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Influence of Debt Policy and Share Prices on Firm Performance

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ABSTRACT

The purpose of this research is to determine debt policy and share prices on company performance. The research period is 2017-2020 with the research object being banking companies. The research method used. The type of research used is quantitative research with purposeful sampling techniques. This research data analysis technique uses multiple linear regression. The research results of the Current Ratio are negative and not significant for Firm Performance and the Debt Equity Ratio is negative and significant for Firm Performance. The use of debt means supervision of management is not only carried out by shareholders, but also by creditors. The greater the debt component used by a bank in carrying out its operational activities, the worse it will have an impact on the bank's profitability. The higher the DER a bank has, the lower the level of profit (ROA). Share Prices Are Positive and Significant on Firm Performance in Banking Companies. The share price also shows the value of a company and is an appropriate index for company effectiveness, so the higher the share price, the higher the company value.

Type of Paper: *Empirical*

Keywords: *Debt Policy, Share Prices, Firm Performance, Bank*

1. Introduction

Sumarta & HM, (2000), Banking company managers must be able to balance maintaining adequate liquidity with achieving reasonable profitability, as well as providing adequate capital, with these conditions the bank's financial performance can be said to be good. Economic developments will certainly make the development of banking companies even more attractive.

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The greater the quantity of banking companies that are established, the competition becomes tighter and can cause banking performance to worsen because banking companies are unable to compete in the market, so that many banks are not financially healthy. Increasing global banking crisis, domestic banking performance is still normal. By the end of the year, the growth rate of bank credit is estimated to increase by 10-12%. This growth is supported by abundant liquidity and high credit needs in line with economic recovery (Benediktus, 2023).

Financial information has a function as a means of information, a tool for management accountability to company owners, a depiction of indicators of company success and as a consideration in decision making. (Widhiastuti, 2022). Capital market players often use this information as a benchmark or guide in carrying out share buying and selling transactions in a company. Factors for measuring company performance include debt policy and share prices. Debt policy includes company funding policies that come from external sources. Some companies consider that using debt is safer than issuing new shares (Oktaviani et al., 2023)

The increase in share prices can occur due to high demand, meaning that there are quite a lot of people interested in the shares. The relationship between managers and shareholders in agency theory is described as a relationship between agent and principal (Schroeder, 2001). This shows that these shares have a high level of sales, so that the company's need for funds can run smoothly because there are sufficient funds available from investors. If the share price is low and there are few interested parties, it can increase the risk of the company's cash flow not being smooth due to lack of funds to carry out the company's activities (Fahlevi et al., 2018).

2. Literatur Review

2.1 Agency Theory

Principal-agent theory is a relationship between parties who work together. On the one hand, the principal delegates authority to other parties in terms of control and decision making, and on the other hand, the agent is the party who carries out the principal's services or tasks. (Ramadhan et al., 2022). An agency relationship is a contract between the owner, in this case referred to as the principal, and management as the agent to carry out several services for the benefit of which involves delegating some decision-making authority to the agent.

2.2 Debt policy

Trisakti, (2023), debt is a type of employee benefit that occurs during the workday by allowing employees to participate in activities defined as being in their interests. Debt is an external financial source used by a company to finance its financial needs. When making decisions about the use of debt one must consider the significant fixed costs, arising from debt in the form of higher interest rates. Profits are increasingly uncertain for shareholders (Eka et al., 2023).

2.3 Stock Price

Hartono, (2008) the share price is the price that occurs on the stock exchange market at a certain time which is determined by market players and is determined by the demand and supply of the shares concerned in the capital market.

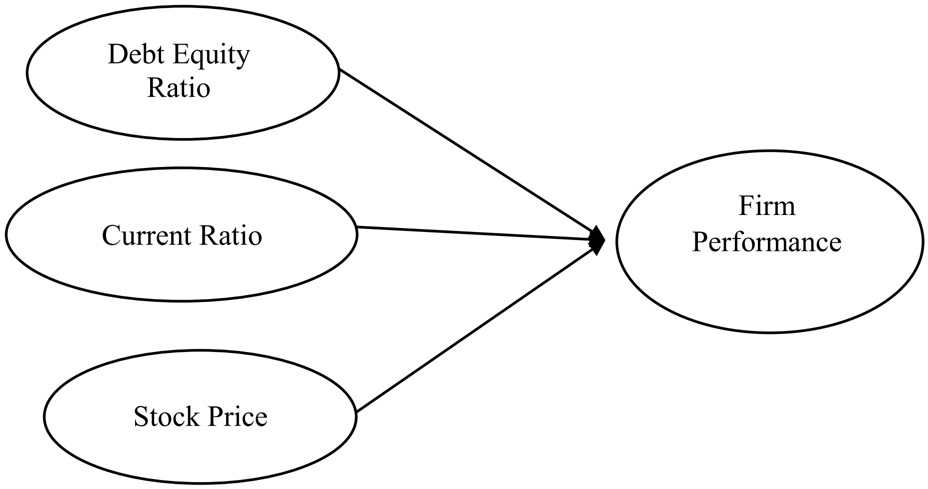

Figure 1. Conceptual Framework

2.4 Hypothesis

2.4.1 Debt Equity Ratio Influences Firm Performance

Debt policy refers to administrative policies to obtain sources of funds that a company uses to fund its business. Debts result in obligations that transfer rights to creditors to secure assets. A company is considered risky if it has significant liabilities in its capital structure, but conversely if the company has relatively low liabilities or even none at all then it is considered to benefit from additional external capital which can be used to manage the company's operations, so it can be seen that the policy Debt is a policy carried out by a person or management to obtain a source of funding for a company as operational funding (Khotimah et al., 2023). Agency Theory is a concept that describes the correlation between the principal or contract giver and the agent or contract recipient. The principal contracts the agent to work for the interests or goals of the principal until the principal gives decision-making authority to the agent to achieve that goal. (Supriyono, 2018). However, if the company has little debt, it can be said that the company is fair. This is because lower debt or liabilities increase cash flow and can also be used to generate profits or profits for the business.
H_1: Debt Equity Ratio Influences Firm Performance

2.4.2 Current Ratio Influences Firm Performance

Current Ratio (CR) namely the ratio used to measure a company's ability to pay its short-term obligations using available current assets (Nurhayati, 2013). The higher the current ratio, the greater the company's ability to pay short-term obligations. But a current ratio that is too high also indicates poor management of liquidity sources (Simamora and Sembiring, 2019). Excess current assets should be used to pay dividends, pay long-term debt, or for investments that can produce a higher rate of return. When looking at the current ratio, the analysis must also pay attention to the company's conditions and environment such as management plans, industrial sectors, and general macroeconomic conditions.
H_2: Current Ratio Influences Firm Performance

2.4.3 Share prices Influences Firm Performance

Company performance is a complete display of the company's condition over a certain period of time, which is the result or achievement that is influenced by the company's operational activities in utilizing the resources it has. By analyzing the company's performance, investors can assess the company's prospects in the future. If the company's performance is considered good then the company's shares will be in demand by investors and the price will increase, but if the company's performance is considered bad then investors will not want to invest in the company because it is considered risky and this will ultimately reduce the company's share price (Kurnia, 2017).
H_3: Share prices influence firm performance

3. Research Methodology

The type of research used is quantitative research. Sugiyono, (2019) Quantitative research is research that places greater emphasis on testing theories through measuring research variables with numbers and analyzing data using statistical procedures. This research contains two variables, namely the independent variable and the dependent variable. Research data comes from banking companies listed on the Indonesia Stock Exchange 2017-2020 using a purposeful sampling technique. This research data analysis technique uses multiple linear regression.

3.1 Dependent Variable

3.1.1 Return On Assets (ROA)

Return on Assets is a measurement of the company's overall ability to generate profits with the total number of assets available within the company (Syamsuddin, 2016). The following is the formula used in calculating Return on Asset (Hery, 2017):

$$ROA = \frac{Net\ Profit}{Total\ Assets} \text{ x } 100\%$$

3.2 Independent Variable

3.2.1 Current Ratio (CR)

Current Ratio is the most commonly used measure to determine the ability to meet short-term obligations because this ratio shows how far the demands of short-term creditors are met by assets that are expected to become cash in the same period as the maturity of the debt. (Sawir, 2017). Formula for calculating current ratio (Kasmir, 2018):

$$CR = \frac{Total\ current\ Assets}{Total\ Current\ Liabilities} \text{ x } 100\%$$

3.2.2 Debt to Equity Ratio (DER)

Debt to Equity Ratio is measuring the percentage of liabilities in the company's capital structure, an important ratio for measuring the company's business risk which is increasing with the increase in the number of liabilities (Sukmulja, 2017). Formula for calculating Debt to Equity Ratio:

$$DER = \frac{Total\ Liabilities}{Total\ Equity} \text{ x } 100\%$$

3.2.3 Stock Price

The share price is the price that occurs on the stock exchange market at a certain time and the share price is determined by market players (Hartono, 2017). Share price means the value of the share itself.

4. Results

Descriptive statistical tests have the aim of describing data from each variable used in research. This description can be observed from the maximum value, average (mean), standard deviation, and minimum value of each variable. Descriptive statistical testing in this research used 28 banking companies on the IDX for the 2017-2020 period for each variable taken, namely, ROA, CR, DER and share price. The results of data processing from descriptive statistics can be seen as follows:

Table 1. Descriptive Statistics Results

Descriptive Statistics

	N	Minimum	Maximum	*Mean*	*Std. Deviation*
ROA	112	-11,200	3,130	,78982	1,764
CR	112	14,250	606,000	74,81	82,323
DER	112	,840	30,470	6,140	3,773
Stock Price	112	50	33850	2905,38	5618,310
Valid N (listwise)	112				

Source: Researcher data processing, 2023

Based on table 1, it shows that descriptively with a sample size consisting of 12, the maximum value for the current ratio variable is 606,000. The minimum result is the Return On Asset (ROA) variable with a value of -11,200. In this study, the highest average and standard deviation values for the stock price variable were 2905.38 and 5618.310.

Table 2. Multiple Regression Results

Coefficients[a]

Model		*Unstandardized Coefficients* B	*Unstandardized Coefficients* *Std. Error*	*Standardized Coefficients* *Beta*	t	Sig.
1	(Constant)	2,096	,286		7,335	,000
	CR	-,003	,002	-,141	-1,808	,073
	DER	-,222	,036	-,475	-6,133	,000
	Stock Price	9,769	,000	,311	3,990	,000

a. Dependent Variable: ROA

Current Ratio is negative and no significant to firm performance with sig value 0,073>0,05. Debt Equity Ratio is negative and significant on firm performance with sig value

0,000<0,05. Stock prices are positive and significant on firm performance with sig value 0,000<0,05

5. Discussion

5.1 Current Ratio Influence Firm Performance

Agency theory the existence of debt will be able to reduce the occurrence of conflict between the agency and the principal, which is known as the agency problem. Agency problems can be reduced by the existence of debt (Chandrarin and Sukanti, 2018). The use of debt means supervision of management is not only carried out by shareholders, but also by creditors. Opportunistic management behavior can be suppressed by the existence of debt (Yulianto, 2013).

5.2 Debt Equity Ratio Influences Firm Performance

These results indicate that an increase in bank debt, which is reflected in an increase in the ratio of debt to higher capital, will tend to be responded negatively by investors. Bank debt tends to be used to finance long-term investments (fixed assets). Investors tend to respond to banks with increasingly large debts, indicating the bank's capital capacity to finance long-term investments is limited. So investors will tend to respond negatively, with an increase in bank debt (Haryanto et al., 2018).

The greater the debt component used by a bank in carrying out its operational activities, the worse it will have an impact on the bank's profitability. The higher the DER a bank has, the lower the level of profit (ROA). If the interest rate on bank loans is higher than the bank's interest income, the bank will experience problems in paying debts because the profits the bank can earn are low (Dewi et al., 2015; Enekwe, Innocent et al., 2014; Kazumi et al., 2015; Ulzanah and Murtaqi, 2015).

The greater the bank debt, the higher the risk faced by the bank. A company with greater debt, the greater the risks and burdens borne by the company. The company will bear the burden of high installments and interest as debt increases, even though the company is experiencing losses. On the one hand, increasing debt will reduce taxes, but on the other hand it will tend to increase the costs the company must incur to pay interest, thereby reducing the company's net profit. The findings of this research are in line with the research findings of Antwi, Mills and Zhao (2012), Ogbolu and Emeni (2012) where increasing long-term debt will actually have a negative effect on company value. However, this research is not in line with the findings of research conducted by Chowdhury and Chowdhury (2010); Artini and Puspaningsih (2011); Kodongo, Mokoteli and Maina (2014), Sulistiono (2016).

5.3 Share Prices Influence Firm Performance

Shares are a capital market instrument that is very commonly traded because shares can provide attractive levels of profit. Share prices are used as a basis for investors before carrying out an investment activity to predict the profit (capital gain) that will be obtained by analyzing the company's financial reports which can be done using company financial calculations (Djazuli, 2017).

The stock price is a very important factor and investors must pay attention to it when investing because the share price shows the issuer's performance. Share price movements are in line with the issuer's performance, if the issuer has better performance, the profits obtained and generated from business operations will be greater (Tandelilin, 2010). The share price also shows the value of a company and is an appropriate index for company effectiveness, so the higher the share price, the higher the company value (Jogiyanto, 2010).

Banks are one of the financial institutions that play an important role as financial intermediaries between parties who have funds and parties who need funds and also as institutions that function to facilitate the flow of payment traffic (Merkusiwati, 2007). Banking is a financial institution that plays a very important role in economic activities, because through credit activities and various services provided by banks, they can serve various needs in various economic and trade sectors.

6. Conclusion

Debt Policy is measured using the current ratio and debt equity ratio (DER). Current Ratio is Negative and Not Significant to Company Performance and Debt Equity Ratio is Negative and Significant to Company Performance. The use of debt means supervision of management is not only carried out by shareholders, but also by creditors. The greater the debt component used by a bank in carrying out its operational activities, the worse it will have an impact on the bank's profitability. The higher the DER a bank has, the lower the level of profit (ROA). Share Prices Are Positive and Significant on Company Performance in Banking Companies. The share price also shows the value of a company and is an appropriate index for company effectiveness, so the higher the share price, the higher the company value.

Future research is expected to add independent variables, including NIM, BOPO, PER, etc., so that it does not only examine the variables Capital Adequacy Ratio (CAR), Non Performing Loan (NPL), Loan to Deposit Ratio (LDR), Return On Assets (ROA) . Future research is expected to increase the research time period in order to obtain more samples and more significant results and is expected to research other company sectors such as manufacturing, industrial or food and beverage companies to see different research results and to re-prove the hypothesis in this research.

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