

Measuring Determination of Factors Affecting Firm Value in Agricultural Sector Companies in Indonesia

Yudhistira Ardana^{1*}, Etty Puji Lestari²

1. Faculty of Islamic Economics and Business, IAIN Metro

2. Faculty of Economics, Universitas Terbuka

*corresponding author e-mail: yudhistiraardana@metrouniv.ac.id

Article Info	Abstract
<p>Keywords: Firm Value; Earnings Management; Tax Avoidance; Debt Policy</p>	<p>The purpose of this study is to use a panel data model to examine the factors that impact firm value in agriculture sector enterprises in Indonesia. Management initiatives such as earnings management, tax evasion, and debt strategy all influence business value. According to the findings of this study, all variables studied (earnings management, tax evasion, and debt policy) have an impact on business value. All of these variables have a 79.34 percent impact on the company's valuation, with the remaining 20.46 percent impacted by variables outside of the model. Meanwhile, independent studies show that debt and management strategies have little influence and have a negative link with business value. The study's findings may give more information on what elements may be included in measuring business value, which may have implications for investors, particularly those in agriculture sector companies listed on the stock exchange.</p>
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1. Introduction

Companies are presently fighting in a global market that is becoming increasingly competitive. Due to fierce competition, businesspeople must apply a variety of innovations in the workplace. Many businesses are racing to find methods to generate a profit and stay in business during the present economic downturn, particularly during the Covid-19 outbreak. A corporation is a business unit whose primary goal is to make money from its operations. Every business needs funds to attain a goal that it has set for itself. One of the company's aims is to retain the company's integrity in the face of strong competition. Own capital can take the form of retained earnings, debt, or equity (shares) derived from the issue of new shares (Midiastuty et al., 2017).

There are several reasons for a company to stay in business. One of the company's goals is to provide benefits for shareholders, which is realized by increasing company value (Fitriasari & Sari, 2019). The value of a company is reflected in its share price (Panggabean, 2018). Improving corporate governance and the quality of human resources can be a strategy to remain stable and competitive in the post-industrial revolution (Rajaguguk et al., 2018). To expand and remain stable, a firm must have effective corporate governance. A strong governance system will safeguard shareholders and act fairly in the company's best interests (Mahrani & Soewarno, 2018). In terms of investment, the company's worth is critical. If the value of a company's shares grows, it might attract investors and impact market confidence (Apriyanti & Aryani, 2016).

Many businesses nowadays confront tough competition in the global market to thrive. This tight and severe rivalry is a trigger for the company's management to be able to get the company

they lead through this tough battle by investing maximum power and effort to achieve the highest value if required until the firm becomes the top leader in each company's business line. Especially during the Corona Virus Disease 2019 (Covid-19) pandemic, many businesses are scrambling to figure out how to make a profit and stay in business in the middle of a societal economic collapse. The Covid-19 epidemic has made stock exchanges throughout the world volatile, including the Composite Stock Price Index (JCI).

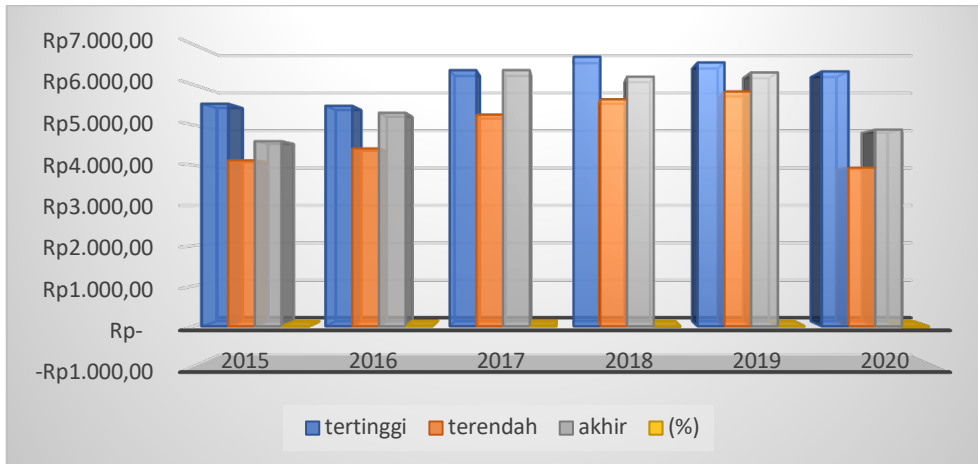


Figure 1. JCI Development (www.ojk.go.id)

Based on Figure 1, the historical price of the JCI fluctuated from 2015 to 2020. It is implied in Figure 1. during 2015-2017, it experienced a successive increase of IDR 4,593.01; IDR 5,296.71; and IDR 6,355.65. Meanwhile, in 2018 it decreased by IDR 161,156 to IDR 6,194.5. In 2019 it rose again to IDR 6,299.54 and fell again in 2020 to IDR 4,880.36. In line with previous data, the plantation sector listed on the stock exchange in the first quarter of 2020 was under deep pressure. This pressure was the impact of a number of export destination countries still closing themselves off due to Covid-19 so that the JCI agricultural sector, which mainly was engaged in the CPO (Crude Palm Oil) sector, was still weak.

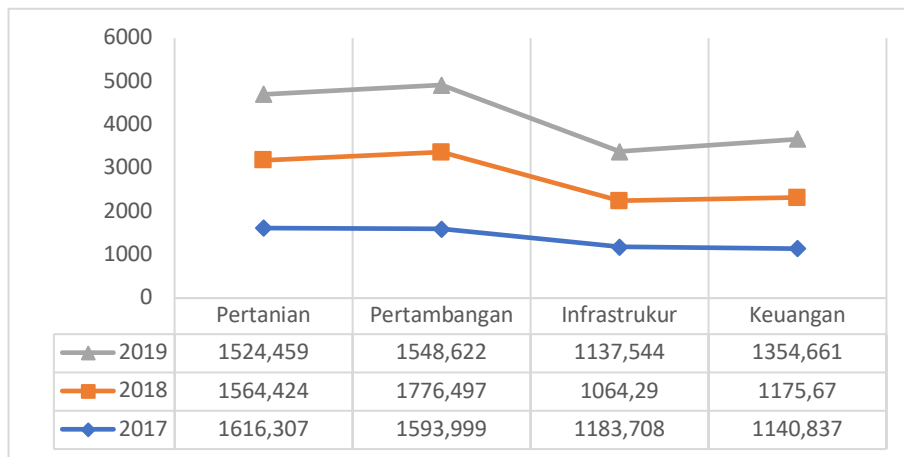


Figure 2. Development of Sectoral Index (www.ojk.go.id)

In line with the data in Figure 2, it can be explained that the plantation sector which was listed on the stock exchange in the first quarter of 2020 was under deep pressure. This pressure was the impact of many export destination countries still closing themselves off due to Covid-19 so that the JCI agricultural sector, which was mostly engaged in the CPO (Crude Palm Oil) sector, was still weak. Figure 2 shows the development of sectoral indices. From the development of sectoral indices, it can be explained that the agricultural sector tends to experience a decline. In the agricultural sector, the index in 2017 was 1,616,307. In 2018 it decreased by 51,883 to 1,564,424 and in 2019 it decreased again by 39,965 to 1,524,459. Meanwhile, the fluctuating

mining sector tends to experience a decline. In 2017 the mining sector index was 1,593,999. In 2018 the mining sector index increased to 1,776,497. Then it decreased in 2019 to 1,548,622. The infrastructure sector index also fluctuated but there was a positive trend or an increase. In 2017, the infrastructure sector index was 1,183.708. In 2018 it decreased to 1,064.29 and in 2019 it increased to 1,137,544. Meanwhile, the financial sector index from 2017 to 2019 has increased. They are 1,140,837, 1,175,67 and 1,354,661 respectively.

Companies must always retain their firm value to protect themselves from unfavorable influences. The excellent or negative firm value will therefore affect the company's market value. Furthermore, the excellent or negative firm value might influence investors' decisions to withdraw or even invest in a company. Every company in the world has its vision, purpose, and goals. However, the majority have the same purpose, which is to maximize profit for the owners of the company's shares or the company's owner. With this maximum profit, the corporation may enhance its market value.

The firm's value can describe the overall status of the company. Because of the company's high worth, potential investors will regard it favorably. If the worth of the firm rises, so will the value of the company's shares. This is characterized by a high rate of return on investment to shareholders. The occurrence of variations in stock prices is a phenomenon that is frequently discussed in conjunction with rumors of a company's worth increasing or decreasing. The high company value shows organizational performance in asset management and financial function execution (Wijaya, et al., 2020). Stewardship theory holds that all management activities, including policies and actions, are driven by shareholder interests rather than personal aims (Davis et al., 1997; Donaldson & Davis, 1991). The management approach to the idea of stewardship is too weak and unreasonable when viewed through the lens of human behavior, particularly economic behavior (Chrisman, 2019). As a result, research on business value is currently ongoing. As a consequence, the affecting elements may be adequately identified. As a consequence, by employing some proper criteria, investors may determine the underlying worth of the firm. Several management actions influence business value, including tax avoidance decisions, debt policy considerations, and earnings management decisions.

Earnings management is a procedure that seeks to adhere to financial accounting rules to influence the reporting of reported earnings in line with investors' expectations, but not necessarily with reality. The financial statements no longer represent the company's initial worth as a result of earnings management. Earnings management will influence the company's external partners, such as investors, who make decisions based on financial statement information (Nurhanimah et al., 2018). Earnings management does not often violate accounting regulations, but it can lead to a loss of public faith in the firm (Scott, 2015). Earnings management and company value have a favorable association, according to prior research (e.g., Ridwan & Gunardi, 2013; Violeta & Serly, 2020; Nurhanimah et al., 2018; Jiraporn et al., 2008). In contrast, the previous research discovered a negative association between earnings management and business value (Yorke et al., 2016; Gill et al., 2013; Suarmita, 2017; Fernandes & Ferreira, 2007). Meanwhile, several studies by Lestari & Ningrum (2018), Darwis (2012), Sari et al. (2017), Etemadi & Sepasi (2007) discovered evidence that earnings management has little effect on business value.

Aside from profit management, other financial actions made by management that might affect corporate value include tax evasion (Lestari & Ningrum, 2018). Taxation is a critical source of state income for implementing and improving continuous and sustainable national development. Taxes also seek to promote the welfare of the state since the more tax collected, the better a country's finances. Companies, on the other hand, see taxes as a burden, in contrast to the interests of the state. To maximize profit, the corporation will aim to minimize the tax burden through cost-cutting measures. Many businesses use tax evasion to reduce their tax burden.

Tax evasion can reflect managers' ownership interests by altering or amending earnings, causing the company's financial statements to differ from the original financial statements, which investors will be aware of. According to previous research, tax evasion has an impact on corporate

value (Warno & Fahmi, 2020; Mustika et al., 2019; Panggabean, 2018; Sitinjak & Andreas Basri, 2018; Victory & Cheisviyani, 2016). However, several research discovered that there is no relationship between tax evasion and corporate value (Wardani & Juliani, 2018; Mahaetri & Muliati, 2020; Noviani et al., 2017; Tandean & Jonathan, 2016; Ester & Hubarat, 2020; Rajaguguk et al., 2018; Fadillah, 2019).

Given the number of inconsistencies in study findings, the authors want to use panel data regression analysis to investigate the factors that influence firm value in agriculture sector enterprises in Indonesia.

2. Hypothesis Development

Earnings Management on Firm Value

Earnings management is a management action taken to modify financial statements for profit, either by manipulating the company's financial information or data or by determining accounting methods that are acceptable in generally accepted accounting principles or that meet applicable regulations (Kurniawansyah, 2018). In other words, earnings management is a business action targeted at ensuring the company's existence. The step conducted is to search for flaws in the accounting principles that are utilized to prepare financial statements. According to prior research (e.g. Nurhanimah et al., 2018; Ridwan & Gunardi, 2013; Violeta & Serly, 2020; Jiraporn et al., 2008), there is a favorable association between earnings management and business value. In contrast, studies also discovered a negative association between earnings management and business value (Yorke et al., 2016; Gill et al., 2013; Suarmita, 2017; Fernandes & Ferreira, 2007;). Meanwhile, several studies discovered evidence indicating there is no relationship between earnings management and business value (Lestari & Ningrum, 2018; Darwis, 2012; Sari et al., 2017; Etemadi & Sepasi, 2007).

H1 = Earnings management has a positive effect on firm value

Debt Policy on Firm Value

Debt policy is a financial choice made by a firm to select its operational finance sources from other parties. Due to this debt strategy, the corporation is expected to pay its creditors within a time frame agreed upon by both sides. As a result, management must plan carefully, both in terms of locating sources of revenue and budgeting monies for operations. It is conceivable to have a link with firm value based on the belief that debt policy connects with the company's activities. Because debt policies, whether good or poor, will undoubtedly have an influence on the organization as a whole. Debt policy must be carefully considered so that it becomes a component of corporate leverage rather than a burden on the organization. It also has little effect on business value (Weddyanti et al., 2021; Dwiastuti & Dillak, 2019; Pertiwi et al., 2016) and a favorable link (Khoirunnisa & Wijaya, 2019; Somantri & Sukardi, 2018). On the other hand, Nasution (2020) and Chowdhuri (2010) discovered a negative association between debt policy and business value.

H2 = Debt policy has a negative effect on firm value

Tax Avoidance on Firm Value

According to Agency Theory, an agency relationship is a contractual agreement between the principal and the agent to manage the firm in the principal's interests, including the delegation of authority in terms of decision-making inside the organization (Godfrey et al., 2010). As a result, the agent's primary goal is to be oriented toward the principal's objectives, one of which is to improve company value. The principal, who is also the company's shareholder, will benefit as the firm's worth rises. According to prior research, tax evasion has an impact on corporate value (Panggabean, 2018; Mustika et al., 2019; Sitinjak & Andreas Basri, 2018; Warno & Fahmi, 2020; Victory & Cheisviyani, 2016). Nevertheless, many studies found there is no relationship between tax evasion and corporate value (Mahaetri & Muliati, 2020; Ester & Hubarat, 2020; Rajaguguk et al., 2018; Fadillah, 2019; Wardani & Juliani, 2018; Noviani et al., 2017; Tandean & Jonathan, 2016;).

H3 = Tax avoidance has a positive effect on firm value

3. Research Method

This research is quantitative in nature, and it will rely on numerical or numerical data. This study's data is entirely based on secondary sources. The data panel will be used to examine the data. The financial accounts of each firm were collected from the Indonesia Stock Exchange (www.idx.co.id). Earnings management (X1), tax evasion (X2), and debt policy (X3) are the independent variables in this study. The dependent variable is the firm value (Y).

This study will run from 2016 until 2020. The following criteria were used to determine the sample in this study: a) agricultural sector companies listed on the Indonesia Stock Exchange 2016-2020 and publishing their financial statements; b) agricultural sector companies listed on the Indonesia Stock Exchange 2016-2020 but whose financial statements are incomplete in the 2016-2020 period; and c) agricultural sector companies listed on the Indonesia Stock Exchange 2016-2020 but not publishing their financial statements. This study examined 15 agriculture sector businesses listed on the Indonesia Stock Exchange, using a purposive sample approach.

Model selection is a key phase in econometric analysis, along with theoretical and predictive model creation, estimation of hypothesis testing, forecasting, and analysis of model policy implications. To determine the true status of something seen, the economic model must be estimated.

The technique that will be employed in this study is econometric modeling utilizing the panel data approach. Model selection is a key phase in an econometric study, along with theoretical and predictive model creation, estimation of hypothesis testing, forecasting, and analysis of model policy implications. To determine the true status of something seen, the economic model must be estimated. Using panel data has various advantages. First, data that is a mixture of two data sources, namely time series and cross-section, can supply more data, resulting in a higher degree of freedom. Second, by merging information from time series and cross-section data, difficulties with removing variables may be solved. There are three ways to panel data regression: CEM, FEM, and REM. Cross-section data is a unit of analysis at a specific place with observations of many variables, whereas time-series data is a numerical sequence with a constant and defined interval between observations or many variables. In the panel data model, the model equation for cross-section data is as follows:

$$Y_i = \alpha + \beta_1 X_i + \varepsilon_i; i = 1, 2, \dots N$$

Where N is the number of cross-section data. The time series model equation is expressed as follows:

$$Y_t = \alpha + \beta_1 X_t + \varepsilon_t; t = 1, 2, \dots T$$

Where T denotes the number or quantity of time series data. Because panel data is made up of both time series and cross-section data, the equation is as follows:

$$Y_{it} = \alpha + \beta_1 X_{it} + \varepsilon_{it}; i = 1, 2, \dots N; t = 1, 2, \dots T$$

Where Y is the dependent variable, X denotes the independent variable, N denotes the number of observations, T denotes the number of times, and N x T denotes the number of panel data. As a result, the equation in this investigation is as follows:

$$PBV_{it} = \alpha + \beta_1 EM_{it} + \beta_2 TA_{it} + \beta_3 DP_{it} + \varepsilon_{it}$$

Where :

- PBV : Price to Book Value
- EM : Earnings Management
- TA : Tax Avoidance
- DP : Debt Policy
- α : Intercept
- $\beta_1, \beta_2, \dots \beta_k$: Slope Regression

ε : Error

This study employs three estimate approaches for panel data regression: common-effect, fixed-effect, and random-effect models. The optimal estimator model is then chosen to utilize the Chow, Hausmann, and Lagrange Multiplier tests. Furthermore, simultaneous and partial tests were used to assess the influence of the predictor variables as a whole and separately.

Table 1. Operational Measurement of Research Variables

No	Variable	Measurement	Scale
1	Price to Book Value	$PBV = \frac{\text{Share Market Price per Share}}{\text{Book Value of Shares per Share}} \times 100\%$	Ratio
2	Profit management	$ML = \frac{\text{Working Capital Accrual } (t)}{\text{Revenue or Sales Period } (t)} \times 100\%$	Ratio
3	Debt policy	$DER = \frac{\text{Total Debt}}{\text{total own capital}} \times 100\%$	Ratio
4	Tax Avoidance	$ETR \text{ Differential} = \text{Statutory ETR} - \text{GAAP ETR}$	Nominal

4. Results and Discussions

There are three models in the panel data model, and the best of the three must be picked. Common-effect, fixed-effect, and random-effect models are the three options. The estimation results of the three models are shown below.

Table 2. Common Effect Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EM?	1.105643	0.839020	1.317779	0.1918
TA?	0.028879	0.020484	1.409839	0.1630
DP?	-0.474878	0.333377	-1.424449	0.1587
C	0.921275	0.130984	7.033507	0.0000

Table 3. Fixed Effect Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EM?	-0.154682	0.546587	-0.282996	0.7782
TA?	0.015131	0.010384	1.457231	0.1505
DP?	0.246332	0.182674	1.348479	0.1828
C	0.958050	0.063683	15.04407	0.0000

Table 4. Random Effect Estimation Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.106207	0.082417	-1.288654	0.2028
EM?	-0.588321	0.325836	-1.805574	0.0764
TA?	0.022394	0.008295	2.699583	0.0092
DP?	-0.089063	0.158001	-0.563685	0.5752

Because the generated model in panel data regression analysis can be created in a variety of ways, additional testing is required to select the best model to predict the regression. The Chow test is used to select the best model between common-effect and fixed-effect. The Chow test is used to choose the best model from the common-effect and fixed-effect models. The Chow test findings may be described using the probability value of the chi-square cross-section (chi-square). The Chow test results are shown in Table 5:

Table 5. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	19.524643	(14,55)	0.0000
Cross-section Chi-square	131.868364	14	0.0000

Table 5 shows how to use the chi-square probability value to select the best model between common-effect and fixed-effect. The results received are 0.0023. Because it is less than 5%, we may conclude that the fixed-effect ($0.0023 < 0.05$) model is the best. After that, the Hausman test is used to distinguish between the fixed-effect and random-effect models.

Table 6. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.245448	3	0.2084

Table 6 explains how to determine the optimal model between fixed-effect and random-effect by looking at the probability value. The obtained results are 0.2084. Because the cross-section probability value is more than 5%, the model selected is random-effect ($0.2084 > 0.05$). As a result, the optimal model chosen for this study is random-effect.

Table 7. Estimasi Random Effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.106207	0.082417	-1.288654	0.2028
EM?	-0.588321	0.325836	-1.805574	0.0764
TA?	0.022394	0.008295	2.699583	0.0092
DP?	-0.089063	0.158001	-0.563685	0.5752
R-squared	0.841657	F-statistic		17.81020
Adjusted R-squared	0.793415	Prob(F-statistic)		0.000000

The estimation outcome of the chosen panel data model, random-effect, is shown in Table 7. The estimation findings show that all of the factors considered in this study, namely earnings management, tax evasion, and overall debt policy, have an impact on business value. This is demonstrated by the F-probability Statistic's value, which is less than 5% ($0.000000 < 0.05$). Furthermore, the F-statistics findings may be used to determine if all independent factors have an influence on the dependent variable or not. If the F-Statistic value is more than the F-Table, then all independent variables affect the dependent variable. In the estimation of table 7, the F-Statistic value is more than the F-Table ($17.81020 > 1.96$). As a result, it is possible to conclude that all independent factors (earnings management, tax evasion, and debt policy) influence business value. All of these variables affect the company's worth by 79.34 percent, with the remaining 20.64 percent influenced by variables outside of the model. Meanwhile, independent studies show that debt and management strategies have little influence and have a negative link with business value. However, at a significance level of 10%, the earnings management variable displays a significant and negative connection. Meanwhile, tax evasion has a large and positive relationship with corporate value.

The earnings management variable has a coefficient value of -0.588321 and a t-statistic value of -1.805574. These findings may be interpreted as follows: if earnings management increases by 1%, the company's value decreases by 0.588321. Earnings management has a probability value of 0.0764, indicating that it has no substantial influence on firm value (significant level 5%), but is significant at the 10% level. As a result, earnings management has a negative and minor influence on firm value in agriculture sector businesses listed on the Indonesia Stock Exchange. As a result,

the first hypothesis can be accepted. These findings support previous studies that demonstrated a negative link between earnings management and business value (Yorke et al., 2016; Suarmita, 2017; Gill et al., 2013; Fernandes & Ferreira, 2007). Earnings management is a type of financial statement manipulation used to boost the worth of a firm so that it seems good in the eyes of investors, which explains the bad outcomes produced. Companies that engage in earnings management will contribute to the bias in financial reporting. Furthermore, it can irritate financial statement users who feel that the contrived profit amount is the true profit figure. Earnings management will cause the profits shown in the financial statements to be inaccurate. As a result, it may erode investor faith in a company's financial reporting.

The tax evasion variable has a coefficient of 0.022394 and a t-statistic of 2.699583. These results may be interpreted as follows: if tax evasion increases by 1%, the company's worth increases by 0.022394. Therefore, the likelihood value of tax avoidance is 0.0092, indicating that tax avoidance has a considerable influence on corporate value. As a result, it is possible to conclude that tax evasion has a positive and considerable influence on firm value in agriculture sector enterprises listed on the Indonesia Stock Exchange. As a result, the second hypothesis is accepted. These findings are validated by studies research concludes that tax evasion has a substantial impact on corporate value (Mustika et al., 2019; Victory & Cheisviyani, 2016; Panggabean, 2018; Warno & Fahmi, 2020; Sitinjak & Andreas Basri, 2018). Tax evasion is not illegal, but it receives less attention from the IRS since it is perceived to have a bad connotation. Tax avoidance acts are permitted since tax savings may only be obtained by taking advantage of unregulated items (loopholes). Tax avoidance efforts made by the corporation might boost or diminish the company's worth. Tax avoidance is an attempt to reduce company taxes in order to maximize profits. Tax avoidance efforts made by the corporation can raise the company's worth since the earnings earned will be bigger.

The debt policy variable has a t-statistic value of -0.563685 and a coefficient value of -0.089063. These findings may be interpreted as follows: if debt policy is increased by 1%, the company value decreases by 0.089063. Debt policy has a probability value of 0.5752, indicating that it has no meaningful influence on business value. As a result, it is possible to infer that debt policy has a negative and minor influence on firm value in agriculture sector enterprises listed on the Indonesia Stock Exchange. As a result, the second hypothesis can be adopted. These findings are consistent with previous research (e.g., Chowdhuri & Chowdhuri, 2010; Nasution, 2020), which suggests that debt policy has a negative association with business value. This circumstance develops when the firm under consideration has a big debt, leading the cost of capital to exceed the tax savings achieved, yet sales do not expand much. The more the company's debt policy, the lower the company's worth. The lower a company's debt level, the greater its value. This is because the company's obligation to pay debts to creditors decreases, causing profits generated by the company to increase and causing the company's share price to increase, causing the company's value to increase both in the eyes of potential creditors and the market. High debt usage will result in bankruptcy expenses, agency costs, greater interest rates, and so on.

5. Conclusions

Based on the discussion, it is possible to conclude that all variables (earnings management, tax avoidance, and debt policy) have an impact on firm value. This is demonstrated by the F-probability Statistic's value, which is less than 5% ($0.000000 < 0.05$). Furthermore, the F-Statistics results can be used to determine whether all independent variables affect the dependent variable or not. The F-Statistic number is more than the F-Table value ($17.81020 > 1.96$). As a result, all independent factors (earnings management, tax evasion, and debt policy) influence business value. All of these variables affect the company's worth by 79.34 percent, with the remaining 20.64 percent influenced by variables outside of the model. Meanwhile, independent studies show that debt and management strategies have little influence and have a negative link with business value.

However, at a significance level of 10%, the earnings management variable displays a significant and negative connection. Meanwhile, tax evasion has a large and positive relationship with corporate value. Researchers expect that by doing this study, they will be able to give more information on what aspects may be included in measuring business value, which will have implications for investors, namely in agriculture sector companies that are listed on the stock exchange. Earnings Management, Debt Policy, and Tax Avoidance are the elements influencing Firm Value in this study.

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