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The effect of liabilities plan and earnings performance on firm's worth moderated by independent commissioners

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ABSTRACT

Competition in the business world keeps Indonesian economy growing. The aim of study is in order to test correlation between liabilities plan and earnings performance on firm's worth, as well as moderation by independent commissioners on this correlation. The method is descriptive and verification method. Data collection was carried out by secondary data tracking. The research was conducted with a sample of 39 companies through non-probability sampling methods. Collected data is analyzed using descriptive analysis and verification analysis assisted by Microsoft Office Excel 2016 and Eviews 9 applications. The findings indicated that value of company was not impacted by liabilities plan. Earnings performance has a positive and significant impact on Firm's worth. Independent commissioners have a considerable and beneficial effect on firm's worth. Independent commissioners are unable to weaken influence of debt policies on firm's worth. Independent commissioners can enhance impact of earnings performance on firm's worth.

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Introduction

Competition in business world in digitalization era has resulted in economy in Indonesia growing and increasing rapidly, with help of digital technology and internet access, it is easy and fast for people to get all information in carrying out any activity and anywhere. An option is to invest in capital market, which encompasses activities associated with public offerings, trading of securities, public companies that issue securities, and institutions and professions that deal with securities (Law Number 8 of 1995 - JDIH Ministry of Finance). It is a platform where buyers and sellers come together to conduct transactions for purpose of obtain capital and profits (Widia Astuty et al., 2015). Sellers are defined as companies that have gone public, while buyers are defined as shareholders or investors.

IDX notes that 2021 will also be enlivened by companies' interest in Raising long-term funds through capital market has been a common practice. As of December 30, 2021, 54 companies have conducted an Initial Public Offering (IPO) and listed their shares on IDX, bringing total number of listed companies to 766 on IDX. The total sum garnered from IPO shares amounted to IDR 62.61 trillion, marking a 1,022.35 percent surge from previous year and setting a new record for highest amount of funds raised in Indonesia's capital market history. Indonesia has been leading stock exchange in the ASEAN region with the highest number of IPOs for three years running since 2019. The remarkable accomplishment also demonstrated an upsurge in level of interest among general public in investing in stock market. According to Indonesia Central Securities Depository

(KSEI)'s Financial Services Authority (OJK), number of investors has substantially increased from 2019 to 2021. The investing population on IDX has reached 7 .48 million Single Investor Identification (SID) in 2021, this number has experienced a very significant growth of 92.99 percent when compared to the end of 2020 of 3.88 million Single Investor Identification (SID). KSEI also notes that this growth is dominated by millennial generation and Gen-Z or age range ≤ 40 years of 88 percent of total new retail investors (as of December 2021).

The above phenomenon explains that in current digital era it creates intense business competition and encourages companies to maintain and develop their performance. Natalia & Ellitan (2019), said that Amidst the Industry 4.0 era, companies were forced to be able to compete with an increasingly developing technological situation. Companies must be able to try to make the latest innovations by adjusting to the current situation to be able to compete and achieve the goals of a company. According to Law no.3 of 1982 in article 1 letter (b) of the Company Law (UWDP), a company is a business entity that is established, operates and is located in Indonesia with the primary objective of generating profit. Production activities are part of a company's operations, and it has both short-term and long-term goals. The immediate goal of a company is to maximize profits with the available resources, while the long-term goal is to enhance the company's overall value (Medina & Medina, 2014).

According to Purwanti (2020), Value of a firm refers to the perception of how well a company is performing, which is often reflected in its stock price as assessed by investors. As a company's stock price increases, shareholders or investors tend to benefit from greater prosperity. This price is determined by market participants based on supply and demand in the capital market, and reflects the highest price that a shareholder is willing to pay for a share of the company at a given time, the higher the firm's worth (Berzkalne & Zelgalve, 2014). The higher firm's worth, the more prosperous the shareholders will be. Maximizing value of the firm is crucial as it can show that firm's performance is good and will influence the perceptions of potential investors towards the company.

IDX currently has 41 stock indices, which reflect the overall price movement of selected groups of stocks based on specific criteria and evaluation periods. This study focuses on a company listed on LQ45 index, which comprises 45 high-liquidity and large-market capitalization stocks supported by sound company fundamentals. LQ45 is an active trading index consisting of companies that generate profits to increase the prosperity of shareholders by increasing the company's value, which is reflected in the stock price (Yang et al., 2017). Value of a firm is determined by the share price, which increases as more investors buy shares, resulting in a higher stock price and increased company value (Firmansyah et al., 2020;Shiller, 2013).

There are several ratios that can be used to measure value of firm. There are 4 indicators to measure firm's worth, namely PBV, PER, EPS, and Tobin's Q. In this study in this paper the author will use the Tobin's Q ratio, because this ratio is able to explain various phenomena in company activities, for example differences in investment and verification decision making. Hashmi et al. (2020) explored several connections between management practices and firm performance, including the links between management share ownership and firm value, management performance and acquisition profits, funding policies, dividends, and compensation. The researchers used Tobin's Q as an indicator of asset investment profitability. When Tobin's Q is above one, it shows that investing in assets generates more profits than investment costs, leading to increased investment. Conversely, Tobin's Q below one suggests that investing in assets is not favorable. Therefore, a high Tobin's Q value indicates good growth prospects for the company.

Firm's worth is influenced by several factors that are related to firm's worth. The first factor that affects value of the company is the liabilities plan. Liabilities plan is a policy taken by companies to finance through debt. Smith et al. (2013) said that The Financial Accounting Standards Board defines liabilities as the obligation of an entity to transfer assets or provide services to other entities in the future, resulting from past transactions that may require future sacrifices for economic benefits. The DER serves as a measure of liabilities in this study. When the DER increases, it indicates a decline in company performance. A high DER signifies that more debt is being financed through loans, leading to increased reliance on creditors. Any operating profit earned by the company would need to be used to pay off debt, making it harder to maintain profitability and in the end, profits will be distributed reducing size of shareholders' interest can make investors hesitant to purchase company shares, ultimately leading to a decrease in company's value. Therefore, debt policy is highly susceptible to changes in firm's worth.

Value of a company is significantly influenced by its earnings performance, which is the second factor. The earnings performance ratio is a comparison or ratio used to evaluate a company's ability to generate profits from its sales, assets, and equity. Better earnings performance indicates stronger prospects for the company, leading to positive responses from investors and an increase in stock prices. ROA measures the net profit after tax with own capital, indicating capital efficiency. A higher ROA implies better returns on investment according to BV of shareholders, showing a stronger position of the company owner, according to Heikal et al. (2014). It encourages companies to accept effective cost management and good investment opportunities. Profit after interest and taxes is the amount of profit that the company can distribute to shareholders, and company ability to pay dividend improves with higher profits.

The average value of firm as quantified through Tobin's Q is more than 1.00, which means that the LQ 45 index company which is the object of this study shows investment in capital goods can generate earning performance and yield a higher value than spending on investments. This can be stimulating for new investor. Alternatively, firm's worth of LQ45 index companies experienced a fluctuating value from 2017–2021. In the signaling theory developed by Ros in 1977 it was stated that companies that are able to earn high profits and low debt levels indicate firm have good performance so that it is used as a signal for companies to entice investors to make investments their funds. As a result, this can cause a surge in demand for company shares, driving up the stock price and ultimately increasing the company's overall value

In addition to the firm's worth proxied by Tobins'Q having a fluctuating value from 2017-2021, this is also experienced in the average DER and ROA values which have fluctuating values from 2017-2021. In 2018, there was an increase in the average DER value from 1,226% to 1,268%, this made the average firm's worth decrease compared to 2017. In 2019 the average DER value increased again from 1,268% to 1,274%, this resulted in an increase in the average firm's worth when compared to 2018. In 2020 the average DER value increased from 1,274% to 1,314%, this resulted in a decrease in the average firm's worth when compared to 2019. In 2021 the average DER value has increased again from 1,314% to 1,334%, this has made the average firm's worth increase when compared to 2020. In 2018 the average ROA value has decreased from 8,806% to 8,510%, this makes the average firm's worth decrease when compared to 2017. In 2019 the average ROA value has decreased again i from 8,510% to 7,116%, this made the average firm's worth increase when compared to 2018. In 2020 the average ROA value decreased from 7,116% to 5,717%, this made the average firm's worth experience decreased compared to 2019. In 2021 the average ROA value has increased from 5,717% to 8,470%, this has made the average firm's worth increase compared to 2020.

The results of research above regarding the relationship between liabilities plan proxied by DER and earnings performance proxied by ROA on firm's worth were examined through the average DER, ROA, and Tobins'Q values from 2017-2021 showing inconsistent results. This is in line with previous research which revealed that DER had a significant positive effect on firm's worth (Dita and Murtaqi, 2014), whereas in Sukmawardini & Ardiansari (2018) revealed that liabilities plan proxied by DER hasn't affect on firm's worth. The research results of Murniati (2016) revealed that the earnings performance variable proxied by ROA had no effect on firm's worth, while the research was conducted by Husna and Satria (2019) revealed that earnings performance has a significant effect on firm's worth. Other studies say that partially liabilities plan (DER) hasn't affect on firm's worth and earnings performance (ROA) has a significant effect on firm's worth (Markonah et al., 2020). Suhendry et al.(2021) reveals that ROA hasn't affect on firm's worth and DER has an effect on firm's worth.

From the description above, the researcher feels the need to conduct another study and suspects that there are other factors that can affect firm's worth, therefore the researcher includes independent board of commissioners. According to agency theory Darmadi (2013), In order to oversee top management policies, an independent board of commissioners is viewed as the most significant internal control mechanism. According to agency theory, having a significant number of independent commissioners enhances control over top management and improves monitoring effectiveness, ultimately leading to an increase in company value. Research on firm's worth is interesting to re-examine, according to results of previous study gaps, there is still controversy between variables. The decline in firm's worth is an interesting phenomenon to talk about, this is related to the selected variables having fluctuating values making the state of independent variable and dependent variable not the same as actual theory.

In addition, there is a research gap, namely the inconsistency of results in previous studies. From the description above and the research gap, the researcher is interested and intends to conduct this study be entitled effect of liabilities plan and earnings performance on firm's worth moderated by independent commissioners. This section provides theoretical basis and literature review pertains to prior research relevant to the topic, and highlights any gaps in research. It is advised to use literature that has been published no more than ten years ago, and to give preference to credible national symposiums, journals, as well as textbooks. Hence, the objective of this study is to investigate the relationship between anticipated obligations and financial performance in terms of firm worth, while also considering the influence of independent commissioners on this relationship.

Method

The methodology employed in this study is both descriptive and verificatory. As explained by Sagala (2020), the descriptive method involves formulating a problem related to the question of the existence of an independent variable, which may involve one or more variables. Meanwhile, the verification method is a research method through verification to test the hypothesis of descriptive research results with statistical calculations so that the results of proof show that the hypothesis is rejected or accepted. The approach adopted for data collection in this study was secondary data tracking and subsequent analysis. Secondary data analysis is data collection by reading, recording, and analyzing data, information contained in available reports or documents, both published and unpublished (Nuryaman & Veronica, 2015). Study's population consists of companies were included in LQ45 index from 2017 to 2021. The total population in this study were 45 companies. This study used 39 companies as research samples using non-probability sampling methods. This study utilizes both descriptive analysis and verification analysis techniques, with panel data regression used for the latter. Microsoft Office Excel 2016 and Eviews 9 applications were used as data processing tools.

Results and Discussions

Tabel 1. Result

	Firm's worth (Y)	Liabilities plan (DER) (X1)	Earnings Performance (ROAs) (X2)	Independent Commissioners (Z)
Mean	1.282563	1.111980	0.814019	0.576340
Median	1.184164	0.863108	0.726785	0.602060
Maximum	3.321928	4.457518	8.313675	0.875061
Minimum	1.103987	0.143710	0.609473	0.221849
Std. Dev.	0.269802	0.855498	0.646863	0.144901
Observations	165	165	165	165

Source: Eviews 9 result, 2022

The research conducted in this research utilized descriptive analysis tehnique, with secondary data tracking and analysis as data collection method. Study focused on the population of 39 company listed on LQ45 index in IDX between 2017-2021. Data obtained consisted of 195 observations, but due to outlier data, a logarithmic transformation was applied to obtain 165 data observations. The results of descriptive analysis showed dependent variable, company value, had a mean value of 1.282563, with a highest value of 3.321928 at PT. Merdeka Copper Gold Tbk and a lowest value of 1.103987 at PT Pakuwon Jati Tbk. The first independent variable, Liabilities plan, measured using DER, had a mean value of 1.111980, with a highest value of 4.457518 at PT Sarana Menara Nusantara Tbk and a lowest value of 0.143710 at PT Mitra Keluarga Karyahealth Tbk. The second independent variable, Earnings performance, measured using ROA, had a mean value of 0.814019, with a highest value of 8.313675 at PT H.M. Sampoerna Tbk and a lowest value of 0.609473 at PT Elang Mahkota Teknologi Tbk. The moderating variable, Independent Commissioner, had a mean value of 0.576340, with a highest score of 0.875061 at PT Media Nusantara Citra Tbk and a lowest value of 0.221849 at PT. Indo Tambangraya Megah, PT Bukit Asam, PP (Persero), and PT Pakuwon Jati. These results were presented in Table 2.

Table 2. Panel Data Regression Model Fix Effect

Variabel	Coefixient	Std. Error	t-Statistic	Prob.
C	0.683829	0.368674	1.854864	0.0660
X1	0.081676	0.094677	0.862679	0.3900
X2	0.083421	0.030770	2.711094	0.0363
Z	0.593551	0.280536	2.115774	0.0363
		Effect Spesificattion		
Cross-Section fixed (dummy variables)				
R-squared	0.567862	Mean dependent var		1.282563
Adjusted R-squared	0.439950	S.D. dependent var		0.269802
S.E. of regression	0.201910	Akaike info criterion		-0.161164
Sum squared resid	5.095975	Schwarz criterion		0.560078
Long likelihood	51.13490	Hannan-Quinn criter.		0.131652
F-statistic	4.439452	Durbin-Watson stat		1.579271
Prob(F-satistic)	0.000000			

Source: Eviews 9 result, 2022

In the regression analysis, a constant value of 0.683839 indicates the average value of firm's worth when all other variables are zero. The regression coefficient for Liabilities plan using the DER (X1) as a proxy is 0.081676 and is positive, suggesting that an increase of 1% in Liabilities plan (DER) will result in an increase in the firm's worth by 0.81676, assuming that X2 and Z remain constant or zero. The regression coefficient for Earnings performance through a proxy for ROAs (X2) is 0.083421 and is positive, meaning that an increase in earnings performance and yield of the company can increase the firm's worth by 0.083421, assuming X1 and Z remain constant or zero. The regression coefficient for Independent Commissioners (Z) is 0.593551 and is positive, indicating that an increase in Independent Commissioners can increase the company's worth by 0.593551, assuming X1 and X2 are constant or zero.

Table 3. Partial Test Result

Variabel	Coefixient	Std. Error	t-Statistic	Prob.
C	0.683829	0.368674	1.854864	0.0660
X1	0.081676	0.094677	0.862679	0.3900
X2	0.083421	0.030770	2.711094	0.0363
Z	0.593551	0.280536	2.115774	0.0363

Source: Eviews 9 result, 2022

The results of the hypothesis testing show that Liabilities plan (DER) has a coefficient value of 0.081676 with a t-statistic value of 0.3900 > α 0.05, indicating that H0 is rejected and Liabilities plan using DER partially proves to have no effect on firm's worth (Tobin's Q). On the other hand, Earnings performance (ROA) has a coefficient value of 0.083421 with a t-statistic value of 0.0076 < α 0.05, indicating that H0 is accepted, and earnings performance as measured using ROA partially proves to have a positive effect on value company (Tobin's Q). Similarly, the Independent Commissioner Board has a coefficient value of 0.593551 with a t-statistic value of 0.0363 < α 0.05, indicating that H0 is accepted, and the Independent Commissioner (KI) has partially proven to have a positive and significant effect on firm's worth (Tobin's Q).

Table 4. Result test of Moderated Regression Analysis

Variabel	Coefixient	Std. Error	t-Statistic	Prob.
X1_Z	-0.215946	0.241206	-0.895276	0.3724
X2_Z	0.522964	0.175575	2.978575	0.0035

Source: Eviews 9 result, 2022

Study investigated the effect of Liabilities plan, Earnings performance, and Independent Commissioners on value of firm listed on IDX. Results showed that Liabilities plan did not have a significant effect on firm's worth, while Earnings performance and Independent Commissioners had a positive and significant effect on firm's worth. In addition, study also found that Independent Commissioners were able to moderate the effect of Earnings performance on firm's worth, but not the effect of Liabilities plan. These findings can provide insights for companies in Indonesia to improve their corporate governance and financial management practices.

Effect of Liabilities Plan (DER) on Firm's Worth

The partial test (t-test) results of this study reveal that Liabilities plan, proxied by DER, doesn't have a significant effect on the firm's worth. The coefficient value is 0.081676 and the probability t-statistic value is greater than the significance level value (0.3900 > 0.05). This finding is consistent with the research by Irman and Purwanti (2020), which argues that a high DER value indicates that a firm's debt is greater than its own capital, and this will increase the company's risk. The signaling theory Putri & Rahyuda (2020) supports this by stating that a high DER level gives a negative signal to investors. However, this study shows that size of debt owned by a firm doesn't significantly affect its worth. Investors are more concerned with how the company's management uses these funds effectively and efficiently to create added value (Tahu & Susilo, 2017).

Effect of Earnings Performance (ROA) on Firm's worth

The findings from the partial test (t test) conducted in this study reveal that earnings performance has a significant and positive impact on firm's worth, as the coefficient value of 0.083421 and the probability t-statistic value of 0.0076 are smaller than the significance level value. This indicates that the better the earnings performance, the higher value of the company. The findings of this study are in agreement with Piotroski in Bartov et al. (2018) research, which proposes that a company's high earnings performance can give investors a positive impression, implying that the company is earning profits in favorable circumstances. This is an attraction for investors to own company shares (Machmuddah et al., 2020).

The Influence of independent Board of Commissioners on Firm's worth

The findings of the partial test (partial test (t test)) conducted in this study reveal that the Independent Commissioner Board has a positive and significant impact on the firm's value, as indicated by the coefficient value of 0.593551 and the t-statistic probability value being lower than the level of significance (0.0363 > 0.05). These outcomes are consistent with the research carried out by Rostami & Rezaei (2022), who argued that an independent corporate board can help mitigate fraudulent activities in financial reporting. According to agency theory Sugiyanto et al. (2021), the Independent Commissioner Board is considered the highest level of internal control mechanism accountable for overseeing the policies set by the top management. In agency theory, a higher number of independent commissioners will make it easier to regulate the top management and enhance the monitoring function, ultimately leading to increased firm value. Consequently, the financial reports' quality is enhanced, and investors are more likely to invest in the company, thereby increasing the overall stock price and firm value.

Independent Commissioners are able to moderate (Strengthen) the influence of Liabilities plan on Firm's worth

The findings of this study's Moderated Regression Analysis (MRA) test suggest that the independent board of commissioners cannot moderate the effect of liabilities plan on firm's worth, as the probability value is greater than the significance level (0.3724 > 0.05). This outcome aligns with the research conducted by Ramadhan and Ramadhan & Firmansyah (2022), which attributed the independent commissioners' inability to moderate the effect of liabilities plan on firm's worth to the average percentage of independent commissioners being below 50%. This circumstance weakens supervision and increases the potential for agency conflict in the use of debt. Increasing the number of independent commissioners in the company could enhance the independence and effectiveness of supervision, resulting in increased company value. If linked with the negative impact of capital structure on firm's worth, it indicates that the use of high debt without adequate supervision from the owner (independent commissioners and institutions) may allow deviations from the use of debt, thereby reducing the company's value (Abdi & Omri, 2020).

Independent Commissioners are able to moderate (Strengthen) the effect of Earnings performance on Firm's worth

The findings from the Moderated Regression Analysis (MRA) conducted in this study suggest that the Independent Board of Commissioners has the ability to moderate (strengthen) the effect of earnings performance on firm's worth, as the probability value is smaller than the significance level (0.0035 > 0.05). This outcome is consistent with prior research that has indicated the role of independent commissioners as a moderating variable that can minimize agency conflicts in generating profits, thereby strengthening the impact of earnings performance on firm's worth. A high level of earnings performance is typically viewed as a positive signal to investors, as it suggests that the company is operating under favorable conditions. This can generate interest from investors who may wish to invest in the company's shares, thereby increasing the demand for shares and driving up the company's stock market price. As the company's stock market price rises, so too does its overall value (Manurung et al., 2019).

Conclusions

Study analyzed the impact of liabilities plan and earnings performance on firm's worth with the independent board of commissioners as a moderating variable in LQ45 companies listed on IDX during the 2017-2021 period. The research found that the size of a firm's debt doesn't significantly affect its value, and investors are more concerned about how the funds are utilized effectively to generate added value for the firm. In contrast, earnings performance has a positive and significant effect on firm's worth, as high earnings performance signals a favorable condition to investors and attracts them to invest in the company, driving up demand and the market price of the company's shares, ultimately increasing the company's value. Additionally, the supervision of independent commissioners has a positive and significant effect on firm's worth, minimizing fraudulent financial reporting and increasing investor trust. However, study also showed that independent commissioners are unable to moderate the effect of liabilities plan on firm's worth due to the low percentage of independent commissioners, but they can moderate and strengthen the effect of earnings performance on firm's worth, minimizing agency conflicts in generating profits.

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