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The Effect Of Profitability And Leverage On Firm Value With Risk Management Disclosure As Moderating And Firm Size As Control

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Abstract

This research aims to determine investors' interest in investing by looking at the firm value. Some factors are profitability, leverage, risk management disclosure and company size. Data analysis uses a Multiple Regression Analysis model using SPSS 26 to produce a comprehensive view regarding interactions between variables. The sample used in this research consisted of 32 manufacturing companies in the pharmaceutical sector and food and beverage sector spanning the period 2020-2022 using a purposive sampling method for sampling. The research method used is quantitative. The data used is secondary data such as financial reports and annual reports. The research results show that profitability has a significant positive effect on company value, leverage and company size have no effect on company value. Risk management disclosure can moderate profitability and leverage on company value. The regression model shows that the influence of profitability and leverage on company value is only 22.5% and the remaining 77.5% is influenced by other things not included in the research.

Keywords: firm value, return on equity, leverage, risk management disclosure, and firm size

1. Introduction

The development of the Indonesian capital market has made it an attractive alternative investment choice for investors. Firm value is an important concept for investors because Firm value shows how the market assesses the company as a whole. Several factors influence firm value, such as fundamental factors, macroeconomic factors, stock exchange conditions, and the global economy (Sari & Sanjaya, 2018). In 2020, all industries were affected by Covid-19, one of which was the manufacturing industry. This impact affects the entire company's performance which results in a decrease in the company's value (BPS, 2020). Until 2021-2022, the momentum for national economic recovery continues (BPS, 2021) and (BPS, 2022). Every company must carry out its business planning as well as possible, such as tax planning (Rachmawati, 2023) and financial planning (Sahri & Novita. 2019). Because information is one of the main considerations in making investment decisions in the capital market (Ardina & Novita, 2023). The better the firm value, the more valuable information it will be seen by potential investors (Faiq & Septiani, 2020). The wealth of shareholders and the company is reflected in the stock market price (WW Hidayat, 2019). The success of an organization in carrying out its operational activities tends to be measured by the success of the organization in achieving financial performance (Zamzami & Novita, 2021).

Maintaining and improving financial performance is a must for a company so that its shares remain attractive to investors. Return on Equity (ROE) growth can indicate the company's prospects are getting better. This is captured by investors as a positive signal to increase investor confidence (Hamzah et al., 2022). Increased investor interest will increase demand for company shares so that share prices become expensive and can affect firm value. The company's ability to pay its obligations is also a concern for investors. If the company is unable to pay its obligations appropriately when the economic situation worsens, it could pose a risk to the company's value (Ramadhan & Fachrudin, 2023). The company's dependence on external parties (creditors) means that the company will also bear high risks (Hamzah et al., 2022). The increasing amount of debt is also seen as a company that is not careful with the high amount of debt. Investors also think about abandoning their plans when they see a company with a high level of debt affecting the firm's value. The existence of agency conflicts and information asymmetry makes it difficult for principals to trust

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management's performance in running the company. One step that companies can take to produce relevant information for investors is through risk disclosure (Faiq & Septiani, 2020). Risk is a possibility that can be detrimental because it is based on doubt or uncertainty (Wahyuni & Novita, 2021). Disclosure of this risk will improve the company's reputation and can affect the value of a company. The novelty of this research is that it uses risk management disclosure as a moderating variable with the financial and annual reporting period taken being 2020-2022, during which period the Covid-19 pandemic occurred which had an impact on company performance. Therefore, this is an important step for companies to increase company value through financial performance and risk management, where this information will later be used to attract investor interest.

2. Literature Review

Agency theory is expected to function as a tool to give investors confidence that they will receive a return on the funds they have invested. However, differences in shareholder interests often give rise to information asymmetry (Dinah & Darsono, 2017). On the other hand, these decisions can also be opportunistic, namely management behavior that seeks personal gain, and therefore it is necessary to pay attention to this because it can harm the interests of shareholders and other stakeholders (Rachmawati et.al., 2023) and (Rachmawati et.al., 2023) and (Lastiati, A et.al., 2020). Company management utilizes signal theory to provide positive signals and negative signals, in order to reduce information asymmetry. According to legitimacy theory, companies must also have boundaries that are emphasized by existing social norms and values, and the market reaction to these boundaries encourages the company to pay attention to the surrounding environment (Puspitaningrum & Taswan, 2020).

2.1. Firm Value

Firm value is investors' perception of the company's level of success which is clearly visible in relation to share prices (M. Hidayat, 2021). Firm value is very important because high company value will also be followed by increased shareholder prosperity. Firm value is a reflection of the addition of the company's equity to the company's debt (Dzahabiyya et al., 2020).

2.2. Profitability

Profitability is a ratio that shows a company's ability to gain profits from the use of its capital (Endri & Fathony, 2020) and (Nurminda et al., 2017). If managers decide to reduce the company's taxable profits through tax management actions, then the reported profits will be smaller. This will reduce investors' interest in investing in the company (Rachmawati et.al., 2019). Investors will review a company by looking at financial ratios as a tool for evaluating investments, because financial ratios can reflect the high and low value of the company. Sahri & Novita. (2019) said that company performance is part of competitive advantage by looking at the company's ability to achieve economic profits above the profits achieved by competitors in the same industry. The better the performance of a company's management in generating optimal income from invested capital, the higher the profits achieved, and the value of the company will also increase (Ramadhan & Fachrudin, 2023).

2.3. Leverage

According to (Nurminda et al., 2017) leverage is used to measure how much a company is financed with debt. Using debt that is too high will endanger the company because the company will fall into the extreme leverage category, that is, the company is trapped in a very high level of debt, and it is difficult to get rid of the debt burden. The higher the ratio, the lower the company's funding provided by shareholders.

2.4. Risk Management Disclosure

Risk management disclosure is important because it helps stakeholders obtain the information needed to understand the risk profile and how management manages risk (Supriyadi & Setyorini, 2020). Wahyuni & Novita (2021) stated that risk has a significant influence on achieving targets, which of course will affect the sustainability of a business, so management can anticipate these risks through implementing risk management. Disclosure of risk management is also part of implementing good governance because it is a form of transparency in the company's condition. Implementing good governance can also provide a positive signal to investors in increasing firm value

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(Angeline & Novita, 2020). Risks that may occur to the company according to (Zamzami et al., 2018) and (Moeller & Sons, 2016):

1. Internal risk factors, including reputation, strategy, condition of the parent company and copyright.
2. External factor risks, including industry, economic conditions, competitors, law, and consumer needs and desires.
3. Process risk, including inventory supply, customer satisfaction, production cycle time, and execution processes.
4. Compliance risks, including environmental, litigation, changes in laws and regulations and changes in operating policies and procedures.
5. Human resource risks, including human resources, employee fraud or irregularities, workforce turnover, performance incentives and training.
6. Treasury risk, including interest rate risk, exchange rate and capital availability.
7. Credit risk, including capacity, collateral, and credit payment risks.
8. Trading risk, including commodity price risk, trading time and measurement.
9. Financial risks, including risks of accounting standards, budgets, financial reporting, taxes and reporting rules.
10. Operational risks, including price, performance measurement and employee safety.
11. Technology risks, including risks of information access, business continuity, infrastructure availability, obsolescence of information technology systems and infrastructure.

2.5. Firm Size

Large companies have a wider range of stakeholders, so that various policies of large companies will have a greater impact on the public interest compared to small companies. Widyaningsih (2018) said company size describes the size of a company as shown by total assets.

3. Hypothesis Development

3.1. Profitability has effect on firm value in manufacturing companies.

Profitability ratios are ratios that show a company's ability to gain profits from the use of its capital. Increasing investor interest can also create high firm value. So, there will be a positive relationship between profitability and share prices where high share prices will affect the value of the company. By seeing an increase in profits, investors are interested in investing their shares in the company so as to increase the firm value. The results of research (Hamzah et al., 2022), (Nurminda et al., 2017), (Bahraini et al., 2021) and (Endri & Fathony, 2020) conclude that Return On Equity (ROE) has a positive effect on companies in the financial industry.

H_1: Profitability has a positive effect on company value in manufacturing companies.

3.2. Leverage has effect on firm value in manufacturing companies.

The leverage ratio is to measure how much a company is financed with debt (Ramadhan & Fachrudin, 2023). The higher the ratio, the lower the company's funding provided by shareholders. According to (Jufrizen & Al Fatin, 2020) from the perspective of the ability to pay long-term obligations, the lower the ratio, the better the company's ability to pay its long-term obligations. Investors also think about abandoning their plans when they see a company with a high level of debt affecting the value of the existing company because the debt level is detrimental. The research results of (Ramadhan & Fachrudin, 2023), (Sari & Sanjaya, 2018) dan (Hamzah et al., 2022) have a negative and significant effect on firm value.

H_2: Leverage has a negative effect on company value in manufacturing companies.

3.3. Risk management disclosure has effect in moderating profitability on company value in manufacturing companies.

Cahya & Riwoe (2018) investors will look at profitability ratios, especially Return On Equity (ROE) to find out how big the company is in generating returns on the investments they will make. Return On Equity (ROE) is a ratio to measure a company's effectiveness in generating returns for investors. With risk management disclosure, companies can provide financial or non-financial company management conditions to market players regarding risk profiles (Maychael & Pangestuti, 2022). This is a positive signal for stakeholders that management is effectively handling uncertainty in business and related risks and improving company quality to increase firm value (Maychael & Pangestuti, 2022).

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H$_3$: Risk management disclosure has a positive effect in moderating profitability on company value in manufacturing companies.

3.4. Risk management disclosure has effect in moderating leverage on company value in manufacturing companies.

Investors will feel riskier if they invest their money in a company because if liquidation occurs, the opportunity for a return on the equity provided will be smaller because they must give it to creditors first, so that the higher the company's leverage will have a decreasing impact on the value of the company (Sari & Sanjaya, 2018). When the level of risk faced is high, the change in company value will be even higher. The principle of high risk, high return applies; that is, when the risk faced is high, the potential reward that will be received is also high. The implementation of Enterprise Risk Management (ERM), which was disclosed by the company in its annual report, served as a company signal to stakeholders which was ultimately responded to in the capital market with an increase in the measurement of firm value.

H$_4$: Risk management disclosure has a negative effect in moderating Leverage on company value in manufacturing companies.

3.5. Firm size has effect on firm value in manufacturing companies.

A company that has a larger size will make an investor pay more attention to the company. This is because large companies tend to have more stable conditions. The stable condition of the company can attract investors to own shares in the company. This condition is the cause of the increase in company share prices on the capital market. Company size will influence a company in obtaining funds from outside the company. This can increase investor interest, causing the company's share price to rise on the capital market. Company size as a control variable weakens the influence of liquidity on company value as indicated by the decrease in the coefficient number. In terms of profitability on company value, the role of company size as a control variable is strengthened based on the increasing coefficient number. Research (Vilantika and Santoso, 2022), (Herninta, 2019), and (Widyaningsih, 2018), shows that company size has a significant positive effect on firm value.

H$_5$: Firm size has a positive effect on company value in manufacturing companies.

4. Methods

The research method used is quantitative. Process data and hypotheses using SPSS ver 26 for windows. In this research, secondary data comes from annual reports and financial reports of manufacturing companies in the pharmaceutical sector and food & beverage sector listed on the Indonesia Stock Exchange. The research sample used a purposive sampling method. The total population was 32 companies and the period used was 2020-2022 with a sample of 96.

4.1. Firm Value

The dependent variable in this research uses one dependent variable, namely company value or firm value (Tobin's Q) as the variable (Y). Firm value (Tobin's Q) is calculated using the following formula:

$$\text{Tobin's Q} = \frac{(\text{Total Market Value} + \text{Debt})}{\text{Total Assets}}$$

4.2. Profitability

Return on Equity (ROE) profitability ratio is sales profit after calculating all costs and income taxes with sales (Cahya & Riwoe, 2018). The formula for Return on Equity (ROE) is as follows:

$$\text{Return On Equity} = \frac{\text{Net Income}}{\text{Equity}} \text{ x } 100\%$$

4.3. Leverage

Debt to Equity Ratio is a ratio that shows the percentage of funds provided by shareholders to lenders. This ratio is calculated as follows:

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$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

4.4. Risk Management Disclosure

Disclosure of risk management information is measured using criteria largely adapted from (Zamzami et al., 2018) and (Moeller & Sons, 2016). This research is measured using a dichotomous value approach, namely by giving a score to each item that is disclosed, if it is disclosed and has a positive response then it is given a value of 2, if it is disclosed and has a negative response then it is given a value of 1, if it is not disclosed then it is given a value of 0, then each item those disclosed are added up and then divided by the total items that should be disclosed. The risk management disclosure formula is as follows:

$$\text{Risk Management Disclosure} = \frac{\text{Total Risk Disclosure}}{\text{Total Risks}}$$

4.5. Firm Size

In this research, company size is measured using the Natural Logarithm of Total Assets. Widyaningsih (2018) states that company size can be measured by:

$$\text{Firm Size} = \text{LN (Total Asset)}$$

5. Results and Discussion

5.1. Descriptive Test

This data analysis was carried out on 32 manufacturing companies that met the data processing criteria.

Table 1. Descriptive Analysis Test Results

Model	N	Min	Max	Mean	Std. Deviation
Tobin's Q	96	0.77	10.34	2.2290	1.65787
ROE	96	0.01	5.86	0.3563	0.67719
DER	96	0.04	16.77	1.1715	1.80902
RMD	96	1.20	1.95	1.7922	0.14127
ROE_RMD	96	0.36	1.82	0.7607	0.25381
DER_RMD	96	0.52	2.37	1.0989	0.26667
SIZE	96	20.93	32.83	28.0528	2.39786

From Table 1. The average result for the Tobin's Q variable is 1.1761, resulting in a standard deviation of 1.65787. Judging from the average, the independent variable, namely profitability (ROE), has an average of 0.3563 with a standard deviation of 0.67719, an average of the leverage variable (DER) of 1.1715 with a standard deviation of 1.80902, an average of the moderating variable, namely RMD, of 1.7922 with a standard deviation of 0.14127 , and the average control variable, namely SIZE, is 28.0528 with a standard deviation of 2.39786. Then the average ROE variable which has been moderated with RMD is 0.7607 with a standard deviation of 0.25381 and the average of the DER variable which has been moderated with RMD 1.0989 with a standard deviation of 0.26667.

5.2. Normality Test

A good regression model can analyze whether the data is normally distributed or not. Based on the data that has been studied, the Kolmogorov Smirnov results are presented below.

Table 2. Normality Test Results

Model	Amount of data	Significance P value > 0.05	Information
Before Moderation	96	0.059	Normally distributed
After Moderation	96	0.104	Normally distributed

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Based on table 2. The results of the Kolmogorov Smirnov test can be seen that the P value (Asymp.Si) before moderation is 0.059 > 0.05 and after moderation it is 0.104 > 0.05. This means that all regression models meet the normality assumption.

5.3. Multicollinearity Test

This model uses a multicollinearity test to show that there is a relationship between the independent variables. If the VIF value of all variables is less than 10 and the tolerance value of all variables is more than 0.01, then multicollinearity does not occur.

Table 3. Multicollinearity Test Results

Model	Effect	Before Moderation				After Moderation			
		t	Sig.	VIF	*Tolerance*	t	Sig.	VIF	*Tolerance*
ROE	+	4.443	0.000	0.843	1.186				
DER	-	-2.506	0.114	0.831	3.203				
RMD	+	2.733	0.008	0.943	1.060				
ROE_RMD	+					4.136	0.000	0.867	1.153
DER_RMD	-					-2.453	0.016	0.848	1.179
SIZE	+					0.972	0.333	0.975	1.026

Table 3. The results of this test show that before there is moderation in the VIF values of all variables, namely ROE, DER, and RMD < 10 and the tolerance value > 0.01, this means that multicollinearity does not occur. Meanwhile, after moderation was carried out and control variables were added, the test results still showed that there was no multicollinearity between variables.

5.4. Heteroscedasticity Test

In this regression model, to determine whether there is an inequality of variance from the residuals of one variable to another variable, the heteroscedasticity test is used (Pudjianti & Ghozali, 2021).

Figure 1. Heteroscedasticity Test Results Before Moderation

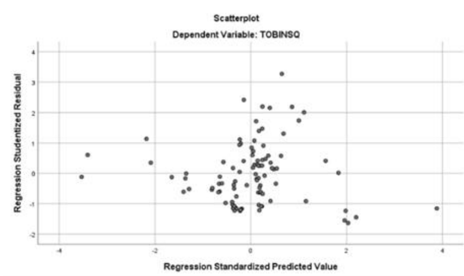
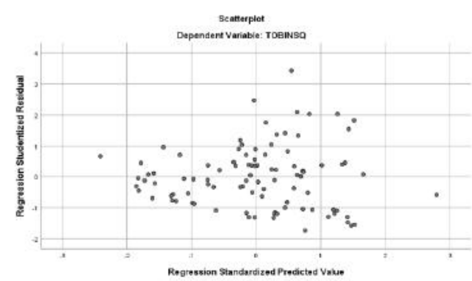


Figure 2. Heteroscedasticity Test Results After Moderation



The results of this test show that the points on the scatterplot graph are spread out and do not form a pattern. The conclusion is that there is no heteroscedasticity.

5.5. Autocorrelation Test

In this model, Durbin Watson (DW) is used to detect the autocorrelation test. If the DW number is below -2, then there is positive autocorrelation. If the Durbin Watson number is between +2 and -2, it can be said that there is no autocorrelation. If the DW number is above +2, then there is negative autocorrelation.

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Table 4. Autocorrelation Test Results and Coefficient of Determination (R^2)

Before Moderation			After Moderation		
R^2	Adjusted R Square	Durbin-Watson	R^2	Adjusted R Square	Durbin-Watson
0.225	0.191	1.163	0.168	0.140	1.051

Table 4. Autocorrelation test results show that the DW figure before moderation is 1.163 > 0.05, so this model does not have autocorrelation. Then, after moderation and adding control variables, the DW number decreased to 1.051. However, this DW figure is still greater than 0.05, so this model still does not have autocorrelation.

5.6. Coefficient of Determination Test (R^2)

This Adjusted R2 measurement was carried out to find out how far the regression model's ability to explain the dependent variable (Pudjianti & Ghozali, 2021). From table 4, the adjusted R square results obtained before moderation were 0.191. These results show that the magnitude of the variation in independent variables influencing company value before moderation was 22.5%, but the magnitude of variation in independent variables influencing company value decreased after moderation and adding control variables to 16.8% with an adjusted R square of 0.140.

5.7. Hypothesis Test (Uji t)

Table 5. Hypothesis Test Result (Uji t)

Model	Influence	Before Moderation			After Moderation			Information
		Coefficients B	t	Sig.	*Coefficients* B	t	Sig.	
ROE	+	0.447	4,443	0,000				H1 Accepted
DER	-	-0.254	-2,506	0.114				H2 Rejected
ROE_RMD	+				0.422	4,136	0,000	H3 Accepted
DER_RMD	-				-0.253	-2,453	0.016	H4 Accepted
SIZE	+				0.094	0.972	0.333	H5 Rejected

Table 5 shows the results of the hypothesis test or t test where the profitability (ROE) variable has a positive effect on firm value with a t value of 4.445 and a significance value of 0.000, the leverage (DER) variable has no effect on firm value with a t value of -2.506 and a significance value of 0.114, while the management disclosure variable (ROE_RMD) has a positive effect in moderating profitability on firm value with a t value of 4.136 and a significance value of 0.000, the management disclosure variable (DER_RMD) has a negative effect in moderating leverage on firm value with a t value of -2.453 and a significance value of 0.016. Then the company size (SIZE) variable has no effect on firm value with a t value of 0.972 and a significance value of 0.333.

6. Discussion

6.1. Profitability has a positive effect on firm value in manufacturing companies listed on the Indonesian Stock Exchange

Companies with high Return On Equity have good future company prospects and can make the market react, which is indicated by increased investor interest in investing their capital in the company by buying the company's shares. Companies with high profitability have good corporate accounting performance and are considered capable of generating high profits for investors and will provide high returns as well. Information on company performance, both in the form of profit/loss and components of profit/loss, is one piece of information that is often used by stakeholders to assist the decision-making process. Thus, the quality of company profits is always a concern for stakeholders (Rachmawati et. Al., 2020). Therefore, investors will analyze the value of the company because the results of this analysis will provide useful information to investors when assessing the company's opportunities in the future to generate profits. These results are in line with research (Hasania et al., 2016) and (Languju et al., 2016), (Hamzah et al., 2022) and (Nurminda et al., 2017), (Bahraini et al., 2021), and (Endri & Fathony, 2020).

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6.2. Leverage has a negative effect on company value in manufacturing companies listed on the Indonesian Stock Exchange

The results of this research support the signaling theory which states that when a company has good firm value, it is possible to have a very good ability to pay off its financial obligations, namely paying dividends, interest and loan principal and being able to maintain the company's operational capabilities well. The company's sufficient funds to finance its assets obtained from its own capital make the company reduce the proportion of its debt. Excessive use of debt will reduce the benefits received from the use of debt because the benefits received are not commensurate with the costs incurred, so that a low proportion of debt can increase the value of the company and conversely an increase in debt can reduce the value of the company. These results are in line with research (Muharramah & Hakim., 2021) and (Farizki et al., 2021).

6.3. Risk management disclosure has a positive effect in moderating profitability on company value in manufacturing companies listed on the Indonesia Stock Exchange

Companies with high profitability have good performance and are considered capable of generating high profits for investors and will provide high returns too. According to (Faiq & Septiani, 2020) with the encouragement of signal theory, some information released by the company can influence investment decisions by external parties. Signal theory can provide an explanation to investors who want to invest so that if there is a signal that provides good information for investors, then this information will attract investors' interest in investing because there is a change in the volume of the company's share price. Risk management disclosures can provide the information necessary to understand the risk profile and how management manages risk. Management can provide market players with financial or non-financial conditions regarding the risk profile through risk management disclosures (Maychael & Pangestuti, 2022).

6.4. Risk management disclosure has a negative effect in moderating leverage on company value in manufacturing companies listed on the Indonesia Stock Exchange

When a company has high debt, it will impact public trust and affect the value of the company. It will be assumed that the company is not careful about the amount of debt that is too high or falls into the extreme leverage category. Disclosure of risk management can provide a positive signal to stakeholders. When the level of risk faced is high, the change in firm value will be even higher. The lower the level of a company's leverage ratio, the higher the risk management disclosure carried out by the company and will increase the value of the company, because it is believed that company management has succeeded in managing and mitigating risks well, especially the level of debt in the company. This was responded well to by investors and creditors because the company was considered to be careful about the level of leverage which could affect the value of the company. Meanwhile, the higher the level of a company's leverage ratio, the lower the risk management disclosure carried out by the company, and this will affect the decline in company value, because the company is considered to be covering up the company's condition so as not to be in the spotlight of creditors and investors.

6.5. Company size as a control variable has a positive effect on company value in manufacturing companies listed on the Indonesian Stock Exchange

If an investor wants to assess a company, he will not look at the size of the company which is reflected in the total assets owned by the company. However, investors will review various aspects such as paying attention to the company's performance as seen in the company's financial reports, the company's good name, and dividend policy before deciding to invest their funds in the company (Suwardika & Mustanda, 2017). The number of assets does not have an influence on the value of the company because many assets without optimal management will not have significant implications for the value of the company where company size generally influences investors' judgments in making investment decisions (WW Hidayat, 2019). This is in line with research (Suwardika & Mustanda, 2017), (Chasanah, 2018), and (WW Hidayat, 2019).

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7. Conclusion

Based on test results from 32 manufacturing companies, it shows that profitability as measured using Return On Equity (ROE) has a significant positive effect on firm value. Leverage as measured by the Debt to Equity Ratio (DER) has no effect on firm value. Risk management disclosure has a significant positive effect in moderating profitability on firm value. Risk management disclosure has a negative effect in moderating leverage on firm value. Then company size as a control variable has no effect on firm value.

Based on the results of this research, company management can consider profitability and risk management disclosure as factors that influence firm value, especially in manufacturing companies in the pharmaceutical sector and the food and beverage sector, because the company aims to increase firm value by making shareholders prosperous, this can achieved by: Increasing the company's profitability, because the profitability generated by the company shows that the company is in good condition, so that investors and shareholders become increasingly confident in the company. Increase risk disclosure as a consideration for investors when financial performance does not show good results. Because this information provides an overview of the company's condition that investors need to know.

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