

THE INFLUENCE OF FUNDING AND RESEARCH AND DEVELOPMENT DECISIONS ON THE VALUE OF COMPANIES WITH PROFIT GROWTH AS MODERATION

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Abstract

This study aims to obtain empirical evidence of the influence of Funding Decisions and Research and Development on Company Value with Profit Growth as a moderation. This type of research is quantitative associative. The population in this study is primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2019-2023. The determination of samples by purposive sampling technique was obtained from 78 companies with 390 observation data. The analysis technique and hypothesis testing were carried out by panel data regression analysis through EViews ver-12. Based on the t-test, it is known that the variables of funding decisions affect the value of the company and research and development do not affect the value of the company. Meanwhile, profit growth can moderate the influence of funding decision variables on company value and profit growth cannot moderate the influence of research and development on company value.

Keywords: Profit Growth, Funding Decisions, Research and Development, Company Value

1. Introduction

Indonesia's rapid economic growth increases business competition and encourages people to establish or invest in companies. Financial managers play an important role in managing a company to increase the company's value, which is crucial for companies to go public because it reflects performance and attracts investors. A high company value indicates good performance and increases investor confidence. A good company aims to maximize the value of the company in the long run, which means improving the well-being of its owners. Investors use the value of a company that can be measured in various ways such as market value to value a company before investing (Husnan, 2004; Sujoko and Soebiantoro, 2007).

The value of a company is influenced by performance, productivity and adaptability to technological developments. Fierce business competition requires companies to continue to innovate and improve their performance (Kurniawan & Mertha, 2016; Kombih & Suhardianto, 2018). For this reason, companies can obtain capital by going public to develop their business, especially in the consumer goods sector which has high potential (Sudarmanto & Putri, 2023; Hariyanto & Tyasari, 2021).

While the consumer goods sector is promising, challenges such as fierce competition and economic fluctuations can hinder the growth of companies. For example, PT Unilever Indonesia Tbk experienced a decline in net profit and revenue in the first quarter of 2021 due to the COVID-19 pandemic which affected consumer purchasing power (cnbcindonesia.com). This research aims to examine the factors that affect the value of the company, namely funding decisions and research and development. Inappropriate

funding decisions can negatively impact a company's value. Excessive use of debt increases the company's risk and can lead to a decline in stock prices, which ultimately decreases the company's value and investor confidence (Mesrawati et al., 2021).

Funding decisions, which involve selecting an optimal source of funding and debt to equity ratio (DER), are important factors that affect a company's value. Sources of funding can be short- or long-term debt, such as bank loans and the issuance of debt securities, or own capital. Previous research has shown mixed results regarding the influence of funding decisions on company value. Several studies found positive influences (Ashari, 2014; Afzal & Rohman, 2012), while others found no significant influence (Pricella, Nurwanah, & Ramlawati, 2021; Agung et al., 2021).

The second factor studied is Research and Development. R&D is an important investment that drives innovation and provides a competitive advantage for companies. R&D results in the development of patents or copyrights that can increase the value of the company in the future (Kieso et al., 2016). Therefore, R&D costs are an important factor that determines a company's success. R&D is important for companies to innovate, differentiate, and achieve competitive advantage. R&D allows companies to develop new products or processes, improve existing ones, and generate new knowledge (Kieso et al., 2011). High R&D costs can indicate a company's ability to adapt and innovate, especially in challenging situations such as the COVID-19 pandemic. Although R&D requires large investments, some studies show that companies with controlled R&D spending actually experience a stronger increase in corporate value. There are differences in research results regarding the influence of R&D on company value. Several studies found a positive influence (Kinanti & Nuzula, 2017; McIlkenny & Persaud, 2017), while others found no significant influence (Wahyuningsih & Purwanto, 2013; Shah et al., 2013).

Profit growth, which reflects the company's ability to increase net income, is an important factor in the context of R&D funding decisions and company value. Investors tend to gravitate towards companies with high profit growth because they indicate good performance and high potential return on investment. High profit growth also reflects the efficiency and ability of management in managing the company. However, there are differences in research results regarding the effect of profit growth on company value. Several studies have found positive influences (Maryam, 2018; Armstrong, 2012), while others did not find significant influence (Honey, 2019; Sri Mardiana, 2018).

2. Theoretical Background

The Grand Theory used in this study is a signal theory introduced by Spence (1973) explaining how companies give signals to investors about their prospects. The company as the sender of the signal uses financial statements to convey relevant information to investors (signal recipients). This information, which reflects management's actions to achieve shareholder goals, aims to reduce information asymmetry between the company and investors.

2.1 The Effect of Funding Decisions on Company Value

Funding decisions, which involve the selection of funding sources (internal and external), play an important role in maximizing the company's value. An optimal capital structure, which is a balance between the use of own capital and debt, can minimize capital costs and maximize the value of the company (Hertina et al., 2020). Several studies show a positive relationship between funding decisions and company value. An increase

in the proportion of debt, if managed properly, can increase operating funds, profits, and ultimately the value of the company (Dewi, 2018; Nelwan, 2018; Gustiandika, 2014).

Signal theory also shows that companies that increase debt can be seen as companies with high profit prospects, thereby increasing the value of the company (Sari & Wahidahwati, 2018; Kurniawan & Mawardi, 2017). Based on these descriptions and explanations, the following hypotheses can be drawn:

H1: It is suspected that the funding decision affects the company's value

2.2 The Influence of Research and Development on Company Value

R&D, which is an important investment in product innovation and development, can increase the company's revenue and value in the long run. Successful R&D results in innovative products or services, giving companies a competitive advantage (Ho et al., 2005). Increased R&D investment can attract investors as it indicates technological advancements and the company's growth potential, which ultimately increases the company's value (Wahyuningsih & Purwanto, 2013; Maharani & Puspitasari, 2021).

Information regarding R&D expenditure is an important consideration for investors in making investment decisions, so an increase in R&D costs can increase market reaction and company value. Based on the description and explanation, the following hypotheses can be drawn;

H2: Suspected Research and Development has an effect on the Company's Value

2.3 Profit Growth Moderates the Impact of Funding Decisions on Company Value

Optimal profit growth is an indicator of effective and efficient resource management. Profit growth is used as a moderation variable that can strengthen the positive influence of funding decisions on company value (Wijaya & Wibawa, 2015; Hasnawati, 2012). Signal theory suggests that strong profit growth can encourage companies to use more debt, signaling confidence to investors. Conversely, stable profit growth can encourage the use of retained earnings, demonstrating the firm's independence from debt (Estininghadi, 2019; Utami & Darmayatanti, 2018). By considering these descriptions and explanations, the hypothesis can be stated as follows:

H3: It is suspected that profit growth moderates the relationship between funding decisions and company value.

2.4 Profit Growth Moderates the Influence of Research and Development on Company Value

Strong profit growth can indicate the success of R&D investments, demonstrate effective R&D management and have a positive impact on the company's value. Signal theory states that strong profit growth supported by good R&D management can be a positive signal for investors, increasing confidence and investment, which ultimately increases the value of the company (Kurniawan & Kiswara, 2012). By considering these descriptions and explanations, the hypothesis can be stated as follows:

H4: Suspected profit growth moderates the relationship between research and development and company value

3. Methods

The object of this study is the financial statements of primary consumer goods sector companies in 2019-2023 listed on the IDX. There were 78 companies that were used as a sample to conduct research from a total of 126 company populations selected by

purposive sampling. The number of research years is 5 years so that 390 data samples were collected using Eviews-12. The hypothesis in this study uses a multiple regression model.

The scale of measuring the value of the company uses Price to Book Value (PBV), the funding decision is proxied with the Debt to Equity Ratio (DER), the scale of measuring research and development uses a dummy variable where the disclosure of R&D costs is given a score of 1 and vice versa if it does not disclose the company is given a score of 0 while profit growth is measured by dividing the net profit of the current year by the net profit of the previous year.

4. Results And Discussion

The results of the descriptive statistical test showed that the funding decision variable had a minimum value of -4.86, a maximum value of 92.5, a mean of 2.20 and a standard deviation of 6.55 while the research and development variable had a minimum value of 0.00, a maximum value of 1, a mean of 0.20 and a standard deviation of 0.40. The Y variable of the value of the company proxied with PBV has a minimum value of -0.82, a maximum value of 121.75, a mean of 3.56 and a standard deviation of 9.07.

Table 1. Descriptive Statistical Test Results

Variable	NP	KP	RD	PL
Mean	3.564769	2.201897	0.207692	0.185718
Median	1.465000	0.935000	0.000000	0.060000
Maximum	121.7500	92.50000	1.000000	23.34000
Minimum	-0.820000	-4.860000	0.000000	-0.850000
Std. Dev.	9.070265	6.554083	0.406176	1.431525
Skewness	7.951600	9.097564	1.441163	13.58350
Curtosis	85.70369	108.0057	3.076951	203.2857
Jarque-Bera	115258.2	184555.5	135.0980	663851.4
Probability	0.000000	0.000000	0.000000	0.000000
Sum	1390.260	858.7400	81.00000	72.43000
Sum Sq.Dev.	32002.91	16709.89	64.17692	797.1639
Observatios	390	390	390	390

Source: Secondary Data processed, 2024

Based on table 1 above, it can be concluded that the minimum value of funding decisions (-4.86) and maximum (92.5) indicates a wide range of decision-making among the companies in the sample, a mean of 2.20 indicates that in general the companies in the sample tend to have relatively low funding decisions. A minimum value of research and development (0.00) and a maximum value of 1 indicate that there are companies that do not invest in R&D at all. While the value of companies shows a very wide range, it indicates significant differences in the performance and prospects of companies in the sample.

Table 2. Test Results F

Root MSE	4.744209	R-squared	0.452981
Mean dependent var	1.218505	Adjusted R-squared	0.450154
S.D. dependent var	6.422736	S.E. of regression	4.762562
Sum squared resid	8777.931	F-statistic	160.2354
Durbin-Watson stat	1.296989	Prob(F-statistic)	0.000000

Source: Secondary data processed 2024

Based on Table 2, the Prob value of F-statistic of 0.000000 is smaller than α 0.05. Thus, the independent variables (funding decisions and research and development) simultaneously have a significant effect on the dependent variable (company value).

Table 3. Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.871959	0.781795	2.394437	0.0171
KP	0.789243	0.044256	17.83348	0.0000
RD	-0.216771	1.513423	-0.143232	0.8862

Source: Secondary data processed 2024

Based on table 3, the funding decision has a significant effect on the value of the company because the probability value (0.0000) is smaller than the significance level of 0.05, thus H1 is acceptable. On the other hand, research and development did not have a significant effect on the value of the company because its probability value (0.8862) was greater than the significance level of 0.05 thus H2 was rejected. The phenomenon in the results of this study can be explained by Signal Theory where investors tend to consider funding decisions as a stronger and more direct signal about the company's prospects compared to research and development investments.

Table 4. Results of the Determination Coefficient Test

Root MSE	4.744209	R-squared	0.452981
Mean dependent var	1.218505	Adjusted R-squared	0.450154
S.D. dependent var	6.422736	S.E. of regression	4.762562
Sum squared resid	8777.931	F-statistic	160.2354
Durbin-Watson stat	1.296989	Prob(F-statistic)	0.000000

Source: Secondary data processed 2024

The results of the analysis in table 4 show an Adjusted R Square value of 0.450154 or 45.0154%. This means that the independent variables in this study, namely funding decisions and research and development, were able to explain 45.0154% of the variation in the company's value. The remaining 54.9846% was influenced by other factors outside this research model.

Table 5. Results of Moderated Regression Analysis (MRA) Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.527384	0.780479	1.956982	0.0511
KP	0.923397	0.054387	16.97838	0.0000
RD	-0.036229	1.507259	-0.024036	0.9808
PL	-0.564795	0.299950	-1.882961	0.0605
KPPL	0.416294	0.107789	3.862118	0.0001
RDPL	0.473855	4.081312	0.116104	0.9076

Based on table 5, it can be concluded that the moderation analysis shows that profit growth plays a quasi-moderator role that strengthens the positive relationship between funding decisions and company value. This can be seen from the significant probability value and the positive coefficient thus H3 is accepted. However, profit growth had no moderating effect on the relationship between research and development and company value and H4 was rejected. Signal theory can explain this outcome why profit growth reinforces the positive relationship between funding decisions and company value. Investors perceive funding decisions as a more credible and positive signal when

accompanied by high profit growth, indicating better company prospects and increasing investor confidence.

5. Conclusion

The study found that corporate funding decisions have a positive relationship with company value and this relationship is stronger when companies show high profit growth. This supports the Signal Theory which states that investors consider funding decisions as more credible and positive signals when accompanied by good financial performance, such as profit growth. On the other hand, profit growth does not have a significant effect on the relationship between research and development and company value.

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