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FACTORS AFFECTING FIRM VALUE WITH PROFITABILITY AS A MEDIATING VARIABLE IN CONSUMER CYCLICALS SECTOR COMPANIES

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ABSTRACT
With profitability as a mediating variable, this research aims to empirically investigate the effect of investment and financing policies on firm value. The financial reports and annual reports in 2018-2021 from the cyclicals sector listed on the Indonesia Stock Exchange (IDX) were used in obtaining research data. There were 228 research samples obtained through purposive sampling. This study uses path analysis to test the research results. The research results show that profitability is influenced by investment policies and financing policies. Firm value is not influenced by financing policy and investment policy through profitability. Firm value is significantly influenced by investment policies, profitability, and financing policies through profitability. It can be concluded that profitability is influenced by aggressive investment policies and aggressive financing policies, firm value is also influenced by aggressive investment policies.

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1. INTRODUCTION

In the current era of globalization, the competitive level of companies is getting fiercer driven by acceleration movement and transfer of resources. In addition to maximizing profit which is the main focus, companies also need to pay attention to long-term sustainability by increasing firm value. According to Marantika (2012), firm value reflects the price that investors are willing to pay if the company is sold. Firm value is an important factor for investors in making decisions because it relates to the risks that can arise and the benefits that investors able to earn (Shan et al., 2015).

Investors carefully evaluate the firm's resource management, decision making policies, profitability, and future prospects in determining firm value of the company. Companies with good performance are able to emit positive signals, increasing investor interest to invest in the hope of satisfying results in the future. However, if the results obtained by investors are not in line with the expectations, it will decrease the firm's value and investor confidence. Companies must manage their working capital efficiently and effectively to maintain good firm value. Working capital is capital in carrying out the company's daily operations (Pestonji & Wichitsathian, 2019). Financial executive needs to consider the right working capital policies so that there is an increase in profitability and firm value.

Working capital policies are divided into three parts: aggressive, moderate, and conservative (Rasyid et al., 2018). The policy is chosen based on the consideration of the risks that may occurred as well as the benefits that can be achieved. According to Pestonji & Wichitsathian (2019), working capital policies include investment policies and financing policies. The investment policy is related to determining the level of current assets and the financing policy is related to the source of fund on current assets. Planning and controlling current assets and current liabilities, which can eliminate the company's failure to pay off short-term debt and avoid excessive investment makes the company's working capital efficient.

The results of research by Naqi & Siddiqui (2020), Contesa & Mayasari (2017), Shan et al. (2015), and Prudence & Zita (2014) revealed that investment policies have positive influence on firm value. While Khanqah (2015) and Izzurrahman (2022) revealed that investment policies negatively affect firm value. Obeng et al. (2021) , Pestonji & Wichitsathian (2019), Rasyid et al. (2018), and Rasyid (2017) revealed that investment policies do not affect firm value.

The research by Izzurrahman (2022), Pestonji & Wichitsathian (2019), Rasyid et al. (2018), Prudence & Zita (2014), and Khanqah (2015) revealed that financing policies have a negative effect on firm value. Research related to the relationship between financing policies and firm value was also investigated by Obeng et al. (2021) and Naqi & Siddiqui (2020) with the results of financing policies have positive influence on firm value. Different results were also obtained where the research by Contesa & Mayasari (2017), Rasyid (2017), and Shan et al. (2015) revealed that financing policies have no effect on firm value.

Research conducted by Naqi & Siddiqui (2020), Pestonji & Wichitsathian (2019), and Rasyid et al. (2018) revealed that profitability has a positive influence on company value. There are different results in the study of Sudiyatno et al. (2017) where profitability has influence on firm value, while research by Izzurrahman (2022) revealed that profitability has no effect on firm value.

Naqi & Siddiqui (2020) , Pestonji & Wichitsathian (2019), and Rasyid et al. (2018) revealed that investment policy has a positive influence on firm value through profitability. In contrast to previous studies, Izzurrahman (2022) revealed that investment policy has no effect on firm value through profitability.

Research results by Naqi & Siddiqui (2020) and Rasyid et al. (2018) revealed that financing policies have a negative effect on company value through profitability. Meanwhile, Pestonji & Wichitsathian (2019) and Izzurrahman (2022) revealed that financing policies have no effect on firm value through profitability.

There are differences in results testing the effect on firm value, even though many studies have been researched before. Therefore, author wants to review the following topics because there are differences and inconsistencies in the results of previous studies. This research replicated modified main journal Pestonji & Wichitsathian (2019) in the most recent period 2018-2021 and added research control variables in the form of company size and company age.

The research uses the 2018-2021 period so that there is an update that describes the current situation of the factors that influence firm value. This research used the consumer cyclicals sector based on the view that the industrial group is relatively large compared to other industries. The research sector influences the country's economic condition, so it is expected that the research sector is able to reflect economic conditions during the study period.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1. Signalling Theory

Signals are the actions of company management in conveying signals to investors about how management perceives the company's future opportunities (Brigham & Houston, 2019). Managers have better information than outsiders, which is known as information asymmetry. According to Spence (1973) signalling theory provides pieces of relevant information that can be used by the recipient, where the receiver adapts their behavior based on the understanding of the signal. This theory explains how the manager of a company

sends signals to outsiders through financial reports (Ross, 1977). When information is published and received by external parties, external parties interpret the information as a good or bad signal. If investors catch information as a good signal, there will be an increase in stock trading volume (Nursanita et al., 2019).

2.2. Firm Value

According to Marantika (2012), company value is reflected based on the price that investors or potential buyers are willing to pay if the company is sold. Good corporate value attracts the attention of potential investors and the public to buy company shares (Shan et al., 2015).

2.3. Investment Policy

According to Ray & Chakraborty (2014), investment policy shows the extent to which total funds are invested for working capital purposes and highlights the importance of a company's current assets. It should be noted how much of the total assets is occupied by current assets because current assets are basically involved in the formation of working capital and also play an active role in increasing liquidity. According to Nabi & Ali (2016), investment policy is a decision by managers to determine the amount of assets needed to operate the company. Investment policies are useful in determining the amount of resources and the amount of funding needed in order to achieve future goals (Murugesu, 2013).

2.4. Financing Policies

According to Fariantin (2022), financing policies relate to resources obtained in company operations as decisions related to working capital. Financing policy refers to decisions made by financial managers in managing funds and sources of corporate funds. According to Mawsheki et al. (2019), the financing policy emphasizes the importance of funding through debt for companies which is reflected in the size of the company's assets that are financed using short-term debt.

2.5. Profitability

According to Wahyuni et al. (2019), profitability is the company's ability to generate profits obtained from the company's operational activities and is a measure of the company's financial performance. Profitability results from company decisions and policies in obtaining profits through maximizing sales from capital management (Cornelius & Jumono, 2021).

2.6. Hypothesis Development

Nabi & Ali (2016) argues that profitability within the company increases if the investment policy in the company's working capital is able to maintain the company's survival. With a low ratio, companies are able to reduce their current asset holdings which save storage costs so that a decrease in the ratio can be accompanied by an increase in profitability.

H_1: Investment policy has a negative influence on profitability.

According to Cornelius & Jumono (2021), financing policies in influencing profitability are directly related to funding needs as the main component of working capital. With a high ratio, companies tend to obtain higher profitability because expenses through short-term funding are lower by reducing interest costs.

H_2: Financing policy has a positive influence on profitability.

According to Ogundipe et al. (2012), investment policy is able to emit positive signals related to the development of the company's current assets in the future which leads to an increase in stock prices as an indicator of firm value. A high investment policy ratio means adequate nominal current assets so that it sends a signal to investors that the company has sufficient cash and supplies to carry out operational activities.

H_3: Investment policy has a positive influence on firm value.

According to Khanqah (2015), a high financing policy ratio increases the risk of delays in paying off current debt so companies face bankruptcy risk. This statement is supported by the signal theory, which reveals that the possibility of bankruptcy and bankruptcy costs have a strong effect on triggering panic among stakeholders (Miglo, 2016).

H_4: Financing policies have a negative influence on firm value.

According to Pestonji & Wichitsathian (2019), profitability is a measure of return on investment that has an influence on firm value. Profitability is a measure of company performance, increase in profitability has an impact on increasing company value which is considered to be good news for investors and is supported by signal theory.

H_5: Profitability has a positive influence on firm value.

According to Wanguu (2015), a company's investment policy affects profitability because the right investment decisions create profits for the company. This attracts investors' attention to the company so that the company's value increases.

H_6: Investment policy has an influence on firm value through profitability.

According to Khanqah (2015), the right financing policy is a company advantage where there is financing efficiency that can increase profitability as one of the key factors that increase company value.

H_7: Financing policies have an influence on firm value through profitability.

3. RESEARCH METHODS

The research obtained secondary data from financial reports and annual reports for the 2018-2021 period through the official Indonesian Stock Exchange website www.idx.co.id. In obtaining research samples, using purposive sampling method. The specified

sampling criteria are in table 3.1. The data obtained was then entered and processed using the Microsoft Excel 2019 application, then processed using the IBM SPSS Statistics 26 application.

Table 3.1
Sample Selection Results

No.	Criteria	Total
1.	Companies in consumer cyclicals sector listed on the IDX in 2021	128
2.	Companies that are not listed on the IDX during 2018-2021 respectively	(39)
3.	Companies that do not present financial statements ending on December 31 during 2018-2021	(18)
4.	Companies that do not present financial statements in Rupiah during 2018-2021	(10)
Total companies		61
Research Period		4
Total of Research Samples		244
Research Sample Outliers		(16)
Total of Research Samples After Outliers		228

Source: Data processed by researchers

This study uses firm value as the dependent variable. The company value proxy is Tobin's Q, following the proxy used by Pestonji & Wichitsathian (2019) with the formula:

$$\text{Tobin's Q} = \frac{\text{Market Value of Firm}}{\text{Book Value of Assets}}$$

The independent variables used are investment policies and financing policies related to working capital. The investment policy proxy in this study follows Pestonji & Wichitsathian (2019) with the formula:

$$\text{Investment Policies} = \frac{\text{Total Current Assets}}{\text{Total Assets}}$$

The financing policy proxies in this study follow Pestonji & Wichitsathian (2019) with the formula:

$$\text{Financing Policies} = \frac{\text{Total Current Liabilities}}{\text{Total Assets}}$$

This study uses profitability as a mediating variable. The profitability proxy in the form of ROA, follows the proxy used by Pestonji & Wichitsathian (2019) with the formula:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

The control variables used are company size and company age. The company size proxy used follows Oktaviani & Luhur (2020) with the formula:

$$\text{Size} = \text{Ln (Total Assets)}$$

The proxies for company age in the study follow Samosir (2018) with the formula:

$$\text{Age} = \text{Ln (Firm Age)}$$

The research data analysis method uses multiple regression analysis to test the research results. The model equation tested in the study is as follows:

Equation model 1:

$$ROA_{it} = \alpha_i + \beta_{1.1}\, IP_{it} + \beta_{1.2}\, FP_{it} + Size_{it} + Age_{it} + e_i$$

Equation model 2:

$$TQ_{it} = \alpha_i + \beta_{2.1}\, IP_{it} + \beta_{2.2}\, FP_{it} + \beta_{2.3}\, ROA_{it} + Size_{it} + Age_{it} + e_i$$

Description:
α = Constant
β = Coefficient
ROA = Profitability
TQ = Firm Value
IP = Investment Policy
FP = Financing Policies
Size = Firm Size
Age = Firm Age
e = Error

In analyzing the data, this research conducted descriptive statistical analysis and classic assumption tests. In testing the research results, R-Squared test, F test, t test, and path analysis were carried out.

4. RESEARCH RESULT

4.1. Descriptive Statistics

Descriptive statistics provide an overview of the variables contained in the study, namely investment policy, financing policy, profitability, firm value, firm size, and firm age.

Table 4.1
Results of Descriptive Statistics

Var	Min	Max	Mean	Std dev
IP (X1)	0.032	0.973	0.443	0.243
FP (X2)	0.016	40.201	0.884	4.355
Size (X3)	22.837	31.563	28.079	1.571
Age (X4)	0.000	3.664	2.568	0.897
ROA (Z)	-4.799	0.310	-0.734	0.556
Tobin's Q (Y)	0.036	114.096	3.106	11.861

Source: Data processed by researchers

Based on the results of descriptive statistics in table 4.1, the investment policy has an average value of 0.443, a standard deviation of 0.243, a maximum value of 0.973 belonging to MKNT, and a minimum value of 0.032 belonging to PSKT. The financing policy has an average value of 0.884, a standard deviation of 4.355, a maximum value of 40.201 belonging to GLOB and a minimum value of 0.016 belonging to MINA.

Firm size has an average value of 28.079, a standard deviation of 1.571, a maximum value of 31.563 belonging to IMAS, and a minimum value of 22.837 belonging to GLOB. Firm age has an average value of 2.568, a standard deviation of 0.897, a maximum value of 3.664 belonging to BATA, and the lowest value of 0.000 belonging to BELL, HRTA, WOOD, MAPB, MINA and NASA.

Profitability has an average value of -0.734, a standard deviation of 0.556, a maximum value of 0.310 belonging to MPMX, and a minimum value of -

4.799 belonging to GLOB. Firm value has an average value of 3.106, a standard deviation of 11.861, a maximum value of 114.096 belonging to TRIO, and a minimum value of 0.036 belonging to RICY.

4.2. Normality Test

In testing normality data, the study used the One-Sample Kolmogorov-Smirnov test. Sig Value equation model 1 shows a value of 0.200. Sig Value equation model 2 shows a value of 0.200, so it can be stated that the data is normally distributed due to the Sig. > 0.05.

4.3. Multicollinearity Test

In equation model 1, the results of the multicollinearity test show that the investment policy has a tolerance value of 0.878 and a VIF of 1.139. The financing policy has a tolerance value of 0.874 and a VIF of 1.144. Firm size has a tolerance value of 0.975 and VIF of 1.026. Firm age has a tolerance value of 0.969 and VIF of 1.032. The results show a VIF value ≤ 10 and a tolerance value ≥ 0.1. Based on the test results in all independent variables of model 1, no symptoms of multicollinearity were found.

In model equation 2, the results of the multicollinearity test show that the investment policy has a tolerance value of 0.637 and a VIF of 1.570. The financing policy has a tolerance value of 0.747 and a VIF of 1.338. Firm size has a tolerance value of 0.801 and VIF of 1.248. Firm age has a tolerance value of 0.969 and VIF of 1.032. Profitability has a tolerance value of 0.616 and VIF of 1.624. The results show a VIF value ≤ 10 and a tolerance value ≥ 0.1. Based on the test results in all independent variables of model 2, no multicollinearity was found.

4.4. Heteroscedasticity Test

In testing heteroscedasticity using the Park Test. In equation model 1, the investment policy has Sig. 0.165, the financing policy has Sig. 0.822, firm size has Sig. 0.785, and the firm age has Sig. 0.519. In equation model 2, the investment policy has Sig. 0.224, the financing policy has Sig. 0.760, the firm size has Sig. 0.139, firm age has Sig. 0.500, and profitability has Sig. 0.804. Sig. Value for all variables > 0.05. Thus, it can be stated that the data has passed the heteroscedasticity test.

4.5. Autocorrelation Test

This study used the Durbin-Watson test to determine if there are any symptoms for autocorrelation. Equation model 1 has a Durbin-Watson value of 1.565. Equation model 2 has a Durbin-Watson value of 0.654. It can be stated that the research has passed the autocorrelation test, where the value of the Durbin-Watson test results is between -2 and 2.

4.6. Multiple Regression Analysis

Equation Model 1

$$\text{ROA} = 0{,}665 - 0{,}040\ \text{IP} + 0{,}023\ \text{FP} - 0{,}014\ \text{Size} - 0{,}000\ \text{Age} + e$$

Equation Model 2

$$\text{TQ} = 11{,}406 - 0{,}396\ \text{IP} - 0{,}005\ \text{FP} - 0{,}318\ \text{Size} - 0{,}424\ \text{Age} - 8{,}124\ \text{ROA} + e$$

4.7. R-Squared Test (R^2)

Table 4.2
R-Squared Test Result

Model	Adjusted R Square
1	0,373
2	0,294

Source: Data processed by researchers

Equation model 1 has an Adjusted R Square value of 0.373 (37.3%). Investment policies, financing policies, firm size, and firm age have an influence of 0.373 (37.3%) on the mediating variable profitability. The remaining 0.627 (62.7%) is influenced by other variables outside the research such as liquidity, leverage, sales growth, cash conversion cycle, and other variables that can affect profitability.

Model equation 2 has an Adjusted R Square value of 0.294 (29.4%). Investment policies, financing policies, firm size, firm age, and profitability have an influence of 0.294 (29.4%) on the dependent variable firm value. The remaining 0.706 (70.6%) is influenced by other variables outside the research such as liquidity, leverage, dividend policy, cash conversion cycle, and other variables that can affect firm value.

4.8. F Test

Table 4.3
F Test Result

Model	Sig.
1	0,000
2	0,000

Source: Data processed by researchers

The results of the F test are obtained through the Sig value which lies in the ANOVA table to see whether the research model is good or not. Based on the table above, the value of Sig. model 1 equation and model 2 equation of 0.000 < 0.05. The research model used is a fit model.

4.9. T Test

Table 4.4
T Test Result Model 1

Variable	B	Sig.	Conclusion
IP (X1)	-0,040	0,000	H_1 accepted
FP (X2)	0,023	0,000	H_2 accepted
Size (X3)	-0,014	0,000	Significant
Age (X4)	0,000	0,939	Not Significant

Source: Data processed by researchers

The investment policy has a value of Sig. 0.000 with a negative beta coefficient. It can be concluded that investment policy has a negative effect on profitability due to Sig. 0.000 < 0.05, H_1 is accepted. The results of the study are in accordance with the views of Nabi & Ali (2016) that a low company investment policy ratio can reduce current asset ownership which saves on inventory storage costs, so that a decrease in the ratio can be accompanied by an increase in profitability. The research results are supported by the research of Cornelius & Jumono (2021), Kusuma & Bachtiar (2018), Hassani & Tavosi (2014), Puraghajan et al. (2014) and Khanqah (2015).

The financing policy has a value of Sig. 0.000 with a positive beta coefficient. It can be concluded that financing policy has a positive influence on profitability due to Sig. 0.000 < 0.05, H_2 is accepted. The results of the study are in accordance with the views of Pestonji & Wichitsathian (2019) that a high ratio value indicates a company obtaining working capital financing through short-term debt. With a high ratio, companies tend to obtain higher profitability because expenses through short-term funding are lower by reducing interest costs. The research results are supported by the research of Izzurrahman (2022), Cornelius & Jumono (2021), Puraghajan et al. (2014), and Hassani & Tavosi (2014).

Table 4.5
T Test Result Model 2

Variabel	B	Sig.	Keterangan
IP (X1)	-0.396	0,001	H_3 not accepted
FP (X2)	-0,005	0,955	H_4 not accepted
Size (X3)	-0,318	0,000	Significant
Age (X4)	-0,424	0,000	Significant
ROA (Z)	-8.124	0,000	H_5 not accepted

Source: Data processed by researchers

The investment policy has a value of Sig. 0.001 with a negative beta coefficient. It can be concluded that investment policy negatively affects firm value because of Sig's value. 0.001 <0.05, H_3 is rejected. A high investment policy ratio increases the amount of bad debts and the cost of holding inventory, thereby giving a negative signal to investors (Izzurrahman, 2022). The research results are supported by Izzurrahman (2022) and Khanqah (2015).

The financing policy has a value of Sig. 0.955 with a negative beta coefficient. It can be concluded that financing policy does not affect firm value because Sig. 0.955 > 0.05, H_4 is rejected. This is caused by a lack of company transparency that affects investor decisions or the inability of investors to optimally translate information related to the signals provided (Obeng et al., 2021). The research results are supported by research by Contesa & Mayasari (2017), Rasyid (2017), and Shan et al. (2015).

Profitability has a Sig value. 0.000 and a negative beta coefficient. It can be concluded that profitability negatively affects firm value because of Sig's value. 0.000 <0.05, H_5 is rejected. Sudiyatno et al. (2017) argued that increased profitability was not considered a positive signal for investors, which could be due to unstable economic conditions under global economic pressure. Increased profitability caused by sales on credit can reduce the value of the company caused by the uncertainty of collectible receivables. The research results are also supported by the research of Sudiyatno et al. (2017).

4.10. Path Analysis

Gambar 4.1 Path Analysis Chart

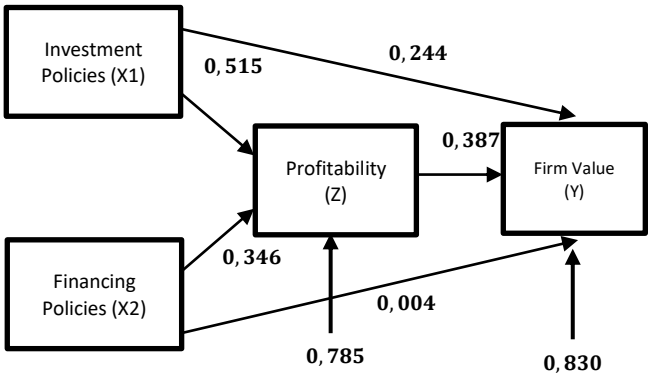

Table 4.6
Path Analysis Result

Effect	Investment Policies	Financing Policies
Direct	0,244	0,004
Indirect	0,199305 (0,515 x 0,387)	0,133902 (0,346 x 0,387)
Total	0,443305	0,137902

Source: Data processed by researchers

In testing H_6, it is known that the direct effect is 0.244 > the indirect effect is 0.199305, so it is known that investment policy does not affect firm value through profitability, H_6 is rejected. Investors believe that high profitability values are used to fund company investments rather than being distributed entirely to investors in the form of dividends. According to signal theory, there is a difference in acceptance between investors and management so that profitability is less able to mediate between investment policies and firm value. The research results are supported by the research of Izzurrahman (2022).

In testing H_7, it is known that the direct effect is 0.004 < the indirect effect is 0.133902. It can be concluded that financing policy has an influence on firm value through profitability, H7 is accepted. This is because there is no direct effect between investment policy and firm value, while there is a direct effect between financing policy on profitability and profitability on firm value. The research results are supported by the research of Naqi & Siddiqui (2020) and Rasyid et al. (2018).

5. CONCLUSIONS AND RECOMMENDATIONS

Research proves that investment policy has a negative effect on profitability. Financing policy has a positive influence on profitability. Investment policies and profitability have a negative influence on firm value. Financing policy does not affect firm value. Investment policy does not affect firm value through profitability. Financing policies have an influence on firm value through profitability. It can be concluded that aggressive investment policies and aggressive financing policies have an influence on profitability. Aggressive investment policies have an influence on firm value.

The company is expected to be able to implement appropriate investment policies and financing policies in accordance with business operations to increase profitability and corporate value. Future research is expected to conduct research using other sectors and increase the research time period in the hope that the data can pass the classic assumption test more easily. Further research can also add other independent variables such as liquidity, leverage, dividend policy, cash conversion cycle and other variables that can have an impact on firm value so that the Adjusted R Square value increases.

6. IMPLICATIONS AND LIMITATIONS

It is hoped that the research will be able contribute to further research and participate in enlivening the literature in the context of scientific development. Limitations in the study in the form of data obtained in the study were not directly able to pass the classic assumption test.

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