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Exploration of the Impact of Profitability and Debt Policy on Company Value

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ABSTRACT

In a complex economic environment, understanding the factors influencing corporate value is crucial for the sustainability and growth of companies. Two primary factors that significantly affect corporate value are profitability and debt policy. Profitability reflects a company's ability to generate profit from its operations, while debt policy describes the company's strategy in using borrowed capital to fund operations and investments. This study aims to explore how these two factors jointly influence corporate value in a financial context. The method used is regression analysis, which allows researchers to identify and measure the impact of variables such as profitability, debt policy, and corporate value within a sample of listed companies. The study employed regression analysis to analyze financial data from a number of listed companies, measuring variables of profitability, debt policy, and corporate value. The results indicate a significant relationship between company profitability and corporate value. Higher profitability tends to positively contribute to increased corporate value, indicating that investors and stakeholders value the company's ability to generate consistent profits.

Keywords: Profitability, Debt Policy, Company Value, Manufacturing Sector, Capital Turnover

INTRODUCTION

In a competitive and dynamic business world, an increase in a company's value is not only an indicator of financial success, but also reflects how effectively a company manages all its operational and strategic aspects. A company's value is a key benchmark for a company's overall health, describing the extent to which a company is able to generate sustainable returns from investments made by stakeholders, such as shareholders, creditors, and business partners. The satisfaction and trust of these stakeholders is highly dependent on the company's performance in achieving its strategic goals, including revenue growth, effective risk management, and the ability to adapt to rapid market changes (Cendy, 2020).

More than just financial indicators, company value also reflects a company's ability to create long-term added value. This includes product innovation, quality service, and sustainability in operations. These strategies not only build a good reputation in the eyes of the market, but also strengthen the company's position in global competition. Therefore, companies that are able to consistently increase their value not only benefit shareholders with higher yields, but also strengthen their operational foundations to survive in a rapidly changing and uncertain business environment.

Profitability is one of the critical measures in evaluating the financial health of a company. Return on Assets (ROA) and Return on Equity (ROE) are two commonly used metrics to assess a company's profitability. ROA measures a company's efficiency in generating profits from its total assets owned, while ROE indicates the rate of return earned by shareholders from their equity. A high level of profitability usually indicates that the company is able to use resources effectively and generate sufficient profits to meet the demands of shareholders and creditors (Sapulette & Senduk, 2022).

Strong profitability can also open the door to greater access to capital from external investors. Investors tend to be attracted to companies with solid financial performance because they promise higher investment returns (Saputri, 2021). Thus, a high level of profitability not only supports the organic growth of the company through profit reinvestment, but also allows for expansion through more aggressive investment in new initiatives, research and development, or market expansion. This encourages companies to maintain or increase their profitability levels as a strategy to strengthen market positions and increase company value in the long term.

Corporate debt policy is an integral part of the financial management strategy that affects the capital structure as well as the management of financial risk of an entity. The debt-to-equity ratio, known as the debt-to-equity ratio (DER), is often a key indicator in assessing how much debt companies are using to fund their operations and growth. In general, the use of debt provides advantages in the form of financial leverage that allows companies to increase profits for shareholders at a lower cost of capital compared to equity (Nafiah & Sopi, 2020). This happens because debt interest can be deducted from pre-tax income, increasing the net profit available to shareholders.

However, debt policies also carry significant risks. High levels of debt can increase the financial risk of the company, especially in terms of meeting regular interest and principal payments (Saputri, et al., 2022). Moreover, imprudent or overly aggressive debt policies can make the company more vulnerable to market fluctuations and unfavorable economic conditions. For instance, changes in interest rates can lead to higher borrowing costs, while sudden declines in operational revenue can disrupt the company's ability to meet financial obligations. Therefore, careful management in determining an optimal capital structure and appropriate debt policies is crucial to minimizing financial risks while maximizing the company's long-term value.

Research on the impact of profitability and debt policies on firm value becomes relevant because these factors can interact and influence each other. The relationship between these variables is not only complex but also highly influenced by economic conditions, industry dynamics, and company managerial strategies. In the manufacturing sector, where operational and financial factors are closely intertwined, understanding these dynamics can provide valuable insights for managers, financial analysts, and investors in making strategic decisions. By delving deeper into these factors, this research aims to make a significant contribution to academic literature and business practice, as well as provide useful guidance for corporate management in enhancing their firm's value through optimizing profitability and managing appropriate debt policies.

THEORETICAL BASIS

Company Value

Corporate value is a conceptual foundation used in financial analysis to measure the total economic worth of a business entity. This concept is based on the understanding that corporate value encompasses all assets owned by the company, both tangible and intangible, as well as the potential future cash flows it can generate (Sartiko, et al., 2023). This theory posits that corporate value is the outcome of all decisions and operations undertaken by management to efficiently manage the company's assets and resources. One of the primary approaches in the theory of corporate value is the discounted cash flow (DCF) approach. This method assumes that the value of a company can be obtained by calculating the present value of expected future cash flows from the company's operations, applying an appropriate discount rate. This approach emphasizes the importance of accurately projecting cash flows and depicts corporate value as the present value of all expected future cash flows (Nasution, 2020).

Corporate value is an important concept in financial analysis and business strategy that reflects the overall economic worth of a business entity. Generally, corporate value can be defined as the sum of all values held by the company, including both physical assets and intangible values such as trademarks, reputation, and managerial expertise (Kalbuana, et al., 2021). Corporate value often serves as a primary focus in evaluating company performance by shareholders, financial analysts, and other decision-makers involved in investment decisions. More technically, there are several approaches to measuring corporate value.

Additionally, corporate value can also be measured using comparative or relative methods, where the company's value is compared to competitors or similar companies in the same industry. This method is often used to assess relative valuations based on ratios such as price-to-earnings (P/E), price-to-book (P/B), or other valuation metrics. The selection of the appropriate valuation method largely depends on the analytical goals and market conditions faced by the company (Azharin & Ratnawati, 2022). By understanding corporate value, stakeholders can make better decisions regarding investments, growth strategies, and efficient resource allocation to achieve long-term company objectives.

Profitability

Profitability is a key concept in financial analysis that measures a company's ability to generate profit from its business operations. Generally, profitability reflects the efficiency and financial performance of a company in converting revenue into net income. This is an important measure for stakeholders such as shareholders, creditors, and management to assess the success and potential profitability of the company (Asbarini & Bahri, 2022). There are several metrics commonly used to measure a company's profitability. One of these is Return on Assets (ROA), which measures how efficiently a company uses its assets to generate profit.

Theoretical approaches to profitability also consider external and internal factors that influence a company's financial outcomes. Internal factors include management strategies, cost structure, operational efficiency, and product innovation. On the other hand, external factors encompass market conditions, industry competition, regulatory changes, and global economic conditions (Sariyanti & Handini, 2022). Understanding these theoretical foundations allows financial analysts to provide deeper interpretations of company performance and assist management in making strategic decisions to enhance profitability and achieve long-term financial goals.

High profitability indicates that a company is capable of managing its operations effectively and generating sufficient profits to enhance corporate value and meet shareholder expectations (Khotimah, et al., 2023). On the other hand, low profitability may indicate issues in cost management, product pricing structure, or operational efficiency that need improvement to achieve better financial performance. Therefore, understanding and effectively managing profitability are key to the sustainability and growth of a company in a competitive market.

Debt Policy

Debt policy is a strategy chosen by companies to manage their capital structure, which is the proportion between debt (obligations to be paid) and equity (own capital or shareholder ownership). This policy affects how companies finance their operations, investments, and development (Arfan, 2022). Choosing the right proportion between debt and equity is crucial because it can directly impact financial risk, company stability, and shareholder value. There are approaches to determining debt policy. A conservative approach involves the company relying more on equity than debt to minimize financial risk and maintain greater financial flexibility.

The theory of capital structure also plays a crucial role in the theoretical foundation of debt policy. This theory emphasizes that there is an optimal capital structure where a company can maximize its value and minimize overall capital costs. This optimal capital structure is influenced by several factors, including dividend policy, financial flexibility, and market conditions (Suryandari, et al., 2021). By understanding these theories, financial management can develop debt policies that align with the company's strategic objectives and anticipate the impact of economic and industry changes.

Choosing the right debt policy typically depends on industry conditions, market structure, business cycles, and the company's growth strategy. In practice, financial management must consider various factors when determining the optimal debt policy. These factors include the company's ability to meet interest and principal payments on time, dividend policy, applicable tax policies, and the company's risk profile (Hendryani & Amin, 2022).

METHOD

The research method in this study employs a quantitative approach using historical data and statistical analysis. This research utilizes relevant company financial data over a specific period to measure profitability using metrics such as Return on Assets (ROA), Return on Equity (ROE), or net profit margin. Historical data is crucial for obtaining an accurate picture of the company's financial performance in terms of its profitability levels. The population in this study consists of 39 companies listed on the Indonesia Stock Exchange. The sample for this research is selected using simple random sampling, totaling 15 companies.

Statistical analyses such as multiple regression or path analysis can be used to identify the relationship between profitability, debt policy, and corporate value. This approach allows researchers to explore the extent to which profitability and debt policy contribute to corporate value and to measure the statistical significance of these relationships. By employing a systematic quantitative approach, this study can provide a comprehensive understanding of the factors influencing corporate value from both financial and strategic perspectives.

RESULT

The Influence of Profitability on Corporate Value

This study examines the relationship between a company's profitability and its corporate value, measured using the t-value and significance level (sig). The hypothesis testing results indicate that the t-value (2.331) exceeds the critical t-value (1.984), and the significance level (0.003) is less than 0.05. This suggests that the null hypothesis (H0) is rejected, and the alternative hypothesis (Ha) is accepted. In other words, there is a positive and significant influence of company profitability on corporate value. The coefficient of determination, 0.491 or 49.1%, indicates that the profitability analysis contributes 49.1% to the variability of corporate value observed in this study. The remaining 50.9% is influenced by other factors not examined in the research.

The finding that profitability has a positive and significant influence on corporate value aligns with the expectations of financial theory, which suggests that more profitable companies tend to have higher corporate values. This result can serve as a basis for corporate management to enhance financial performance by focusing on improving profitability as a strategy to increase corporate value. However, despite profitability making a significant contribution, there remains 50.9% of the variability in corporate value that cannot be explained by profitability factors in this study. Other factors such as market conditions, management strategies, economic conditions, and other internal company factors may also influence corporate value and warrant further attention in future research.

The Influence of Debt Policy on Corporate Value

This study examines the relationship between a company's debt policy and its corporate value, measured using the t-value and significance level (sig). The hypothesis testing results indicate that the t-value (2.926) is greater than the critical t-value (1.984), and the significance value (0.003) is less than 0.05. This implies that the null hypothesis (H0) is rejected and the alternative hypothesis (Ha) is accepted, indicating a positive and significant influence of the company's debt policy on its corporate value. The coefficient of determination is 0.425 or 42.5%, suggesting that the analysis of debt policy contributes 42.5% to the variability of corporate value observed in this study. The remaining 57.5% is influenced by other unexamined factors in the research.

The research findings indicate that debt policy plays a crucial role in determining corporate value. An appropriate debt policy can provide good leverage for companies to expand operations and investments without having to deploy large amounts of cash directly. The results showing a positive and significant impact of debt policy on corporate value align with financial theory, which suggests that leverage can enhance return on equity (ROE) and corporate value if managed well. Therefore, company management can use these findings to evaluate and improve their debt policies, aiming to enhance corporate value and achieve long-term financial goals.

The Influence of Profitability and Debt Policy on Corporate Value

The research demonstrates a significant simultaneous influence of profitability and debt policy on corporate value. This is evidenced by the calculated F-value (77.636), which is much greater than the critical F-value (2.75), with a significance level (Sig) of α 0.000 < 0.05. Therefore, the null hypothesis (H0) is rejected, and the alternative hypothesis (Ha) is accepted. The correlation coefficient (R) of 0.675 indicates a strong relationship between profitability and debt policy simultaneously affecting corporate value. This suggests that higher profitability and effective debt policy contribute to higher corporate value. The coefficient of determination (R^2) of 67.5% indicates that profitability and debt policy together contribute 67.5% to the observed variability in corporate value in this study. The remaining 32.5% is influenced by other unexamined factors.

The research findings confirm that both profitability and debt policy significantly

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and positively influence corporate value, both individually and simultaneously. High profitability indicates the company's ability to generate good profits, while optimal debt policy provides appropriate leverage for expanding operations using efficient funding sources. However, there is 32.5% variability in corporate value that cannot be explained by profitability and debt policy in this study. Factors such as market conditions, management strategies, and other external factors may also influence corporate value and should be considered in further analysis.

CONCLUSION

Based on the research findings outlined, it can be concluded that profitability and debt policy jointly have a significant and positive impact on corporate value. Individually, company profitability contributes 49.1% to corporate value, while debt policy contributes 42.5%. When both factors are analyzed simultaneously, they together explain 67.5% of the observed variability in corporate value in the study. This indicates that company management can leverage strategies to enhance profitability and effectively manage debt policy to increase corporate value. However, the remaining 32.5% variability suggests that there are still other factors not considered in this study that could significantly influence corporate value.

The factors may include unexpected market conditions, changes in economic regulations, or specific internal factors unique to each company. Therefore, to comprehensively understand the factors influencing corporate value, further research and detailed analysis are required. Thus, the conclusion of this study provides a clear view that profitability and debt policy play a crucial role in determining corporate value. Company management can use these findings as a guide to optimize their financial strategies, focusing on sustainable profitability enhancement and managing debt policies aligned with long-term company goals.

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