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The Influence of Debt Policy, Profit Growth and Inventory Turnover on Firm Value Moderated Firm Size

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Abstract

This research aims to examine the influence of debt policy, profit growth and inventory turnover towards firm value with moderated by firm size. The information in this research was obtained from the financial report in the food and beverage sub sector manufacturing industry that listed on the IDX with the purposive sampling test method. The research period was taken for 6 years by resulted 144 data from 24 food and beverage sub sector entities. The research method uses multiple linear regression analysis with secondary data types. The research shows that simultaneously the three independent variables have an influence on the dependent variables. Partially debt policy and profit growth have a positive effect on the firm value, but the turnover of inventory has a negative influence on the firm value. The results of this researchs show that the three independent variables have a significant influence against the dependent variable moderated by the firm size. Moderated by firm size, debt policy and profit growth have a negative influence to the firm value, while inventory turnover has a positive influence to the firm value.

Keywords
debt policy; profit growth; inventory turnover; firm size and firm value

I. Introduction

The food and beverage industry is an industry that is able to survive in all conditions, this is because under certain conditions consumers tend to limit their consumption by reducing secondary goods and preferring primary goods (Hertina et al., 2021). Chowdhury et al. (2020) supports this statement by stating the rapid development experienced by food and beverage entities in the world in the Covid-19 era. The food and beverage industry plays an important role in the Indonesian economy, where this industry contributes around 34% to the national Gross Domestic Product (GDP) (Ragimun & Widodo, 2019). It is also said by Manurung & Putra (2022) that the performance of the food and beverage industry is developing positively, so that it becomes one of the reliable manufacturing sectors in the national economy.

Potential investors will see the value of the company in their investment decisions (Syah et al., 2022). This is because the high value of the company describes the welfare of shareholders (Triani & Tarmidi, 2019). Thus, the value of the company becomes important for potential investors (Manurung & Putra, 2022). The increase in the value of the company describes the conditions for the success of management in managing the entity so as to provide prosperity for its stakeholders (Hermanto & Aryani, 2022). If the company's value is high, the market will respond positively to the company's performance so as to make the company's prospects better (Gantino & Alam, 2021). Umam & Halimah (2021) view Tobin's Q as the best measuring tool to determine the value of the company, because it is measured using the total debt and equity. Feneir (2019) explains that the high value of

Tobin's Q indicates market conditions that believe in the ability of management to use resources to create corporate value. Tobin's Q value above 1 indicates a higher profit than cost for the asset (Rolle et al., 2020).

The size of a company has an important role in increasing the value of the company (Zuhroh, 2019). This is reinforced by the statement of Dang et al. (2019) that the size of the company is an indicator that is considered in increasing the value of the company, especially for small companies. Company size is calculated in several ways, including using total assets, where entities with many assets are considered good because they have been able to generate stable profits (Owusu-Ansah, 1998; Nyale & Adi, 2021). The increase in the value of the company's shares, the higher the company value, the higher it will be (Katharina, 2021). In the current economic development, manufacturing companies are required to be able to compete in the industrial world (Afiezan, 2020). The existence of the company can grow and be sustainable and the company gets a positive image from the wider community (Saleh, 2019). Food and beverage sub-sector companies tend to have large assets so that it is easy to attract investors to invest (Hermanto & Aryani, 2022). The large scale of the company describes good developments in the company, so that a positive signal will come from investors to increase the value of the company (Manurung & Putra, 2022).

This research aims to examine the effect of debt policy, profit growth and inventory turnover on firm value by moderating firm size. It is hoped that this research can produce information related to indicators that affect the value of the company simultaneously and individually, so that it can become a consideration and strategy for investors and the company itself. In addition, it is hoped that this research can be a development of information about existing manufacturing companies.

II. Review of Literature

2.1 Relationship between Variables

a. Relationship of Debt Policy to Firm Value

Debt policy can be used to increase the entity's capital in order to increase profits (Hermanto & Aryani, 2022). However, although it can increase profits, the company's debt policy can also increase the risk for the company so that it can bring a bad signal to shareholders (Fadjar et al., 2021). This is supported by the statement of Isiaka & Ibrahim (2020) that if a company has a debt level that tends to increase, it can lead to a high risk of debt that cannot be repaid, allowing the value of the company to decrease. Sahabuddin & Hadianto (2019) found that debt policy negatively affects firm value.

H_1: Debt policy has a negative effect on firm value

b. The Relationship of Profit Growth to Firm Value

Profit growth rates with high values have a greater opportunity to increase firm value (Agyemang-Mintah & Schadewitz, 2019). According to Munandar & Alvian (2022) a business with a growing profit rate is able to attract investors to invest their shares, this is due to the high level of profit that can generate a positive signal for investors and is able to increase the value of the company. This is supported by the statement of Endri et al. (2020) that profit growth can give a signal that the company's finances move positively and are able to affect the value of the company. Munandar & Alvian (2022) show that profit growth (NPM) positively affects firm value.

H_2: Profit growth has a positive effect on firm value

c. Relationship of Inventory Turnover to Firm Value

Inventory turnover reflects the company's performance in its operational activities (Jihadi et al., 2021). Inventory turnover reflects the company's level of efficiency in managing its assets in the form of inventory (Sartal et al., 2020). The high inventory turnover ratio shows that management has been effective and efficient in inventory management (Stopková et al., 2019). Jihadi et al. (2021) shows that inventory turnover has a positive effect on firm value.

H_3: Inventory Turnover affects firm value positively

d. Relationship of Debt Policy to Firm Value with Firm Size as Moderating Variable

Debt can affect the level of demand and supply of shares so that it can determine the development of company value (Safitri et al., 2020). Funding decisions made by companies are not only made based on economic conditions, but also based on the debt policy itself because debt policy plays an important role in company value (Huang et al., 2020). Hermanto & Aryani (2022) stated that the size of the company cannot influence changes in the value of the company. Then Djashan & Agustinus (2020) stated that company size has a negative impact on firm value.

H_4: Debt policy negatively affects firm value by being moderated by firm size

e. The Relationship between Profit Growth and Firm Value with Firm Size as Moderating Variable

Changes in the value of earnings are the main driving factor for the company's ability to maintain its existence (Lee & Griffith, 2019). Profit growth towards a higher value indicates that management is able to improve performance effectively and efficiently (Endri et al., 2020). Related to this, large companies will increase the value of the company (Yulianti & Ramadhan, 2022). This is because an established company is a company with a large scale (Hermanto & Prabowo, 2022). Manurung & Putra (2022) stated that firm size positively affects firm value.

H_5: Profit growth positively affects firm value by being moderated by firm size

f. Relationship of Inventory Turnover to Firm Value with Firm Size as Moderating Variable

Farooq (2019) states that the large amount of inventory held can result in low profits. Therefore, inventory turnover is a factor to be considered in making decisions to improve company performance (Wan et al., 2020). According to Afinindy et al. (2021) a large company size is considered good by external parties because the company has sufficient assets related to the ability to settle the company's obligations. Husna & Satria (2019) explained that the value of a company can be influenced by the size of the company.

H_6: Inventory turnover with firm size as a moderating variable negatively affects firm value

III. Research Method

This study uses debt policy, profit growth and inventory turnover as independent variables, the dependent variable uses firm value and firm size as moderating variables. Testing the data using descriptive statistical analysis and classical assumption analysis by testing normality, autocorrelation, multicollinearity and heteroscedasticity. Meanwhile, the hypothesis test uses the simultaneous test technique (F test), individual test (t test) and adjusted R2. The data in this study were processed using the STATA data processing application with secondary data obtained from the Indonesia Stock Exchange (IDX) website as well as from the websites of related entities. This study uses multiple linear regression equations as follows.

Information:

$$Q = \alpha - \beta_1 DER + \beta_2 PG + \beta_3 ITO - \beta_{4(DER \times Size)} + \beta_{5(PG \times Size)} - \beta_{6(ITO \times Size)} + \varepsilon$$

Q = Tobin's Q
DER = *Debt to Equity Ratio*
PG = *Profit Growth*
TA = *Ln* (*Total Aset*)
ITO = *Inventory Turnover*
Ɛ = *Error*

Sampling using purposive sampling technique using sample selection criteria in the form of manufacturing entities of the food and beverage sub-sector that are consistently listed on the IDX from 2016 to 2021, manufacturing entities of the food and beverage sub-sector that have not IPO during the 2016-2021 research period, manufacturing companies the food and beverage sub-sector which recorded a loss during the 2016-2021 research period. This study has 72 populations with 24 samples of data for manufacturing companies in the food and beverage sub-sector listed on the IDX between 2016 and 2021, so the number of data samples that will be used is 144 sample data. The time of this research is from April 18, 2022-July 31, 2022.

IV. Results and Discussion

4.1 Results

a. Descriptive Statistics Test

When viewed from the table below, the total data (Obs) are 144 data. From the test results below, the debt policy variable (DER) shows a minimum value of 0.148 at PT Bisi Internasional Tbk in 2021, a maximum value of 7.546 at PT Mayora Indah Tbk in 2020 and an average value of 1.051 and a standard deviation of 1.003. This difference in value can be due to the various proportions of debt usage in each period. The profit growth variable (PG) shows a minimum value of -7.743 at PT SMART Tbk in 2016, the maximum value is 47.076 at PT Sawit Sumbermas Sarana Tbk in 2020 and the average value is 0.586 and the standard deviation is 4.041. This difference in value can be due to the variety of income and expenses generated from year to year. The inventory turnover variable (ITO) shows a minimum value of 0.910 at PT Delta Djakarta Tbk in 2020, a maximum value of 25.998 at PT Nippon Indosari Corpindo in 2016 and an average value of 6.741 and a standard deviation of 3.809. The difference in the resulting value can be due to the various amounts of inventory used each year and can also be due to the various amounts of cost of goods sold each year. Company size (SIZE) shows a minimum value of 13.250 at PT Sekar

Laut Tbk in 2016, a maximum value of 20.051 at PT FKS Multi Agro Tbk in 2021 and an average value of 15.894 and a standard deviation of 1.569. This difference in value can be due to the total assets owned each year. Furthermore, there is the dependent variable, namely Company Value (Q) which shows a minimum value of 0.339 at PT Wilmar Cahaya Indonesia Tbk in 2018, the maximum value is 12.263 at PT Multi Bintang Indonesia Tbk in 2018 and the average value is 2.247 and the standard deviation value is 2.115. This difference in value can be due to the various number of shares, the proportion of debt and the proportion of assets owned each year.

Table 1. Descriptive Statistical Test

Variable	Obs	Mean	Std. Dev.	Min	Max
Q	144	2.24746	2.115398	.3394818	12.263
DER	144	1.051253	1.003773	.1481489	7.546517
PG	144	.5862647	4.041814	-7.743134	47.07622
ITO	144	6.741697	3.809856	.9108521	25.99831
SIZE	144	15.8946	1.569204	13.2503	20.0516

Source: Secondary Processing Data

b. Classic Assumption Test

Table 2. Assumption Test Results

Variable	Normality	Autocorrelation	Multicollinearity		Heteroscedasticity	
	Sig	dw	VIF	Mean VIF	Chi2(1)	Prob>chi2
Q	0.8820	1.985357	-	1.12	2.93	0.0868
DER			1.20			
PG			1.18			
ITO			1.08			
SIZE			1.02			

Source: Secondary Processing Data

This study applies the normality with Skewness and Kurtosis test. The result of the normality test shows the value of Prob>Chi2 of 0.882 where the value is more than 0.05 which means the data has been declared normal. Autocorrelation test in this research is using Durbin Watson (DW) with a DW value of 1.9853, where the value is lower than the dU value 1.7681 and higher than the (4-dU) value of 2.2319 so that the data in this study is detected was free from autocorrelation symptoms. The result of the multicollinearity test produces the mean VIF a value of 1.12. The number 1.12 is less than 10, where the provision of the multicollinearity test is that if the mean VIF value is below 10, the data is free from multicollinearity symptoms. Bruesch-Pagan/Cook-Weisberg test are using for heteroscedasticity test, by producing a value of Prob>Chi2 above 5% (0.05). The value of Prob>Chi2 from this data is 0.08, so it can be stated that the data in this research has homoscedasticity or there are no symptoms of heteroscedasticity.

c. Simultaneous Test (f test)

The significance value of Prob > F in this study is 0.0000, meaning that simultaneously the independent variables significantly affect the dependent variable. Therefore, the results of this study state that simultaneously DER, PG and ITO moderated by firm size (SIZE) have a significant effect on firm value (Q).

d. Partial Test (t Test)

Referring to the results in table 3, it is shown that the DER, PG and ITO variables produce a significance value below 0.05 which means that DER PG and ITO partially affect firm value. There is a beta value which indicates that DER and PG affect the firm value significantly and with positive results, while ITO also has a significant effect on firm value but with negative results. Then the t test using the moderating variable shows that SIZE is able to moderate the DER, PG and ITO variables on firm value. Where when the DER and PG variables are moderated SIZE the firm value will be negatively affected, whereas when SIZE is moderating the ITO variable the firm value will be positively affected.

Table 3. Partial Test

Q	Hypothesis	Coefficient	P>t	Beta	Description
DER	-	9.997473	0.0000	4.821538	Hypothesis Rejected
PG	+	4.219707	0.0000	.9589434	Hypothesis Accepted
ITO	+	-1.650886	0.0000	-4.324709	Hypothesis Rejected
DERM	-	-.6708366	0.0000	-4.989679	Hypothesis Accepted
PGM	+	-.2962923	0.0000	-.8086148	Hypothesis Rejected
ITOM	-	.1140922	0.0001	4.700873	Hypothesis Rejected
Cons		1.44206	0.0000		

e. Multiple Linear Regression Analysis

Based on Statistical Software can be Described as follows:

$$1{,}800_{Q} = 1{,}442 + 4{,}821_{DER} + 0{,}958_{PG} - 4{,}324_{ITO} - 4{,}989_{DER*SIZE} - 0{,}808_{PG*SIZE} + 4{,}700_{ITO*SIZE} + 0.273$$

The regression equation shows that the constant is 1.442. The coefficient of debt policy has increased by 4.821, if there is a 1% change in debt policy, there will be an increase of 4.821 in value. In profit growth there is an increase of 0.958, if the profit growth changes by 1% then the value of the company will increase by 0.958. Inventory turnover decreased by 4,324, if inventory turnover experienced a 1% change, the value of the company would decrease by 4,324. The coefficient of debt policy is moderated by the size of the company decreased by 4.989, if the value of debt policy changes by 1%, there will be a decrease in the value of the company by 4.989. In the moderated profit growth coefficient with company size decreased by 0.808, if the profit growth value moved by 1% then the firm value would decrease by 0.808. The inventory turnover coefficient is moderated by company size increasing by 4,700, if the inventory turnover value moves by 1%, there will be an increase in company value by 4,700.

f. Coefficient of Determination (Adjusted R^2 Test)

This test uses R square results from data processing with the STATA version 17 application. The Adjusted R2 value in this data is 0.5439, which means that the percentage

of Adjusted R2 value is 54.39%. These results state that all independent variables (debt policy, profit growth and inventory turnover) moderated by firm size are able to explain the firm value of 54.39%.

4.2 Discussion

a. Debt Policy positively affects Firm Value

According to the results shown in the t-test, debt policy is able to have an effect on firm value. Where the influence is a positive influence, it shows that the amount of DER can support the high value of the company. This supports the previous study by Hidayat et al. (2019) which results in a debt policy that positively affects firm value. Funding by using debt will make the supervision of management more stringent, this will reduce the opportunity for management to commit fraud that can harm shareholders. In addition, the company is better off issuing debt as a source of funding than having to issue new shares, this aims to increase the share price because if new shares are issued, the number of shares will increase but will reduce the share price causing the value of the company to decrease.

b. Profit Growth positively affects Company Value

The results of the t test explain that profit growth can affect firm value. These results are confirmed through research conducted by Pratama (2018) where profit positively affects firm value. The movement of the profit value towards a higher direction can encourage an increase in the value of the company. Profits that tend to decline can make investors worry so that they discourage their intention to invest in the company, because companies with profits that tend to decline will only increase the risk caused by expenses that arise in operational activities. Investors tend to be unwilling to invest their shares in companies with a high level of risk. In addition to relating to investors, profit growth is also a consideration for external parties in lending funds to companies. If the company has a profit that grows every period, the company is considered capable of completing its obligations because the operational cycle is considered good.

c. Inventory Turnover negatively affects Firm Value

This research shows that the results of inventory turnover negatively affect firm value. These results are in line with Nguyen et al. (2020) who found that inventory turnover had a negative effect on firm value. Inventory turnover which is part of the activity ratio can affect the value of the company every year. With the results shown in this research, the high value of a company's inventory turnover can increase the value of cost of goods sold and reduce the value of gross profit and also increasing operating expenses causing a negative signal for shareholders. In this research, inventory turnover with a small value can increase the value of the company, because the data in this research was taken at the beginning of the Covid-19 pandemic until the new normal era, during which market demand became unstable so that the inventory turnover value of several companies experienced conditions fluctuating.

d. Debt Policy Moderated Firm Size Negatively affects Firm Value

Based on the t-test shown in this research, firm size negatively moderates debt policy on firm value. So it can be interpreted that the interaction of debt policy and firm size can reduce firm value. The increase in debt that occurs in companies with a large scale allows a decrease in the value of the company, while the increase in debt that occurs in companies with a small scale can support an increase in the value of the company. Small companies

are considered not to have big needs in their operations, so investors are interested in investing their shares. Entities with relatively small funding requirements will create more stored funds so that the company is able to prosper shareholders through dividends. Companies with small total assets will continue to grow and develop along with increasing share prices, causing an increase in company value. Meanwhile, large companies have greater need for funds, so that in improving their operational activities the company will borrow funds from external parties. This is actually a risk and a threat to shareholders because the funds owned by the company will be used to fulfill its obligations to creditors so that the company will provide dividends in a small value.

e. Profit Growth Moderated Firm Size negatively affects Firm Value

This research shows that profit growth moderated by firm size negatively affects firm value. This means that the effect of profit growth on large and small-scale companies is able to give a negative signal to shareholders. Growing profits do not necessarily reflect good company conditions and are able to increase company value. Profit growth that occurs does not really define profit for the company, this is because the growth that occurs is only an interpretation of increased sales from the previous period. In this research, profit growth in large-scale companies negatively affects the value of the company, because of the large value of debt and assets. Liabilities and assets with a large value can be a risk because these two factors require large funds in their utilization. So that large-scale companies will use funds to fulfill obligations to external parties and maintain assets for operational sustainability, then investors will receive returns in amounts that tend to be small and make stock prices decline which causes a decrease in company value. Meanwhile, profit growth in small-scale companies is considered unable to make potential investors believe in the dividends received in the future because the company is still in the growing stage. Therefore, this research shows that the profit growth that occurs in small-scale companies has not been able to attract the attention of investors to decide to invest.

f. Inventory Turnover Moderated Firm Size Positively Affects Firm Value

Referring to the results in this study, firm size is able to positively moderate the interaction between inventory turnover and firm value. Thus, it can be seen that the size of the company encourages inventory turnover to act as a factor in increasing the value of the company. High inventory turnover reflects increased sales but does not indicate increased profits. Large-scale entities have a large production demand, so the inventory needed will also be on a large scale. Production and sales results will increase in line with market demand so that investors are willing to invest in companies with high inventory turnover values. As for small-scale companies, even though the production produced is in small quantities, if the inventory turnover rate is high, the sales that occur will also increase. This makes investors feel that small-scale companies are also able to provide a fairly valuable rate of return, because they are considered good companies in optimizing their inventory to support operational activities. Because the high value of inventory turnover indicates a good ratio of company activity. Firm Size Positively Moderated Affects Firm Value

Referring to the results of this study, firm size is able to positively moderate the interaction between inventory turnover and firm value. Thus, it can be seen that company size encourages inventory turnover to be one of the factors in increasing company value. High inventory turnover reflects an increase in sales but does not indicate an increase in profit. Large-scale entities have a large production demand, so the inventory needed will also be on a large scale. Production and sales results will increase in line with market demand so that investors are willing to invest in companies with high inventory turnover

values. As for small-scale companies, even though the production is produced in small quantities, if the inventory turnover rate is high, the sales that occur will also increase. This makes investors feel that small-scale companies are also able to provide a fairly valuable rate of return, because they are considered good companies in optimizing their inventory to support operational activities. Because the high value of inventory turnover indicates a good company activity ratio.

V. Conclusion

From the results obtained, this study shows simultaneously the variables of debt policy, profit growth and inventory turnover affect firm value either directly or with moderation through firm size. Partially debt policy and profit growth affect the firm value positively. Meanwhile, inventory turnover can negatively affect firm value. Furthermore, debt policy and profit growth have an effect on firm value with negative results if moderated by firm size. Meanwhile, inventory turnover has an effect on firm value through positive moderation of firm size. In supporting the increase in firm value, the three independent variables and moderating variables used are very important to note, because these variables have their respective effects on firm value.

In implementing the increase in company value, management needs to pay attention to the source of funding for operations up to the profits obtained. The use of debt as a source of funding is an option for companies, but at certain times the use of debt can be a risk and a threat. This also applies to the profits generated by the company, where not all companies with growing profits can indicate an increase in company value so management needs to pay attention to what kind of profit can increase and decrease company value. Inventories in the food and beverage manufacturing industry have various roles. Similar to debt policy and profit growth, inventory can also provide positive and negative signals. In the midst of Indonesia's inconsistent economic conditions, especially since the era of the Covid-19 pandemic, the three independent variables used in this research have different effects, regardless of the scale of the company or not.

This study has limitations, namely the independent variables and the sector under study. For further research, other variables can be added, such as dividend policy, sales growth, company growth and so on. In addition, it can also add control variables such as good corporate governance (GCG). Henceforth, the research sector can be expanded to include the entire manufacturing industry in Indonesia or other types of industries other than the manufacturing industry in order to produce more complex research.

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