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Financial, Operational, and Sustainability Capabilities on the Progress of Mining Companies in the Indonesia Stock Exchange

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Abstract---This study aimed to understand the influence of financial, operational, and sustainable development of the mining business on the Indonesia Stock Exchange market for the period 2016-2019. To understand this effect, we have reviewed 49 mining companies listed on the Indonesia Stock Exchange for the period with a sample of 11 companies that met their financial reporting criteria in the same period. The results of multiple linear regression analysis indicate that financial leverage and growth opportunity have a significant negative effect on the value of sustainability next to the mining companies listed on the Stock Exchange. Operating leverage has a positive and significant effect on the value of sustainability in the mining companies we studied. The results of this study are expected to properly consider the use of debt to the company because it can adversely affect the value of the company itself if its use is excessive.

Keywords---financial leverage, operating leverage, growth opportunity, company value.

Introduction

In an increasingly competitive industrial era, every company must continue to be able to increase its competitiveness with all the capabilities they have (Porter & Heppelmann, 2015; Fujimoto & Shiozawa, 2012; Screpanti, 2014). Due to increasingly fierce competition, both in the domestic market and in the international market, this requires companies to continue to be able to compete with all their advantages by paying full attention to the company's operational, financial and sustainability activities. When viewed from the company's short-term goals, the goal of obtaining maximum profit by using existing resources is appropriate, but if you are concerned with long-term goals, maximize the value and sustainability of the company.

Because the value of company sustainability is the perception of investors towards the company which is often associated with stock prices (Hermastuti, 2014). High company value will make the market believe not only in the company's current performance but also in the company's prospects. Company value can be measured through several aspects, one of which is the market price of the company's shares because the market price of the company's shares reflects the overall investor's assessment of any equity held. The stock market price shows the central assessment of all market participants, the market price acts as a barometer of the company's management performance. If the value of the company is proxied by the stock price, maximizing firm value is the same as maximizing the stock market price. So it can be concluded that the stock price is the right index to measure firm

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value. For this purpose, the objective of financial management is stated in the form of maximizing the company's share price.

The main goal of the mining business of a company is that a profitable, easy to operate and sustainable are important efforts for every company. Moran et al. (2014), Perná & Hanzlíček (2016) suggested that sustainability in mining business and energy is a new idea to talk about, it is a pathway to community relations for a better earth future. Therefore, success is not only measured in terms of profit, but seen from the sustainability of this business, it has now become the main goal of every company activity and practical business which is closely related to various factors of a business ranging from cities, villages, and anywhere else to businesses that are directly related to the community (Fachrudin & Fachrudin, 2015; Henker & Husodo, 2010). The principles and concepts of this sustainability business allow pressure to inhibit activities such as the electric power industry using fuel oil. In this case, the activity could not possibly be stopped. The other is with efforts to reduce other human behavior such as sea bombing for fishing, forest exploration for agriculture, and other large-scale industrial enterprises, of course, the government, the general public, the private sector, shareholders, and all other business actors should call on all big companies to make this earth healthy and sustainable. In the following figures is the comparison of how this mining company's issue related to financial and sustainability issues:

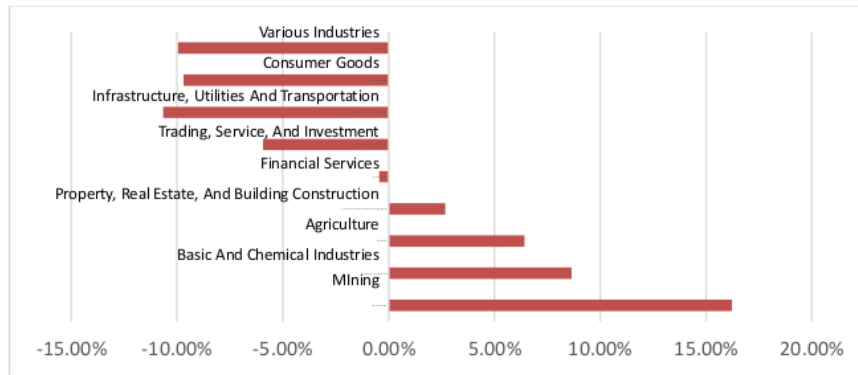


Figure 1. Sectoral Stock Index Q1 2018
Source: www.katadata.com, 2020

Figure 1 shows that the results of the sectoral stock index in 2018 were 10 sectors. The mining sector has the highest ranking for the sectoral stock index at 15.22%. This shows that the mining industry shows the highest stock index results among other sectors in Indonesia. Also, the lowest sectoral index in 2018 was shown in this sector.

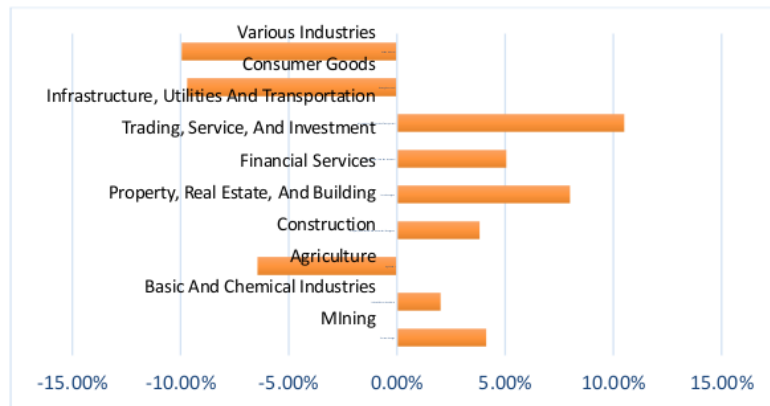


Figure 2. Sectoral Stock Index Q1 2019
Source: www.katadata.com, 2020

Figure 2 shows that the sectoral stock index in 2019 shows a change when compared to 2018. In 2019, the highest stock index occurred in the infrastructure, utility, and transportation sectors at 10.50%. Meanwhile, the lowest stock index occurred in the miscellaneous industry sector at -9.95%. This shows that there was a change in stock index shares between 2018 and 2019. In the mining sector, it shows a decline compared to 2018, which was 4.12%. Based on the information above, now we can formulate the research problem as follows:

- 1) How does financial leverage affect the value of the company in mining companies listed on the Indonesia Stock Exchange in 2016-2019?
- 2) How does operating leverage affect company value in mining companies listed on the Indonesia Stock Exchange that period?
- 3) How does the growth opportunity affect the value of the company in mining companies listed on the Indonesia Stock Exchange as mentioned above?

Practical Benefits

This research result can be used as a consideration for making investment decisions. It can contribute to investors in investing by looking at financial leverage, operating leverage and growth opportunity as a consideration in making investment decisions in mining companies and it can be used as a basis for consideration in making decisions in the financial sector, especially to maximize the performance of the company and shareholders so that the company's shares can continue to survive and have a large return.

Theoretical Benefits

Useful for the development of theoretical knowledge as it has been studied in lectures and as knowledge of financial management and can be a reference or input for the development of further research on what factors affect the value of the company in mining companies.

Financial Leverage

Financial leverage is a measure that shows the extent to which fixed income securities (debt and preferred stock) are used in the company's capital structure (Brigham & Houston, 2014; Yang & Pangastuti, 2016; Suryani & Herianti, 2015). Following the measurement of the level of financial leverage (DFL) is carried out as follows:

$$DFL = \frac{\text{Percentage Change EPS}}{\text{Percentage Change EBIT}}$$

Operating Leverage

Operating leverage is how much-fixed costs are used in the operations of a company (Brigham & Houston, 2014). Operating leverage arises because of the fixed operating costs that are used within the company to generate income. The level of operating leverage or degree of operating leverage (DOL) can be measured using the following formula:

$$DOL = \frac{\text{Percentage Change EBIT}}{\text{Percentage Change In Sales}}$$

Growth Opportunity

Growth opportunity or company growth is a growth opportunity for a company in the future (May 2006). This amount measures the extent to which a company's earnings per share can be increased by leverage.

Company value

Company value investors' perception of the company, which is a weakness with the stock price (Hermastuti, 2014; Angelia & Suryaningsih, 2015; Dewi & Dewi, 2017). The objective of company management is to maximize the shareholder value of wealth.

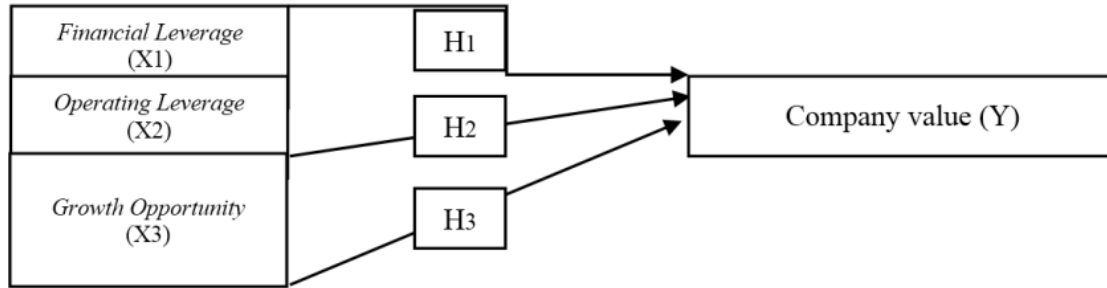


Figure 3. Conceptual Framework

Materials and Methods

The purpose of this topic study are 1) to analyze and describe a structured and systematic effect of financial leverage on company value and sustainability in mining companies. 2) to determine and analyze the effect of operating leverage on company value at mining companies. 3) to determine and analyze the effect of growth opportunity on company value in mining companies listed on the Indonesia Stock Exchange 2016-2019 in the form of an accurate factual analysis of the mining companies in Indonesia.

Our next step is to conduct literature studies both from books, as well as from printed media, electronic media, as well as social media, which ensures whether traditional mini-market traders also promote in various ways, like modern market traders. All data we collected were analyzed using descriptive approaches and quantitative analysis. According to Guercini (2014) the combined qualitative and quantitative method is a research methodology that is generally used in the study of market management science both modern and traditional. Because this method is used to understand the situation of certain groups, for example, economic conditions and ways of organizing the way of working and thinking.

The population in this study were mining companies listed on the Indonesia Stock Exchange for the period 2016-2019. The total population in this study were 49 mining companies based on the sub-sector of coal, oil and gas, metals, and other minerals and rocks. The sampling technique was carried out through a purposive sampling method to obtain a sample that followed the research objectives and criteria. The sample criteria in the research above acquired 11 mining companies listed on the Indonesia Stock Exchange for 2016-2019. The amount of observational data that will be processed in this study is the multiplication result of the number of mining companies and the number of observation periods, namely for four periods (2016-2019). So the number of observations in this study for the mining company group became 44 observation data.

Result and Discussion

Table 1
Autocorrelation Test Result

Model	R	R. Square	Model Summary ^b		
			Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.595	.354	.306	1.34697	1.991

Source: Secondary Data, processed in 2020

Based on the results of the regression analysis, the Durbin Watson (DW) value was 1.991. While the magnitude of the DW-table: dL (outer limit) = 1,326; dU (inner limit) = 1,720; 4-dL = 2,673; and 4-dU = 2,280. Thus, it can be concluded that DW-test locates in the test area. Thus it can be seen in Figure 4.15 as follows:

Table 2
Durbin-Watson Test Results

Autocorrelation positive	Area of hesitation	Autocorrelation Free		Area of hesitation	Autocorrelation negative
0	1,326	1,721	1,991	2,280	2,673
					4

Source: Secondary Data, processed in 2020

Table 2 shows that Durbin-Watson is in an area where there is no autocorrelation so that the data used in this study are free from autocorrelation.

Multiple Linear Regression Test Results

Based on the regression model, the results of multiple regression can be explained as follows:

- 1) The multiple linear regression equation above is known to have a constant of 1.207 with a positive sign. The constant magnitude shows that if the independent variables (DFL, DOL, and Growth) are assumed to be consistent, the dependent variable, namely the company value, will increase by 1.207%.
- 2) The variable coefficient of DFL = -0.927 means that every 1% increase in DFL will cause the company value to decrease by 0.927%.
- 3) DOL variable coefficient = 1.208 means that every rise in DOL of 1% will cause an increase in company value of 1.208%.
- 4) The coefficient of the Growth variable = 0.428 means that every 1% increase in Growth will cause an increase in the value of the company by 0.428%.

Table 3
Model Feasibility Test Results (F-Test)

		ANNOVA				
Model		Sum of Square	df	Mean Square	F	Sig.
1	Regression	39.762	3	13.254	7.305	.001
	Residual	72.573	40	1.814		
	Total	112.335	43			

Source: Secondary Data, processed in 2020

In Table 3 it can be seen that the results of the F test show the F_{count} value of 7.305 with a significance of 0.001. This signature value is smaller than 0.05. This indicates that the independent variables jointly influence the dependent variable so that the proposed hypothesis, namely financial leverage, operating leverage, and growth opportunity, has a collective effect on company value.

Test Results for the Significance of Individual Parameters (t-test)

Based on the results of the t-test analysis calculation, it can be described as follows:

- 1) The financial leverage variable has a beta value of -0.927 with a significant amount of 0.033, which is smaller than 0.05. This means that individually the financial leverage variable has a negative and significant effect on company value.
- 2) The operating leverage variable has a beta value of 1.208, with a considerable amount of 0.000, less than 0.05. This means that individually the operating leverage variable has a positive and significant effect on company value.
- 3) The growth opportunity variable has a beta value of 0.428, with a considerable amount of 0.042, which is smaller than 0.05. This means that individually the growth opportunity variable has a positive and significant effect on company value.

The Effect of Financial Leverage on Company value

Financial leverage has a negative and significant effect on company value. Based on the research results, the financial leverage variable's coefficient value is -0.927 with a considerable amount of 0.033, where this value is significant at the 0.05 significance level because it is smaller than 0.05. Thus, financial leverage has a negative and significant effect on company value. Financing companies using debt (leverage) is expected to increase the company's value so that it can provide prosperity for its shareholders. Funds obtained from liability are expected to be appropriately managed with the hope of generating future flows of funds in an amount higher than the number of funds released (Solikahan *et al.*, 2013).

Therefore, the company's choice to use debt as a source of funding is expected to increase company value. The company's share price indicates company value. The higher the company's stock price, the higher the value of the company; conversely, the lower the stock price, the lower its value. The level of company value is influenced by the level of several factors, such as financial leverage. The results of this study are in line with the results of research from Saraswati (2017) shows different results, namely financial leverage, which has a negative and significant effect on company value.

The Effect of Operating Leverage on Company value

Operating leverage has a positive and significant effect on company value. Based on the research results, the coefficient value for the operating leverage variable is 1.208, with a considerable amount of 0.000, where this value is significant at the 0.05 significance level because it is smaller than 0.05. Thus, operating leverage has a positive and significant effect on company value.

The company's ability to increase EBIT with changes in sales volume can signal that the market responds positively to that the company can provide higher value to the company because this can increase the interest of investors to invest. Following the concept of signaling theory, operating leverage can be a signal to outsiders regarding how management views the company's prospects based on the level of operating leverage that formed. The results of this study are in line with the results of research from Ningrum & Hermuningsih (2019) and Wulandari (2013) which shows the results that operating leverage has a positive and significant effect on company value.

The Influence of Growth Opportunity on Company value

Growth opportunity has a positive and significant effect on company value. Based on the research results, the coefficient value for the growth opportunity variable is 0.428, with a considerable amount of 0.042, where this value is significant at the 0.05 significance level because it is smaller than 0.05. Thus, that growth opportunity has a positive and significant effect on company value.

This positive relationship is because if the company's growth opportunity level increases, investors will see this as a good indicator of the company's growth prospects in the future. The company's investment activities through project selection or other policies, such as creating new products, will make investors expect to get a higher return rate from time to time. This investment decision will affect the company's value, which is the result of the investment activity itself. The results of this study are in line with the results of research from Ananda (2018), Nur (2018), Saraswati (2017), Andanika & Ismawati (2017), Pangulu & Maski, (2014), Ningrum & Hermuningsih, (2019), the results show that growth opportunity has a positive and significant effect on company value.

Conclusion

- 1) Financial leverage has a negative and significant effect on company value in mining companies listed on the Indonesia Stock Exchange for 2016-2019.
- 2) Operating leverage has a positive and significant impact on company value in mining companies listed on the Indonesia Stock Exchange for the period 2016-2019.
- 3) Growth opportunity has a positive and significant effect on company value at mining companies listed on the Indonesia Stock Exchange for 2016-2019.

Suggestions

For Management, the company's management expected to be able to properly consider the use of debt in the company because it can adversely affect the value of the company itself if its purpose is excessive. For investors, the variables that affect the company's value can be taken into consideration when assessing the company. For future researchers who want to research about company value, they should add other variables that are not included in this study and increase the number of samples by adding the number of timescales and not only examining mining companies but all types of companies on the Indonesia Stock Exchange.

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