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VENTURE CAPITAL DYNAMICS: EXPLORING PROFITABILITY BOOSTS FOR COMPANIES IN CRISIS

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Abstract

The COVID-19 pandemic has exerted substantial impacts on various facets, notably health and economics. Companies have adopted diverse strategies, including seeking external financing, to enhance resilience and performance during these turbulent times. This study investigates the effects of venture capital infusion on a company's profitability in the context of the pandemic. Drawing from Ratna (2013) and Kurniawati (2017), the study emphasizes the critical role of finance companies, particularly amidst intense business competition, as essential sources of funds for investment, working capital, and economic growth.

Profitability serves as a cornerstone for a company's sustenance and advancement, influencing operational and maintenance aspects as articulated by Marlinah (2014). Analyzing financial statements and profitability ratios, the study assesses the relationship between venture capital injection and net income generation, which indicates managerial efficacy and overall company performance. A case in point is presented through PT Buana Finance Tbk, highlighting the industry's challenges and experiences during the initial wave of the pandemic (Agustine, 2015). This research contributes to understanding the dynamics of financial strategies during crises and offers insights into sustaining profitability within the financing sector. By evaluating the correlation between external financing and company performance, this study provides actionable insights for firms navigating uncertain economic landscapes.

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1. INTRODUCTION

As we now know that the impact of the COVID-19 pandemic is very influential in all aspects, especially on health and economic conditions. In order to maintain its existence and improve its performance, various efforts have been made by the company, one of which is by increasing capital by seeking financing from outside the company. The addition of venture capital aims to increase the company's profit which in the end the company is able to survive in this very unstable condition Ratna (2013).

The role of finance companies is now felt very much needed, in line with the development of the business world and intense competition. Financial institutions can be an alternative for the development of several business sectors. The role of the financing services industry is to provide funds for people who need sources of financing funds, both for investment, working capital, and consumption purposes, which are expected to be useful in boosting the national economy. Finance companies are business entities outside banks and non-bank financial institutions that are specifically established to carry out activities that are included in the business field of financing institutions. A finance company is also one of the business entities of a financing institution consisting of the finance company itself, venture capital company, and infrastructure finance company. As an institution financing is a business entity that carries out financing activities in the form of providing funds or capital goods Kurniawati(2017).

Profitability allows companies to survive and thrive, even profitability can be said to be a benchmark for the establishment of a company. With profitability, companies can turn on elements in it such as operations and maintenance Marlinah (2014).

The company's profitability is the company's ability to generate net income from activities carried out in the accounting period. Profit is a description of the performance achieved from the general transaction process carried out by the company during a certain period. Profit is used as an indicator for stakeholders to assess the extent to which management is performing in managing a company. The level of the company's ability to earn profits can be seen and measured by analyzing financial statements through profitability ratios. This ratio shows the success of a company in generating profits. Profitability is also important to strengthen the financial position. According to the OJK, the financing industry is currently facing quite a tough challenge. In the last 2 years, the financing industry only grew by 4%. There is a phenomenon regarding the decline in net profit at the Financing Institution by 22.9% in the first quarter of 2015. One of the multi-finance companies that experienced a decrease in profit in the first quarter of 2015 was PT Buana Finance Tbk. Antoni Muljono, Finance Director of Buana Finance said that his party experienced a 25% decrease in net profit to Rp25.83B when compared to the same period in 2014 of Rp34.45B (Agustine, 2015) (source: https://finansial.bisnis.com accessed on 7 November 2020).

Furthermore, the phenomenon of a decline in net profit at the Performance Financing Institution PT Verena Multi Finance Tbk declined in the third quarter of 2018. This multi-finance company had to be satisfied with the revenue and profit that fell significantly from 2017. Based on the company's financial statements, as of September 2018, Verena Multi Finance recorded revenue of Rp 177.98 billion own 26.7 percent from last year. This decline was also followed by the company's profit performance, which was minus Rp 171.26 billion, whereas in September last year it was still positive at Rp 4.04 billion. President Director of Verena Multi Finance, Andi Harjono, said the decline in the company's revenue and profit performance was due to a decline in the financing portfolio. “The decline occurred due to a decrease in the financing portfolio. However, the company's liquidity condition is still good, because funding comes from Panin Bank and other banks," Andi told Kontan.co.id, Tuesday (6/11). The decline in profit and revenue performance has resulted in a 32.5 percent decline in the company's assets to Rp

1.18 trillion. This condition was further exacerbated by the 50.72% increase in the company's expenses, Rp. 357.92 billion. Verena Multi Finance decided to increase capital by conducting a rights issue II or preemptive rights II (HMETD). The company offered 3.1 billion ordinary shares with a nominal value of Rp 100. The offering price was Rp 140 per share, meaning that Verena could reap fresh funds of Rp 434.3 billion. IBJ Leasing Company (IBJL), a Japanese financing company will act as a standby buyer.

Furthermore, the phenomenon regarding debt policy is alternative funding for a company in increasing productivity and financing business expansion in the future, the Financial Services Authority (OJK) will provide relaxation for the issuance of debt securities to strengthen the financing for finance companies or multi-finance companies. This new rule is a refinement of POJK No. 35/2018 concerning the Implementation of Financing Company Business. With this regulation, he hopes that finance companies can take advantage of this relaxation to support productive financing in the micro, small and medium enterprise (MSME) sector during limited funds from banks.

Researchers use the ROI indicator to analyze the profitability data as a whole and to measure the level of profit invested by the company in capital. ROI is relatively simple, it can be seen from the formula that if you want to increase your return on investment, you only need to reduce costs and increase profits.

This study will look at how to find out the effect of funding from long-term debt, short-term debt, and own capital either simultaneously or partially on the level of profitability in companies engaged in financing institutions where the company is engaged in financing institutions, especially during the pandemic finance company. need the ability to survive. Which of the long-term debt, short-term debt and capital is the most dominant influence on the profitability of a finance company.

2. THEORYANDHYPOTHESESDEVELOPMENT

2.1. Packing Order Theory.

Pecking Order Theory According to Saputra (2012) Pecking order theory assumes that the company aims to maximize shareholder welfare. Pecking order theory predicts that external debt financing is based on an internal funding deficit.

The following is the order (hierarchy) in selecting funding sources, namely:

a. The company prefers to use internal funding sources or internal funding rather than external funding. The internal funds are obtained from retained earnings generated from the company's operational activities.

b. If external funding is needed, the company will choose first from the safest securities, namely the lowest risk debt, down to riskier debt, hybrid securities such as convertible bonds, preferred stock, and finally common stock.

c. There is a constant dividend policy, namely the company will set a constant amount of dividend payments, regardless of how much the company gains or loses.

e. To anticipate a cash shortage due to a constant dividend policy and fluctuations in profit levels, as well as growth opportunities, the company will take an investment portfolio that is readily available.

2.2. Modigliani-Miller (MM) Theory

According to Brigham (2011) MM theory is divided into 2 conditions, namely:

1) No tax

By assuming that there is neither corporate tax nor tax and based on the assumptions previously mentioned, MM uses the following prepositions:

a) Preposition I Modigliani and Miller (MM) explain that there is no effect of financial leverage on firm value. According to MM 1 theory, changes in capital structure do not affect the value of the company in other words

there is no optimal capital structure for the company b) MM II proposition which states that the expected value of the rate of return on capital / Return on Equity (ROE) increases in line with the increase in the debt-to-equity ratio (DER). The increase in ROE expectations is driven by an increase in financial risk that will be borne by corporate investors due to increased debt (DER), so that if financial leverage increases, the cost of capital/equity will also increase linearly because shareholders are faced with greater risk.

2) With the company tax

a) Preposition I state that the value of a company with debt will be greater than the value of a company without debt. The value of the company that will have the debt is equal to the value of the company without debt plus the tax savings. The theory of the MM Proposition underwent a change with the inclusion of the tax element by Miller. MM admits that an increase in the amount of debt has a positive effect on firm value.

b) Preposition II states that the cost of equity in companies that have debt is equal to the cost of equity of companies without debt plus a risk premium. So, the MM theory with corporate tax states that the value of the company will increase in line with the increase in the use of debt. Debt interest costs can reduce taxes so that a larger portion of the company's income becomes the investor's share.

This implies that organizations that issue debt are sending out favorable signals about their future prospects. In contrast, fresh equity is issued with the goal of distributing risk among shareholders; therefore, this is the last option for corporations seeking to acquire cash.(Endri,E., *et.al*.2021).

2.3. Trade-Off Theory (TOT)

According to Ferdiansya *.et,al*(2013) Trade-Off theory has the implication that managers will think in terms of trade-offs between tax savings and bankruptcy costs in determining capital structure. According to Ferdiansya *.et.al* (2013) in reality, there are things that prevent companies from using as much debt as possible. An important thing is that the higher the debt, the higher the probability of bankruptcy.

This theory incorporates the effects of personal taxes, agency costs, and financial distress costs as a counterbalance to the benefits of using debt. According to the trade-off model, the optimal capital structure is a balance between tax savings on the use of debt and the costs of financial difficulties due to the use of debt, because the costs and benefits will cancel each other out (trade-off). The optimal level of debt is achieved when the effect of the interest tax shield reaches the maximum amount on the expected cost of financial distress.

At the optimal level of debt, it is expected that the value of the company will reach the optimal level, and conversely,, there will be a change in the level of debt until it passes the optimal level or bankruptcy costs, and financial distress costs are greater than the interest tax shield effect, debt will have a negative effect on firm value. Thitrade-offff theory recognizes the existence of a targeted debt level

3. RESEARCHMETHODS

3.1. Research design

Financing companies are are listed on the Indonesia Stock Exchange (IDX) 2015-2020 through the website (Financial and Annual Report, 2020) which is the official website of the Indonesia Stock Exchange (IDX) and the website of the Financing company.

To obtain data and answer the problem to be studied, the authors use secondary data. Secondary data is a data source that does not directly provide data to data collectors, for example through other people or through documents Sugiyono, (2016). The data used in this study is company data on the Indonesia Stock Exchange which has been published in 2015-2020.

The population is a generalization area consisting of: objects/subjects that have certain qualities and characteristics determined by the researcher to be studied and then draw conclusions Sugiyono, (2017) The

population used in this research is a financing institution sub-sector company listed on the Indonesia Stock Exchange Sugiyono, (2017). BEI) in 2015-2020 as many as 16 companies.

The sample is part of the number and characteristics possessed by the population. If the population is large, then researchers can use samples taken from that population, for that samples taken from the population must be truly representative Sugiyono, (2017). The sample in this study is part of the total population of Financing Institutions Subsector companies listed on the Indonesia Stock Exchange (IDX) in 2015-2020 as many as 13 companies.

3.2. Variable Operational Definition

According to Siregar,(2017) the definition of a variable is a construct whose properties have been numbered (quantitative) or it can also be interpreted that a variable is a concept that has various values, both quantitative and qualitative, which can change in value. The variables used in this study are:

1. Dependent Variable (Y)

The dependent variable is often referred to as the output variable, criteria, and consequent. In Indonesian, it is often referred to as the dependent variable. The dependent variable is a variable that is influenced or becomes a result because of the independent variable Sugiyono, (2017). The dependent variable in this study is Profitability. Profitability is a ratio to assess the company's ability to seek profit. The level of company profitability is expressed in Return on Investment (ROI).

2. Independent Variable (X)

Independent variables are often referred to as stimulus, predictor, and antecedent variables. In Indonesian it is often referred to as the independent variable. The independent variable is the variable that affects or is the cause of the change or the emergence of the dependent (bound) variable Sugiyono, (2017). The independent variables in this study are:

a. Short Term Debt

According to Harahap Saputra, (2012) short-term debt as a variable CL (current liabilities), where in this variable current assets can pay current liabilities.

b. Long-term debt

According to Kaunang, (2013) the calculation of the long term debt to equity ratio is the same as the calculation of the debt to equity ratio, where the long term debt to equity ratio measures how much equity or own capital is used as collateral for long-term debt.

c. Owner's equity

According to Harahap in Saputra, (2012) own capital as a variable SE (shareholder's equity), To analyze the effect of own capital with profitability, the ratio that will represent own capital. (DepreciationExpense+OCI)/Total

4. RESULTSANDDISCUSSION

4.1. Researchresult

4.1.1. DescriptiveStatistics

Table1.Descriptivestatisticaltest

	CR	LTDtER	PR	ROI
Mean	10.83473	2.030462	0.349911	0.009566
Median	6.734996	1.632596	0.268174	0.021459

Maximum	47.94564	11.71173	1.000000	0.139314
Minimum	0.680385	-3.285551	-0.367760	-0.682442
Std. Dev.	11.06105	2.217365	0.249166	0.096353
s Skewness	1.387783	1.537089	0.741256	-4.964839
Kurtosis	4.402719	7.101546	3.683532	35.50420
Jarque-Bera	31.43202	85.38806	8.661446	3754.145
Probability	0.000000	0.000000	0.013158	0.000000
Sum	845.1087	158.3760	27.29307	0.746179
Sum Sq. Dev.	9420.711	378.5866	4.780433	0.714861
Observations	78	78	78	78

Source: statisticaltesttool

According to the data processing results in table 1 above, the following observations or the amount of data studied and processed in this study amounted to 78 samples, namely 13 companies with a research period of 6 years, consisting of variable data short-term debt, long-term debt Length, Own Capital, and Profitability. Indomobil Multi Jasa Tbk has a minimum CR value of 0.680385 in 2018, while Buana Finance Tbk has a maximum value of 47.94564 in 2018. Intan Baruprana Finance Tbk's minimum value of LTDter in 2020 is 3.285551. Intan Baruprana Finance Tbk also has the highest valuation in 2017, which is 11,71173. Intan Baruprana Finance Tbk 2020 has the lowest PR value, which is -0.367760. Radana Bhaskara Finance Tbk has a maximum value of 1,000000 in 2016. Intan Baruprana Finance Tbk has a minimal ROI value of -0.682442 in 2020. Batavia Prosperindo Finance Tbk has the highest value in 2017, which is 0.139314.

4.1.2. Normalitytest

According to the normality test findings, the probability value is 0.358188 > 0.05, indicating that the data was regularly distributed and free of the normalcy problem. The data sample in this study was reduced from 78 to 52 due to the deletion of data (outliers) on various variables, which reduced the number of data samples, and data improvement with the Chocrane Orcutt technique.

4.1.3.MulticollinearityTest

MulticollinearitytestresultsbasedontheCollinearityStatisticscolumnToleranceandVarianceInflationFactor(VIF)obtainedthemulticollinearitytestresultshaveavaluecloseto1andVarianceInflationFactor(VIF)worth<10forallindependentvaria blesX.Thus,regressionmodel analysiscanbeusedinthisstudy.

4.1.4. HeteroscedasticityTest

There are results of the Chi-Square Prob on Obs*R-Squared 0.4501 > 0.05, then H0 is accepted or it means that the regression model is homoscedasticity or in other words there is no problem with the assumption of heteroscedasticity.

4.1.5. Coefficient of Determination Test (R^2)

The coefficient of determination (R2) measures the influence of the independent variables, CR, LTDter, and PR, on the dependent variable, ROI. Based on the analysis of data, the Random Effect test findings of 72.72 percent indicate that these variables may explain each other's relationships.

4.1.6. Hypothesis TestingResults

The probability value of 0.2301 is larger than the significance threshold of 0.05, H0 is rejected and H1 is accepted. This demonstrates that the CR variable has a limited impact on Productivity (ROI) between 2015 and 2020. H0 is rejected since the probability value of 0.1041 is larger than the significance threshold of 0.05, but H1 is accepted. This demonstrates that LTDtER has a limited impact on productivity (ROI).And the PR variable has a t-count value of 3.250265 and a probability value of 0.0021, both of which are less than the significance level of 0.05, H0 is accepted and H1 is rejected. This demonstrates that the PR variable has a limited impact on the Profitability (ROI) of the Financing Institutions Sub-sector between 2015 and 2020.

4.2. Discussion

a) The Effect of Short-Term Debt on Profitability

Based on the results of the output, the coefficient value is -0.015754, the t statistic value is -1.215560 with a probability of 0.2301 > 0.05, then H0 is rejected and H1 is accepted, Short-Term Debt has no effect on Profitability in the Financing Institutions Sub-sector in the 2015-2020 period.

Houston and Brigham (2011) suggest that Modigliani and Miller's theory shows the relationship between profitability and the use of debt in the company. The value of the company with debt is higher than the value of the company without debt. The increase in value was due to tax savings from the use of debt. Companies with a high level of profitability will try to reduce their taxes by increasing their debt ratio.In this study, it is proven that short-term debt has no effect on the profitability of the Financing Institutions Sub-sector in the 2015-2020 period. The results of this study are supported by research conducted by Sunaryo (2018) which states that Short-Term Debt has no impact on

Profitability.

b) The Effect of Long-Term Debt on Profitability

Based on the results of the output coefficient 0.219504, the statistical t value is 1.656726 with a probability of 0.1041 < 0.05, then H0 is rejected and H1 is accepted, Long-Term Debt has no effect on Profitability in the Financing Institutions Subsector in the 2015-2020 period. Long-term debt is considered as one of the driving factors for the profitability of a company. The relationship between debt and profit is that more debt, both shortterm and long-term, will result in increased interest costs which will ultimately result in reduced company profits. This study's findings are confirmed by studies by Sunaryo (2018) and Irawan (2012), which show that long-term debt influence on profitability.

c) Effect of Equity on Profitability

Based on the output coefficient value of 3.325453, the statistical t value is 3.250265 with a probability of 0.0021 < 0.05, and H0 is accepted while H1 is rejected. Own capital has an impact on the profitability of the Financing Institutions Subsector from 2015 to 2020.Conceptually, the relationship between working capital and profitability is that if the capital itself is not sufficient, it will affect the decline in profitability. If excessive working capital results in inefficiency or waste, it will ultimately affect the level of profitability. In other words, one's own capital must be managed properly. and you cannot go wrong with the placement. Increasing the proportion of the use of own capital funds rather than debt used in investment will reduce the amount of interest costs that must be borne by the company. So, if additional capital alone can increase the company's net profit, then profitability will increase. So, in this study, it is proven that own capital influences the profitability of the Financing Institutions Sub-sector in the 2015-2020 period. The results of this study are supported by research conducted by Dewi (2012) and Suartika *et al.* (2013), which states that equity influences profitability.

4.2.8. Research Findings

The results showed that the short-term debt and long -term debt variable had no relevance to profitability. So, profitability is dominated by the influence of equity.

4.3. Conclusion

Equity affects the profitability (ROI) of financing institutions and sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the 2015-2020 period. Company capital can partially affect the company's net profit because, with optimal capital, the company will be able to carry out company activities while both buying and selling debt payments on time, so that it also has an impact on company profits or profitability. By increasing the proportion of own capital funds used in investment over debt, the company's costs are reduced. So if additional capital alone can increase the company's net profit, then profitability will increase.

4.4. Recommendation

Companies in the Financial Institutions sub-sector must continue to improve the effectiveness of their use of debt, both short-term and long-term debt, so that the use of debt can be maximized, which will increase the company's profitability. Research can take samples of companies with different sectors and can be added related to the period or after the pandemic.

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