

## Growth Opportunities, Debt policy, and Firm Value Relationship

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This research aims to investigate the role of growth opportunities in effecting the relationship of debt policy with firm value. Growth opportunities are predicted as variables that moderate the relationship of debt policy with the firm value. Sample using sub-sector Various Industries 2016-2019 period, Indonesia Stock Exchange (BEI), Using porposive sampling techniques obtained 171 samples separated in 93 samples of corporate growth and 78 corporate not growth. The findings of this study 1) Sales growth is suitable as a proxy for growth opportunities. 2) opportunity growth strengthens the relationship between debt policy and firm value. 3) Corporate that do not grow, debt policies can weaken the firm value

Keywords: Opportunity growth, Debt policy, Firm Value

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### **ABSTRACT**

#### **1. Introduction**

The finance literature explained that one of the major tasks of financial management is to make funding decisions [26] It related this activity to choosing various alternative sources of funds to facilitate the firm operational activities. One such alternative is the decision to use debt, the decision to use debt as a strategic decision because it has to bear a long-term financial burden that can increase risk. On the other side, debt can be used to increase investment from the opportunities, the use of debt can also reduce taxes to be paid. Thus, the decision to use debt as a trade-off of risk and return, the problem is how much the company uses debt in order to increase the return greater than the risk. Basically, the firm sets the proportion of debt-adjusted to the needs and financial conditions faced. According to the Balancing theory, the proportion of debt can increase the value of the company at a certain proportion level, but after passing the optimal limit, adding debt can lower the value of the company [1][2].

The relationship of debt policy to the firm value has been a long debate, the debate includes empirical findings and theoretical. This debate arises from different views regarding the optimal proportion of debt and the relevance of the relationship of debt used to the firm's value. According to the proposition, the use of debt can increase the firm value. The basic rationale is, companies that use debt will get tax savings from the interest expense paid, the present value of the accumulated tax savings got is an excess of the firm value, compared to non-leverage corporate. The concept of tax savings raises a debate. The question is, why the tax savings got do not motivate management to use more debt. Answering the problem, Stiglitz expressed his opinion that basically the company has the optimal proportion of debt, and will always adjust the proportion of debt at the optimal position. The optimal proportion of debt is formed due to tax

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savings as a motivating factor for using debt, and financial distress as a factor that limits the use of debt, it is also explained that companies are unlikely to use more debt due to risk factors [4].

Empirical evidence of the relationship between debt use and firm value has been done by many researchers before, but the results of the study have not found consistent results. Some researchers have found that the use of debt has a positive effect on firm value [5; 6; 7; 8]. While other researchers did not find a direct relationship between debt and firm value, the researchers explained that debt did not find a direct relationship funding to the firm value [9; 10; 11]. The results of another study found an inverse relationship between debt and firm value, companies whose proportion of debt is high in low corporate value [12],[14] the same result found by [13] that the proportion of debt as measured by the long-term debt-to-equity ratio (DER) negatively affected the firm value. The findings of several researchers as described illustrate that the effectiveness of debt policy on the firm value is not the same, this is reinforced by the findings of research conducted by [15], that debt policy is determined by many factors or specifications of companies, for example, large companies, small companies or other specifications.

[16] researched debt policy by linking investment opportunities. Debt policy does not directly affect the firm value, but there are other factors that determine, namely investment opportunities. He explained that the optimal debt proportion is basically not static, but determined by investment opportunities, the position of investment opportunities can change the optimal point [16]. Debt has a positive effect on the firm value when there are investment opportunities, and conversely, the use of debt will have a negative effect when there is no investment opportunity. Investment opportunities, as explained, describe the future business prospects. Debt policy must consider the competitive position and the investment opportunity, meaning that the debt policy must consider the position of investment opportunities that can generate profits for the corporate [17]. Investment opportunities are the business prospect that a corporate can produce positive NPV [1]. Alternatively, using debt when it has investment opportunities has a different effect on the firm value, very different to companies that do not have investment opportunities. Thus, the investment opportunity cannot be observed directly, so it is necessary to use a proxy. One proxy that is often used to identify the existence of investment opportunities is the opportunity to grow. growth opportunity is considered as a signal that the corporate has excellent business prospects. This growth gives hope that the rate of return from the investment will increase. The increased rate of return will attract potential investors to increase the stock price. [18] carried empirical evidence of the relationship of corporate growth with debt policy out, and the results show that corporate growth can affect funding policy Corporate that has the potential to grow the debt-to-equity ratio lower than companies not grow. The relationship of debt to the firm value depends on the opportunity to grow, the Corporate which has a low proportion of debt, using debt has a positive effect on the firm value when opportunities grow are available, and vice versa the use of debt has a negative effect when there are no opportunities to grow [19][20]. Other empirical evidence found the relationship of debt with the firm value is inversely proportional to the growth opportunity [19], the same result was stated by [20][21], that the growth opportunity has a negative effect on dividend policy, meaning that the companies are likely to use internal sources of funds, so the debt structure is relatively low. Related to the use of corporate growth proxies,[22], In this research using sales levels as proxies, they placed sales as moderation variables that can strengthen or weaken debt policy to the firm value.

This research aims to test and develop the results of previous research conducted by (Myers 1977) which states that the influence of debt on the value of the company is indirect but also determined by investment opportunities. This study also developed the results of previous findings conducted by Chen (2002), who used investment opportunities as a factor that determines debt to the firm's value. Investment opportunities are moderation variables that are predicted to strengthen or weaken the debt relationship with companies. This research uses sales growth as a proxy for investment opportunities.

Debt Policy is a company's decision to use debt as a source of operational financing for the company. Using debt has the consequence of bearing interest costs. The greater the proportion of debt, the greater the interest costs paid can increase the risk of bankruptcy. Interest costs can reduce tax payments. [3] explained the concept of the relationship debt with the firm value, that debt can increase the firm value because the interest costs paid can reduce taxes. The present value of accumulated tax savings is the excess value of the company using debt. The relationship of debt policy with the firm value is also explained through signaling theory, this theory explains that there is asymmetric information between management and outside investors, so when the management issues new debt is perceived as a positive signal, which further positively affects stock price [24]. [25], explained that the use of debt must pay for financial distress, Bankruptcy cost, and Transaction cost, on the other side, the use of debt can be tax savings, corporate will try to balance the interest cost with cash savings, the corporate will increase the proportion of debt to the position where interest costs equal with tax savings. [23]), explained that management's decision to determine the proportion of debt to balance costs of debt and equity costs is predicted to affect the firm value.[27] Propose equity market timing theory, They are explains that the company will issue equity when the market price is high and will buy back when the market price is low. Equity market timing is to take advantage of price fluctuations that occur, which in turn will affect the cost of capital structure. Thus, debt can be positive or negative depending on the proportion of debt in its capital structure. Therefore, it is important for the company to determine the proportion of debt in the corporate financing so as to form a balance of debt and equity, This is under the tradeoff theory by [4], that basically the corporate has the optimal debt proportion, and always adjusts the debt proportion at that optimal level, if the company is at a high proportion of debt (over leverage), or the proportion of debt is low (under leverage). In stable conditions, the corporate will adjust the debt proportion to the average long-term debt. They form an optimal position due to tax savings as a factor that encourages the corporate to increase its debt and financial distress costs as the reason the company reduces the proportion of its debt. Empirical evidence of the relationship of debt to the firm's value is indirect, but there are other factors that indirectly affect the relationship.

Answering the problem, [16] conducted research by placing investment opportunities as factors that affect the relationship of debt policy with the firm value. It is also explained that the availability of investment opportunities can change the optimal debt position. Debt has a positive effect on the firm value when investment opportunities are available and vice versa, the use of debt can negatively affect the firm value if there are no investment opportunities available. [19] finding that the relationship of debt policy with the firm value is inversely proportional to the opportunity to grow, this finding was supported by [20] the results of his research found that the opportunity to grow has a negative effect on dividend policy, meaning that available companies use internal sources of funds so that the debt structure is low. [21], explain the same result that corporate growth tends to have low debt, this is because it uses internal sources of funds.

Based on the results of research conducted by Myers (1977), and Chen (2002) who found the influence of debt on the firm value, this study proposes the following hypothesis:

H1 = Investment opportunities, strengthening the relationship of debt policy with the firm's value.

H2 = The Corporate does not have investment, debt policy weakens the firm's value

## 2. Research Method

This study places growth opportunities (GRT) as variables moderating the relationship of debt (DER) with Company Value (Q). Debt policy as an Independent variable, and the value of the company as a dependent variable. The sample uses cross-section data of miscellaneous industrial sub-sector companies on the Indonesia Stock

Exchange (IDX) for the year 2016-2019. The sampling technique uses purposive, based on the established criteria got 171 samples, comprising 93 samples of high-growth corporate and 78 samples of corporate not grow. Analysis tools using the Moderated Regression Analysis (MRA) interaction model.

## 2.1. Variable.

This study uses operational definition and variable measurement as seen in Table 1, Sales growth (GRT), is the rate of sales growth, Debt policy (DER), is the use of debt as a source of operational financing as measured by the debt-equity ratio, Firm Value (Q) is an investor's perception of management's ability to manage resources reflected in the stock price.

To test the role of opportunities growth in influencing debt policy, this research used the Interaction moderation Model, formulated:

**Table I:**  
**Variable Measurement**

No	Variable	Measurement
1	Sales growth	$GRT = \frac{Sales_t - Sales_{t-1}}{Sales_{t-1}}$
2.	Debt Policy	$DER = \frac{Total\ debt}{Total\ Equity}$
3.	Firm Value	$Q = \frac{Market\ Value\ of\ Equitas + Debt}{Total\ Aset}$

## 2.2. Statistical Models

To test the role of opportunities grow in influencing debt policy, this research used the Interaction moderation Model, formulated as follows:

$$Q_H = a_H + b_{1H} DER_H + b_{2H} GRT_H + b_{3H} DER_H GRT_H + \varepsilon_H \dots\dots\dots (1)$$

$$Q_L = a_L + b_{1L} DER_L + b_{2L} GRT_L + b_{3L} DER_L GRT_L + \varepsilon_L \dots\dots\dots (2)$$

Dimana :

- $Q_H; Q_L$  = Firm value
- $a_H; a_L$  = Constant
- $b_1; b_2; b_3$  = Coefficient
- $DER_H; DER_L$  = Debt policy
- $GRT_H; GRT_L$  = Opportunity grow
- $DER_H.GRT_L$  = Interactionvariable
- $\varepsilon_H; \varepsilon_L$  = error

## 2.1 . Descriptive Statistics

The description of the study variables includes Firm Value(Q), Debt Policy Variable (DER), and growth (GRT). Table 2. descriptive statistic variable Growth (GRT), Debt Policy (DER), and Firm Value (Q). As explained in the previous section, I separated the data based on the growth rate, namely high-growth corporate (GRTH) and corporations that do not grow or fall (GRTL).

Table 2, descriptive statistics shows the mean of the company growing (GRT H), 389 with a standard deviation .345, while the mean of the corporate not grow (T L) -,173, with a standard deviation .139, this figure illustrates the real difference between corporate grow and corporate not grow or negatively grow. Viewed from the debt policy, the mean of the company grew (DER H) 0.706 with a standard deviation of .595, the company that

did not grow (DER L) mean 1.018 with a standard deviation of 1.005, this value shows the mean of the company that does not grow a higher proportion of debt than the company that grows, it is understandable that corporate with a high growth rate use internal funds sources to finance their operations. Firm value corporate grows (Q H) 5,802 standard deviation 6,887, while the Firm Value corporate not grow (Q L) 2,803 with a standard of 2,773, the value shows a real difference of the corporate growth mean higher than the mean of the company that does not grow.

Table 2:  
Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Deviation Std
GRT <sub>H</sub>	93	,050	1,580	,389	,345
DER <sub>H</sub>	93	,30	2,750	,706	,595
Q <sub>H</sub>	93	,744	28,760	5,802	6,887
GRT <sub>L</sub>	78	-3,83	-,036	-,173	,139
DER <sub>L</sub>	78	,72	1,74	1,018	1,005
Q <sub>L</sub>	78	,29	15,47	2,803	2,773

Source: data processed

The hypothesis (H1) shows that debt policy has no direct effect on the Firm value, the Beta coefficient is negative (-622), the significance  $0.072 > 0.05$  this result shows that debt policy has no direct effect on the Firm value. The results of the test of the direct influence of moderation variables (GRTH) on the Firm value (Q H), with a significance value of  $0.002 < 0.05$ , this result show the direct influence of variable growth on the Firm value. results of the moderation test with the interaction model proved that the corporate growth, debt policy can strengthen its influence on the firm value, this can see from the variable INTERACTION significance value of  $0.00 < 0.005$  proves that the company's growth is proven to strengthen its influence on the value of the company as described in the hypothesis (H1), that the company's growing debt policy can strengthen its influence on the value of the company. Based on the results of the Moderated Regression test, I proved that there is Quasi moderation. We can prove this that the significant value of the moderation variable (GRTH)  $0.02 < 0.05$ , and the significant value of the interaction variable value,  $0.00 < 0.05$ .

Table 3:  
Model 1, Hepotesis Test.

Variable	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(Constant)	2,070	,251		8,247	,000
GRT <sub>H</sub>	-3,065	,983	-,616	-3,116	,002
DER <sub>H</sub>	-,622	,342	-,334	-1,820	,072
INTERACTION	4,008	1,104	1,014	3,632	,000

Dependent Variable: Q<sub>H</sub>

Source :data processed

Table 4

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**Model 2, Hepotesis Test**

Variable	Unstandardized		Standardized	t	sig
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	2,124	,345		6,153	,000
DER <sub>L</sub>	-,403	,229	-,492	-1,763	,082
GRT <sub>L</sub>	,841	,357	,591	2,354	,021
INTERAKSI	-,847	,274	-1,088	-3,085	,003

Dependent Variable: Q<sub>L</sub>

Source :data processed

Table 4 results from the Moderated Regression test of corporate not grow, hypothesis (H1) states that corporate not grow the debt will weaken its influence on the firm value. Based on the test results showed that it did not prove the direct influence of debt policy to affect the firm value, we can see this from the significance value,  $0,082 > 0,05$ . The direct effect of variable growth (GRTL) on firm value (QL) is shown with a significance value of  $0,021 < 0,005$ , meaning that the growth variable as a moderation variable has a direct effect on the firm value. The results of the INTERACTION variable test as a moderation variable show a significance value of  $0,003 < 0,05$ , with a negative directional coefficient, this result proves the hypothesis statement (H2), that companies that do not grow, debt policy can weaken the firm value. These findings show evidence that growth is proven to be a factor that moderates the relationship of debt policy with the firm value, the value of the significance of the variable value of INTERACTION,  $0,00 < 0,03$  evidences this. Based on the results of the moderation test, model 1 corporate grow, and the moderation of model 2 corporate did not grow showed findings in line with previous research conducted by (Myers 1977). Using debt made by corporate that have investment opportunities is different when compared to corporate have low investment opportunities. The corporate that is available for investment opportunities, debt policy amplifies.

#### 4. Conclusion

This study aims to examine the role of opportunities grow that in this study are proxies with the sales growth, as stated in the hypothesis, that the influence of debt improvement on the firm value is moderated by opportunities to grow, debt policy when the corporate grows can strengthen the effect on the firm value and vice versa, the use of debt corporate that does not grow will weaken its effect on the firm value.

Based on the results of the analysis using Moderated Regression Analysis (MRA), it can be concluded: 1) sales growth can be used as a proxy for investment opportunities as stated by [1] that growth opportunities cannot be observed directly so they must use proxies, these results prove that sales growth can be used as a proxy for growth opportunities or investment opportunities. 2) Based on the results of the moderation test, we can conclude that the corporate growth, debt policy can strengthen the effect on the firm value. 3) Corporations do not grow, the debt policy will weaken the firm's value. The contribution of this research is the use of sales growth as a proxy for investment opportunities or growth opportunities, as stated by [1] This research also reinforces previous research conducted [16]

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