater than the t-table, i.e., 2.143 > 1.994, and the significance value is 0.018 < 0.05. From these values, it can be interpreted that ROE has a significant influence on Price to Book Value. In contrast, the calculated t-value for Investment (X2) with Price Book Value (Y) is 0.174, while the t-table value remains 1.994. The calculated t-value is less than the t-table, i.e., 0.174 < 1.994, and the significance value is 0.431 > 0.05. From these values, it can be interpreted that Investment does not influence Price to Book Value. Furthermore, the calculated t-value for DER (X3) with Price Book Value (Y) is 2.633, while the t-table value is still 1.994. The calculated t-value is greater than the t-table, i.e., 2.633 > 1.994, and the significance value is 0.005 < 0.05. Based on these values, it can be interpreted that DER has a significant influence on Price to Book Value.

Table 8. Results of t Test

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
ROE	0.979	2.381
INVEST	0.962	2.143
DER	0.979	0.174

Coefficient of Determination Test (R^2)

Based on the test results, the R Square value is 0.121, meaning that the variables ROE (X1), Investment (X2), and DER (X3) simultaneously influence the variable Price Book Value (Y) by only 12.1%; this correlation value falls into the weak category. Meanwhile, the remaining 87.9% (100% - 12.1%) of the Price to Book Value (Y) variable is influenced by other variables not discussed in this research.

Table 9. Results of Coefficient of Determination Test

Model	R	R Square
1	0.347	0.121

Discussion

The Effect of Profitability on Firm Value

Based on the test results explained above, it can be concluded that profitability has a significant positive influence on firm value. This finding aligns with the results of research conducted by Frista & Ida (2023), which demonstrated that profitability has a

significant and positive effect on firm value. This result supports the Efficient Market Hypothesis (EMH), which states that market prices already reflect all available information, as it relates to the availability of financial reports provided by companies. Healthy financial reports serve as positive signals to investors and other stakeholders. High profitability provides benefits to investors in the form of investment returns and favorable profits.

The growth in profitability within the Basic Industry and Chemicals sector is attributed to several subsectors experiencing gains. For example, paper producer issuers have seen a significant increase in product prices. This price increase is driven by rising global demand for packaging paper used in online trade for shipping. Additionally, cement producer issuers have benefited from government projects with high demand for cement, which may indicate that the government is planning large-scale construction projects for the future.

The Effect of Investment Decisions on Firm Value

Based on the test results explained above, it can be concluded that investment decisions have a positive but insignificant effect on firm value. This result aligns with research conducted by Nursery & Nursiam (2022), which indicated that investment decisions influence firm value. This finding is also consistent with signaling theory, a theoretical concept that states that corporate reporting information serves as a signal for investors. Investment decisions in the Basic Industry & Chemicals sector refer to the allocation of capital to specific assets with the expectation of generating positive returns. In this way, companies can foster future growth, thereby increasing investor confidence and enhancing firm value.

The Effect of Financing Decisions on Firm Value

Based on the test results explained above, it can be concluded that financing decisions have a significant positive influence on firm value. This result is consistent with the trade-off theory, which posits that companies strive to balance the costs and benefits of debt usage in their financing decisions. The study also aligns with research by Briandana & Kurnia (2021), which found that financing decisions positively affect firm value. This finding is in line with signaling theory, as the capital structure chosen by management serves as a signal to investors about the company's future prospects. Effective financing decisions can lower capital costs, improve financial stability, and signal confidence to the market, all of which can contribute to an increase in firm value.

CONCLUSION

Based on the research results from the previous chapter, the researcher draws the following conclusions: profitability has a positive and significant influence on firm value. The research also shows that investment decisions have a positive but insignificant effect on firm value. Furthermore, financing decisions are found to have a positive and significant influence on firm value. For investors, it is suggested to choose companies with high net profits and consider companies with appropriate and adequate debt financing structures. For future researchers, it is recommended to apply the BLUE (Best, Linear, Unbiased, Estimator) criteria when conducting multiple linear regression analysis and to consider including Coefficient Equality Tests or Pooling Tests.

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