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Submission of Financial Information in Firm Value through the Signaling Theory Approach

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Abstract: Every company aims to provide welfare for shareholders. Greater profit, the higher value of a company, and more investors want to invest in the company. This study aims to examine the effect on accounting conservatism, tax planning, investment decisions, operating cash flow and activity ratios on firm value. Population in this study are manufacturing companies classified as basic and chemical industries which are listed on the Indonesia Stock Exchange (IDX) for 2019-2021. Sampling is done by a purposive sampling method. The number of samples that meet the requirements in this study amountedusing 83 data. Based on the results of the multiple regression analysis research, it can be seen that the variable investment decisions and activity ratios have an effect on firm value, while the variables of accounting conservatism, tax planning, and operating cash flow have no effect on firm value.

Keywords: Accounting conservatism, activity ratios, firm value, investment decisions, tax planning.

1. Introduction

In a development of the current era, new companies are growing and competing to a top company. Manufacturing companies play an important role throughout the world because they can increase the value of investment and exports, and they become a mainstay sector in accelerating economic growth for a country. Indonesia is one of the countries where manufacturing companies play an important role in the economy because they can produce products that can be traded and can create jobs. According to the Central Bureau of Statisticsin Indonesia, the economic growth of the manufacturing industry is 3.39% in 2021. Every company have the main goal of providing welfare for shareholders. The greater the company's profit, the higher value of the company and more investors want to invest in the company.

The Signal theory explains the actions or decisions taken by the company's management that provide an overview to investors about how management views the development of the company's prospects. This theory also explains the reasons companies have an incentive to submit financial report information to external parties based on the existence of information asymmetry between company management and external parties (Bergh et al, 2014). The signal theory considers that the better a company is at presenting information, the more positive added value it will provide to the company. Information becomes an important thing for business people, especially investors, because it can contain information and information that describes the company's past, present, and predictions of the company's condition in the future. Business people, especially investors, can use company information that is complete, relevant, accurate and timely in analyzing decisions to be taken, the signaling theory has a point of view as an investor in assessing the value of a company.

Firm value is an investor's view of the level of success of a company that is closely related to the company is stock price (Sujoko and Soebiantoro, 2007).Bhabra (2007) opines that firm value is the price paid by the wealthy buyer when a company is sold, and he also sees firm value as the objective value from the public and the orientation of company’s survival. Firm value is considered important because if the firm value is high, it will be accompanied by increased shareholder wealth (Brigham and Houston, 2013). The value of this company can be measured using Price Book Value (PBV). Price book value is a market ratio that is calculated by comparing the market price per share with the book value of a company. PBV shows the relationship between stock market price and book value per share (Jones, 2000: 274). Accounting conservatism is a precautionary principle carried out by companies. Ahmed et al., (1995) propose a theoretical firm valuation model suggesting that accounting conservatism plays important roles in firm valuations. A conservative accounting practice is likely to create “hidden reserves” and, in turn, generate higher expected future firm values in the long run (Penman and Zhang, 2002) Besides that, it can also minimize information asymmetry through restrictions on management to perform manipulative financial reports (LaFonnd and Watts, 2006).

Tax planning is a method used by companies to plan business and income taxation, but its application still takes into account the applicable tax regulations. Tax planning is the organization of individual and corporate taxpayers to be able to take advantage of opportunities to minimize the tax burden according to applicable regulations (Pohan, 2013). Usually a firm will try to make tax planning optimization in order to enhance the income after tax. Tax planning consists in minimizing mainly the income tax in order to maximize the result after taxes (Assidi et al., 2016). Tax planning is carried out to reduce the amount of tax paid,make that after-tax earning becomes greater and is able to increase company value (Yuliem, 2018).

The investment decision is one of the most fundamental decisions for investors. According to Gaver (1993), an investment opportunity is a firm's value, the amount of which depends on expenditures set by management in the future, in this case currently investment choices that are expected to generate greater profits. This opinion is in line with Smith and Watts (1992) which state that the investment opportunity set is component of the firm's value which is the result of choices to make investments in the future. According to Kallapur and Trombley (1999) the company's investment opportunities cannot be observed for parties outside the company, a proxy is needed to see them. Investment decisions discuss how the funds allocated by managers for investment activities can generate maximum profits in the future. The right investment decisions will produce optimal performance (Arizki et al., 2019). If the company makes more appropriate investments, a higher return or rate of return will be obtained by the company, and it can increase the value of the company.

Operating cash flow is the amount of incoming and outgoing cash that occurs within the company for operational activities. According to Hery (2011: 232-233), the most important cash flow of the company is related to operating activities. Cash flow from operating activities is cash flow from transactions that effect on net income. For example transactions that include the purchase and sale of goods (Revee, et al., 2010). Investors do not fully include information in cash flow patterns, resulting in mature companies being undervalued (Dickson, 2011). From this, the analysis of operating cash flow becomes essential to achieve optimal corporate value. The activity ratio is the ratio used to measure a company's effectiveness in using its assets (Kasmir, 2015). This ratio is also to estimate the company's fiscal progress.The purpose of the activity ratio, according to Brigham and Houston (2011), is to evaluate an activity's effectiveness. The company's ability to effectively and efficiently manage its assets is measured by the activity ratio (Lumbantobing, 2016). The activity ratio is the ratio that shows the company's ability to utilize its assets. If the company has many assets, the interest expense will be very high, decreasing the profit. Higher activity ratio, can make company more effective a company is in utilizing resources power.

This research is conducted to continue previous studies such as research by Habibah and Margie (2021), Wibisono and Maharduka (2019), Isminato and Zulfiara (2020), Pratama and Harnoviansyah (2018), Dewanata and Achmad (2017)), Astuti and Herawati (2022), Hendra and Erino (2020), Hidayat and Pasudo (2019), and Hanifah and Ayem (2022). From these studies, there are variousresults obtained. Hd still reforesting to observe.

2. Literature Review and Hypothesis

2.1. Agency Theory

Agency theory is a contract under one or more involving agents to perform some services for them by delegating decision making authority to agents (Jensen and Meckling, 1976). Agency Theory describes whether the principal has an agency relationship. The main objective of agency theory is to explain how the parties to contractual relationship can design a contract whose objective is to minimize costs as a result of asymmetric information and uncertain conditions. This theory assumes that each individual will be motivated to prioritize himself, that the relationship between the agent and the principal is likely to result in a conflict of interest (Ayem and Harjanta, 2018).

The causes of conflict between managers and shareholders include making decisions related to fundraising activities and how the funds obtained are invested (Jensen and Meckling, 1976). Conflicts will always arise from differences in interests between agents and principals, accordingly good audit quality is needed to increase company wealth through maximum profits, and then that company value will also increase. In companies, agency conflicts are often faced by investors which refers to investors constraints in ensuring whether the funds provided are used properly, namely for profitable activities.

2.2. Signaling Theory

Signaling theory is part of agency theory which discusses information originating from companies on investment decisions of parties outside the company. The signal theory states that the sender (owner of the information) provides a signal or signal in the form of information that reflects the condition of a company that is beneficial to the recipient (investor) (Spence, 1973). Ross (1997) explained that company executives who have better information about their company will be encouraged to convey this information to potential investors and the company's stock price increases.

The signal theory is a theory that explains the actions or decisions taken by the company's management that provide investors with an overview of how management views a development ofthe company's prospects.

This theory also explains the reasons why companies have an incentive to submit financial reporting information to external parties based on the existence of information asymmetry between company management and external parties (Bergh et al., 2014). Signaling theory emphasizes the importance of information released by companies on the investment decisions of outsiders company (Hartono, 2013). The signal theory is a theory that explains the actions or decisions taken by a company's management that provide investors with an overview of how management views development of the company's prospects.

2.3. Firm Value

Firm value is defined as the selling value of the company when it is operating (Sartono, 2010). Firm value focuses on stock prices in the capital market (Harmono, 2009). According to the theory of signal that the financial statements is one means of informative that explains the extent to which performance of the company, which the market demand and firms' supply are interact (Keown, 2006), because of that, the management will try to show great performance in the market to get a positive reaction from the market. Higher the company's stock price, the company is considered successful and has good value. Firm valueis generally useful as a benchmark for investors onthe performance of certain companies, which is reflected by the share price formed from the level of demand and supply in the capital market, which describes public's assessment of the company's performance. Firm value is also used to project future business profits. It can be a reference in increasing company profits which will effect the increase in stock prices. From this, the company can increase prosperity for its shareholders.

2.4. Accounting Conservatism

Accounting conservatism is an accounting principle that prioritizes the principle of prudence. Conservatism is an accounting principle which if applied will produce profit and asset figures tend to be low, as well as cost and debt figures that are high (Juanda, 2007). Conservation accounting practices tend to result in a higher expansion of firm value in the future in the long term (Penman and Zhang, 2002). Precautionary principle, it can minimize fraudulent financial reporting and can minimize information asymmetry through limiting management to manipulative financial reports (LaFonnd and Watts, 2006).

Tjhen et al. (2012) stated that accounting conservatism produces higher quality earnings because this principle prevents companies from exaggerating profits and helps users of financial reports by presenting profits and assets that are not overstated. From this, investors will give more trust to the company, It canincrease the value of the company. This statement is in accordance with the results of research conducted by Yonpae et al (2006), Manik (2018), Wibisono and Maharduka (2019), Laila and Meyla (2019), Isminato and Zulfiara (2020), and Habibah and Margie (2021).Meanwhile, research conducted by Jusny (2014), Pratama and Harnoviansyah (2018) has results that contradict previous studies, with the results of research on accounting conservatism having no effect on firm value.
H1: Accounting conservatism has an effect on firm value

2.5. Tax Planning

Tax planning is a process of organizing a taxpayer's business in such a way that his tax debt, both income tax and other taxes, is at a minimum amount, but do not violate the provisions of the applicable laws (Pohan, 2018). The benefit of tax planning is that it can minimize cash outlays because there are smaller tax costs and can manage cash inflows and cash outflows (Pohan, 2014). Researches regarding tax planning and firm value have generated mixed results. In research made by Desai and Hines (2002) related to firm performance and tax planning behaviour of firms, they found that comprehensive tax planning in term of foreign tax credit can increase firm performance and together with firm value. In Desai and Dharmapala (2005), Dewanata and Achmad (2017), and Angelina and Darmawan (2021) research, they knew a positive correlation between tax plan and firm value, and concluded that in tax planning and firm performance study it is being arbitrated by corporate governance. There are also some negative relationships between tax planning and firm value discovered in prior studies. Ftouhi et al. (2014), Hendra and Erino (2020), and Astuti and Herawati (2022) tested whether firm tax planning could rise the firm value. ETR proxy is used in their study. The study result found that there is significant negative and relationship between tax planning and firm value because of too much agency cost. This result is linear to the shareholder’s worry regarding principle threat in tax. Furthermore, this study also finds that tax planning can drive towards permanent tax savings. On the other hand, Chen et al. (2013) found out in his research that tax planning can rises agency cost and decrease firm value, while Rusli (2016) and Yuliem (2018) have result that tax planning has no effect to firm value.
H2: Tax planning has an effect on the value of the company.

2.6. Investment Decisions

Investment decisions are investments with the hope of obtaining profits in the future (Hemastuti and Hermanto, 2014). Investment decisions aim to obtain maximum profit with minimal managed risk thatbe able to increase the share price that will be used in determining the firm value. Investment opportunities owned by the company effect the views of managers, owners, investors and creditors about the value of the company. According to Myers (1977), investment decision in the form of combining assets owned and future investment options with a positive net present value that will effect the value of the company. A financial manager's decision to use current funds to generate future profits is an investment decision. Capital consumptions give a positive sign about future development, with the goal that it can increment stock costs, which are utilized as marks of firm worth (Wahyudi and Pawestri, 2006).This is in accordance with the results of research conducted by Utami and Darmayanti (2018), Dewi et al. (2019), Mutmainnah et al., (2019),Syamsudin et al., (2020), and Kusaendri and Mispiyanti (2022) with the results of the study that investment decisions have a positive and significant influence on firm value.

H3: Investment decisions has an effect on the firm value

2.7. Operating Cash Flow

Operating cash flow is a collection of cash flow transactions that effect net income or come from company's main revenue activity (Warren et al., 2007). This cash flow is a cash flow in the statement of cash inflows and outflows originating from the company's operational activities during a certain period. Increased operating cash flow is expected to be able to increase the company's profitability because, with high operating cash flow, the company's operational activities will run smoothly. Business risk arises as a result of the company's operating cash flow that cannot be managed to cover operational costs. Meanwhile, financial risks arise as a result of the company being unable to meet it is financial obligations it will eventually result in bankruptcy. To overcome this it is hoped. The company has good operating cash flow and continues to increase in favor of investors sure that the company is able to fulfill its obligations to investors in this regard encuraging investors to invest their shares. From this, with an increase in operating cash flow, sales activity will increase, that the profits earned by the company will also increase. Darmawan et al., (2016), Fajri and Juanda (2019), state that operating cash flows effect firm value, while research by Putri, et al., (2020) states that cash flows operating cash has no effect on firm value.

H4: Operating Cash Flow has an effect on the firm value.

2.8. Activity Ratio

The activity ratio is the ratio used to determine how effective a company is in using its assets (Kasmir, 2015). This ratio can be used to measure the level of efficiency (effectiveness) of a company in utilizing company resources. The activity ratio can be measured by comparing the level of sales with the assets owned by company. Increased operating cash flow is expected to be able to increase the company's profitability because with high operating cash flow, the company's operational activities will run smoothly. The higher activity ratio, the more effective the company is in managing its resources, thereby increasing the firm value. This is in accordance with the results of research conducted by Andriana and Panglipurningrum (2019), Tiana (2020), and Kurniawati and Idayati (2021) with the results of the study that the activity ratio has a positive effect on firm value.

H5: Activity ratio has an effect on the firm value.

3. Methodology

3.1. Population and Sample

The research used by researchers is in the form of quantitative research using secondary data sources examine the effect of accounting conservatism, tax planning, investment decisions, operating cash flow, and activity ratios on firm value. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2019-2021 period. The samples in this study are manufacturing companies classified as basic and chemical industries which are listed on the Indonesia Stock Exchange (IDX).The determination of the sample was carried out using the purposive sampling method, which is a technique for determining the sample by determining certain considerations, that the data obtained is more representative of all manufacturing companies with basic industrial and chemical classifications listed on the Indonesia Stock Exchange (IDX). The number of samples in this study amounted to 24 companies with 84 data. After one data outlier, the sample used are 83 data.

3.2. Measurement of Operating Variable

Table 1: Variable Measurement

Variabel	Indicator	Referensi
Firm Value (PBV)	PBV = $\frac{\text{Earning per share}}{\text{Book value per share}}$	Santoso dan Utama, 1988
Accounting Conservatism (C_{it})	$C_{it}=N_{it} - CF_{it}$	IsminatodanZulfiara (2020)
Tax Planning (ETR)	ETR = $\frac{\text{Income tax expense}}{\text{Net profitotal asett before tax}}$	Dewanata, P. danAchmad, T. (2017)
Investment Decisions (TAG)	TAG = $\frac{\text{Total Assets}_t - \text{Total Assets}_{t-1}}{\text{Total Aset}_{t-1}}$	Prasetya, Dimas dkk (2013)
Operating Cash Flow (Δ AKO)	Δ AKO = $\frac{(AKO_t - AKO_{t-1})}{TA_{t-1}}$	FajridanJuanda (2021)
Activity Ratio (TATO)	TATO : $\frac{\text{Sale}}{\text{Total Assets}}$	Tiana, C.A. (2020)

4. Results and Discussion

4.1. Descriptive Statistical Analysis

Table1: Descriptive Statistical Test Results

Variabel	N	Minimum	Maximum	Mean	Std. Dev
Firm Value	83	0.1800	7.8500	1.686867	1.5411786
Accounting Conservatism	83	-33607087000000.00	4297691000000.00	-2878202097886.43	6426598049549.47
Tax Planning	83	-0.9400	16.2500	0.037952	1.8399070
Investment Decisions	83	0.8200	1.7600	1.084217	0.1543683
Operating Cash Flow	83	-0.1700	0.4000	0.017711	0.0889550
Activity Ratio	83	0.3000	2.0000	0.830843	0.4148823

Sourse: Processed secondary data, 2023

Based on the results of the descriptive analysis table above, we can see that the minimum value of thefirm value variable is 0.1800 or 18%, the maximum value is 7.8500 or 785%, the average value is 1.686867 or 168.6867%, and the standard deviation value is 1.5411786 or 154.11786%. The minimum value of the accounting conservatism variable is IDR 33,607,087000,000.00, the maximum value is IDR4,297,691,000,000.00, the average value is IDR2.878.202.097.886,43, and the standard deviation value is IDR6.426.598.049.549,47.

The minimum value of the tax planning variable is 0.8200 or 82%, the maximum value is 16.2500 or 1625%, the average value is 0.037952 or 3.7952%, and the standard deviation value is 1.8399070 or 183.9907%. The minimum value of the investment decision variable is -0.9400, the maximum value is 0.4000, the average value is 1.084217 or 108.4217%, and the standard deviation value is 0.1543683 or 15.43683%. The minimum value of the operating cash flow variable is -0.1700 or -17.00%, the maximum value is 1.7600 or 176.00%, the average value is 0.017711 or 1.7711%, and the standard deviation value is 0.0889550 or 8.8955%.

4.2. Discussion

This study uses a multiple linear regression model. The classical assumption test is carried out to avoid bias in decision making. In this study, the classical assumption test was used in the form of a normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. In this study the normality test was carried out using the CLT (Central Limit Theorem) test, that is, if the amount of research data is large enough (n>30). The data in this study amounted to n of 83 > 30. This shows that the data can be said to be normally distributed and can be called a large sample.

The results of the multicollinearity test of the regressionequation model show that the value of the inflation factor (VIF) ranges from 1.010 to 1.085 or less than 10 and the tolerance value ranges from 0.922 to 0.990 or more than 0.1. This shows that this research does not have multicollinearity. Theresultsof heteroscedasticity test of the regression equation model showed a significance value ranging from 0.070 to 0.760 or a significance value greater than 0.05. From this, it can be concluded that all independent variables do not occur in heteroscedasticityIn this study, to determine whether it is heteroscedasticity in a model, the Rank Spearman method can be used.

The autocorrelation test in this study used the Durbin Watson (DW) statistical test. Based on the test results, the Durbin Watson (DW) value was 0.877. Based on these values, the Durbin Watson (DW) value lies between -2 and +2, it can be said that there is no autocorrelation problem in this study. The results of the model feasibility test (F test) showed a significant value of 0.008. The significance value produced by the F test is less than 0.05, so it can be concluded that the multiple regression model meets the requirements and can be said to be a fit regression model.

The coefficient of determination in this study is the Adjusted R Square value of 0.181 or 18.1%. This shows that the independent variables, namely accounting conservatism, tax planning, investment decisions, operating cash flow, and activity ratios can explain the variation in the dependent variable, namely firm value of 0.181 or 18.1% while the remaining 81.9% is explained by other variables that are not included in this study.

Table 3: Result of Multiple Linear Regression Analysis

Model	B	t	Sig.	Description
Accounting Conservatism (C_{it})	-2.0446	-0.821	0.414	H1 Rejected
Tax Planning (ETR)	-0.002	-0.028	0.977	H2 Rejected
Investment Decisions (TAG)	3.039	2.844	0.006	H3 Accepted
Operating Cash Flow (Δ AKO)	1.259	0.677	0.501	H4 Rejected
Activity Ratio (TATO)	0.832	2.134	0.036	H5 Accepted

Sourse: Processed secondary data, 2023

Based on the multiple linear regression model above, the following results are obtained is the accounting conservatism variable has a significant value of 0.414 means it is greater than 0.05. It can be concluded that **H1 is rejected**, meaning that accounting conservatism has no effect on firm value.Accounting conservatism is not a signal that influences investors in setting the value of a company. There are other factors that investors consider in determining thefirm value. The results of this study are in line with previous studies, namely Jusny (2014), Pratama and Harnoviansyah (2018), Octaviani and Suhartono (2020) stated that accounting conservatism has no effect on firm value. Accounting conservatism does no effect on firm value because the application of accounting conservatism in the sample companies is still low.In addition, the financial reports produced using the accounting conservatism method tend to be more biased and do not reflect the company's actual state.

The accounting tax planning variable has a significance value of 0.977 which means it is greater than 0.05. It can be concluded that **H2 is rejected**, meaning that tax planning has no effect on firm value. Tax planning is not a signal that influences investors in setting the valueof a company. This is because doing tax planning too high will give an unfavorable signal to investors in particular. Investors will suspect this because the higher company tax planning will be considered disobedient to the obligations of the taxes. There are other factors that investors consider in determining the value of a company. The results of this study are in line with previous research, namely Rusli (2016) and Yuliem (2018) that tax planning as measured by ETR has no effect on firm value.

The accounting investment decision variable has a significance value of 0.006 which means it is smaller than 0.05. It can be concluded that **H3 is accepted**, meaning that investment decisions has aneffect on firm value. A positive significance value describes that an investment decision can increase the value of the company.

The investment issued by the company will give a positive signalto the company's growth in the future, and it is considered to be able to increase the share price that will be used in determining the firm value. A high investment discussions value indicates that the company is in a good position, investment and good growth prospects for the company will attract investors to invest in their shares. The high demand for shares will imply that the value of a company will also increases.The results of this study are in line with previous studies, namely Utami and Darmayanti (2018), Dewi et al. (2019), Mutmainnah et al (2019), Erviana (2020), Syamsudin et al., (2020), and Kusaendri and Mispiyanti (2022) state that investment decisions have a positive and significant influence on firm value.

The operating cash flow variable has a significance value of 0.501 which means it is greater than 0.05. It can be concluded that **H4 is rejected**, meaning that operating cash flow has no effect on firm value. Operating cash flow is not a signal that influences investors in setting the value of the company. High operating cash flow does not necessarily describe the degree of effectiveness of the company's operating activities. That an increase in operating cash flow is not able to increase the share price that will be used in determining the value of the company.Operating cash flow does not effect on stock prices because investors do not only consider one fundamental factor, but also pay attention to technical factors such as the company's risk of not distributing dividends to investors which will occur in the company. The results of this study are in line with previous studies, namely Putri et al. (2020) with the results of the research that operating cash flow does not effect on company value

The Activity Ratio variable has a significance value of 0.036 which means it is greater than 0.05 or 3.6%. It can be concluded that **H5 is accepted**, meaning that rate of activity ratio effectshas on thefirm value.

The activity ratio is a signal that influences investors in setting the firm value. A positive t value describes the presence of an activity ratio that can increase the firm value. The higher the ratio of this activity, the more effective the company is in managing its resources, that an increase in the activity ratio can increase the share price that will be used in determining the value of the company. The results of this study are in line with previous studies, namely Andriana and Panglipurningrum (2019), Wulandari (2018), Tiana (2020), and Kurniawati and Idayati (2021) agree that the activity ratio has a positive effect on firm value.

5. Conclution

This study aims to examine the effect of accounting conservatism, tax planning, investment decisions, operating cash flow, and the ratio of activity to firm value in manufacturing companies classified as basic industries and chemicals listed on the Indonesia Stock Exchange (IDX) for 2019-2021. Based on the test results and previous discussion, it can be seen that investment decisions and activity ratios have a positive effect on firm value. Meanwhile accounting conservatism, tax planning, and operating cash flow have no effect on firm value. Investors determine the size of the company's value based on investment decisions and activity ratios, while accounting conservatism, tax planning, and operating cash flow are not investors' considerations in determining firm value.

The sample in this study is only the scope of manufacturing companies classified as basic and chemical industries that are listed on the Indonesia Stock Exchange (IDX) and done for three years, namely 2019-2021. From this, it is hoped that further researchers can expand the object of research based on the IDX-IC classification of companies listed on the Indonesia Stock Exchange or otherkind of stock market. In addition, researchers can increase the period of research years, that the research results can provide an overview of the company's condition in the medium and long term period that can provide more accurate results. Future researche can pay attention to other variables that may have an influence on firm value, for example using other theoretical methods such as the pecking order theory with variables such as cash holding, leverage, and tax avoidance.

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