

PRUDENCE ACCOUNTING, LEVERAGE, AND FIRM VALUE: THE PERSPECTIVE SIGNALING THEORY

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Abstract

The firm has a long-term goal of optimizing the value because it is related to the share price so as to maximize the prosperity of shareholders. This study aims to determine and analyze the effect of prudence and leverage on firm value (Empirical Study of Public Companies in Indonesia). This study has a novelty in the measurement of prudence developed by Fambudi et al using the Heckit Model. The population of this study were all public companies in Indonesia during 2017-2021. A total of 332 companies were selected as samples using a purposive sampling technique, with secondary data utilized for the analysis. The results of this study indicate that prudence has a significant positive effect on firm value. Companies that apply prudence are often seen as careful and responsible entities. This good reputation builds investor and creditor confidence. Meanwhile, leverage has a significant negative effect on firm value. A high leverage ratio indicates that the company has a large debt and tends to be riskier. This study includes two control variables: firm size and growth opportunities. Firm size, as a control variable, has a negative effect on firm value, while company growth has a significant positive effect on firm value.

Keywords: Firm Value, Prudence, Leverage

1. INTRODUCTION

Economic growth in Indonesia published by BPS in 2023 slowed down to 5.05 percent, compared to the results in 2022 which increased by 5.31 percent. The main factors driving this growth were an increase in household consumption and investment. The increase in investment value reached 4.40%, attributed to the successful implementation of the infrastructure development program. Even with a slowdown in economic growth compared to the previous year, this demonstrates investors' strong confidence in the Indonesian economy.

In line with the realization of investment data published by the Investment Coordinating Board (BKPM) which shows an increasing trend in 2023, the realization of foreign investment (PMA) of Rp744.0 trillion grew 13.6 percent from 2022, and the realization of domestic investment data (PMDN) of Rp674.9 trillion grew 22.1 percent. The data shows the increasing confidence of domestic and foreign investors in government policies, especially in the investment sector. A higher GDP leads to more capital being invested in the capital market. As a result, the demand for shares increases, ultimately boosting the value of the company. (Beriwisnu & Priyadi, 2017). Indonesia's economic conditions, which can be seen from the country's economic growth, have led to intense competition between similar and different industrial companies. The current competition makes companies compete to create the right strategy and improve company performance (Yanti & Darmayanti, 2019).

The movement of JCI 2021-2023 is still experiencing fluctuations in stock prices. The uncertain direction of price movements causes the risk of uncertainty experienced by investors in the capital market. The increase or decrease in the share price of a company can change the perception or image of the company's value, thus affecting investors' interest in the company to invest their capital. Hence, the significance of firm value lies in its ability to showcase the company's achievements. Stakeholders require financial statements as a means of managerial dedication in operating the business, as well as assessing the company's progress and fulfilling managerial obligations. One of the accounting principles in presenting financial statements is the principle of conservatism, currently known as prudence.

The principle of prudence ensures better quality earnings. It encourages immediate recognition of expenses and liabilities, while revenues and assets are only recognized when it is certain that they will be received (Savitri, 2017). The possibility of manipulation of financial statements can be prevented by the principle of prudence (Andani & Nurhayati, 2021). The principle of Prudence is considered a good signal for investors, because it reflects that management has taken conservative steps in the presentation of financial statements. Transparency in financial statements and audit reports available quickly can convey good signals to investors. Based on the findings from earlier studies by Rizkiadi (2020) and Nofianti (2023) found that prudence has a beneficial impact on company worth. However, Fahrda & Priyadi (2021) and Yani (2022) argued in their research that prudence does not influence firm value.

Other factors, such as leverage, can impact firm value. Leverage is a ratio that measures the extent to which a company relies on debt financing. Investors may hesitate to invest in a company that, despite having substantial assets, carries a high level of debt risk (Sutama & Lisa, 2018). According to research results Sutama & Lisa (2018) and (Andriani & Rudianto, 2019), leverage has a positive effect on firm value. in contrast to the results found Anggraini & Widhiastuti, (2020) and Agustiningsih & Septiani (2022), shows that leverage has a negative effect on firm value.

In this study, growth opportunity is a control variable that investors take into consideration. Investors are highly interested in investing when a company is experiencing growth. An increase in growth opportunities leads to an increase in market expectations. As a result, the company is believed to have the potential to generate higher profits, while management keeps the company afloat (Indrayani et al., 2021). In research Oktavia & Fitria (2019) and Zidane (2022) states that growth opportunities have a positive effect on firm value.

Firm size can also influence firm value. A company with more assets is considered larger in size (Wijaya, 2020). Large companies are considered to be more capable of improving their company's performance. Large companies are also assumed to have more information than small companies (R. Safitri & Afriyenti, 2020). Access to capital markets is easier for large companies to obtain funding, so they are able to raise funds more easily (Zidane & Suwanti, 2022). According to Safitri & Afriyenti (2020) and Hidayat (2022) Firm size has a positive impact on firm value.

This research introduces novelty in measuring prudence by utilizing the Heckit Model, as developed by Fambudi et al. (2023), which originally many prudence measurement studies referred to the measurement of conservatism.

2. LITERATURE REVIEW

2.1. Signaling theory

Signal theory is used to examine how companies communicate with external parties through financial statements. Positive signals imply a well-performing business with good outcomes for investors. Conversely, negative signals indicate declining performance or poor conditions, leading to bad news for investors (Dewi & Praptoyo, 2022). Signaling theory explains that companies are motivated to share financial information with outsiders. Companies are motivated to share this information due to the imbalance of information between themselves and external parties. External parties then evaluate the company based on various signal mechanisms that exist (Salsabilla & Rahmawati, 2021).

Market participants will assess new information to see if it will have a positive or negative effect. Shareholders may increase if the information is seen as positive. When a company's profits rise, investors are more likely to see their investment as profitable. (Antari et al., 2022). This information can be conveyed through the company's financial statements. Managers use financial statements to show that they have implemented prudence policies, resulting in quality earnings (Wibowo & Febriani, 2023). This makes information a crucial element for investors and business professionals. It includes explanations, notes, and descriptions of past performance, as well as forecasts for the future, which are vital for assessing the company's survival and its future impact. The information submitted can include an analysis of financial statements which include sales growth, company growth, Firm size, and company stock value (Fajriah et al., 2022).

The use of signal theory can explain stock price movements in the capital market and how this affects investment decision-making. The market response to signals provided by companies can affect the state of the market. Investors tend to respond in various ways, such as monitoring and waiting for the latest information before making a decision. Signal theory is connected to firm value; if a company fails to effectively convey positive signals about its value, the company's value is likely to decrease (Wibowo & Febriani, 2023).

2.2. Firm value

According to Hidayat & Khotimah (2022), Investors assess the value of a company based on its success and performance, which is demonstrated through the stock price in the market. Firm value formed through stock price indicators in the market will indicate good investment opportunities.

2.3. Prudence

According to the framework IASB (International Accounting Standards Boards) states that prudence is a level of prudence in making judgments to make estimates when facing uncertainties so that assets or revenues are not overstated while expenses are fairly presented (Fahrída & Priyadi, 2021). Prudence involves the concept of delaying the recognition of income and expediting the recognition of expenses. This approach helps prevent managers from engaging in opportunistic behavior and provides insights into the company's potential for expansion. Its purpose is to minimize the risk of the

company presenting misleading information in financial statements or manipulating earnings to overstate the value of its assets. By ensuring that the company's performance is accurately reflected, it aims to align financial reporting with actual conditions, thereby enhancing cash flow and firm value (Savitri, 2017).

2.4. Leverage

According to Firmansyah et al. (2020), leverage is a critical aspect of funding sources, referring to the debt ratio or solvency ratio. This ratio indicates a company's capacity to meet its financial commitments in the event of liquidation. According to Adinda (2023), using leverage serves as a key method for assessing how effectively corporate debt is utilized. Understanding the concept of leverage is crucial for investors when evaluating stock value, as investors typically steer clear of risky investments.

2.5. Growth opportunity

According to Salsabilla & Rahmawati (2021), opportunity for growth is a chance provided by a company to grow or achieve a level of growth or develop the company. With significant growth opportunities, a company is expected to achieve a high firm value. This can encourage the company to pursue business expansion with substantial funding and ample internal resources, ultimately affecting its future funding or capital structure.

2.6. Firm size

According to Dewi & Praptoyo (2022), the size of a firm is determined by the total amount of its assets. Large firm size reflects that companies with high growth have easy access because they already have a strong position in the capital market so that companies that have a large size scale can easily obtain additional funds from external parties which in turn the company can get maximum profit / profit in order to increase firm value.

2.7. Conceptual framework

Considering the background, problem statement, and theoretical framework that have been presented, the conceptual framework model described in this study is as follows:

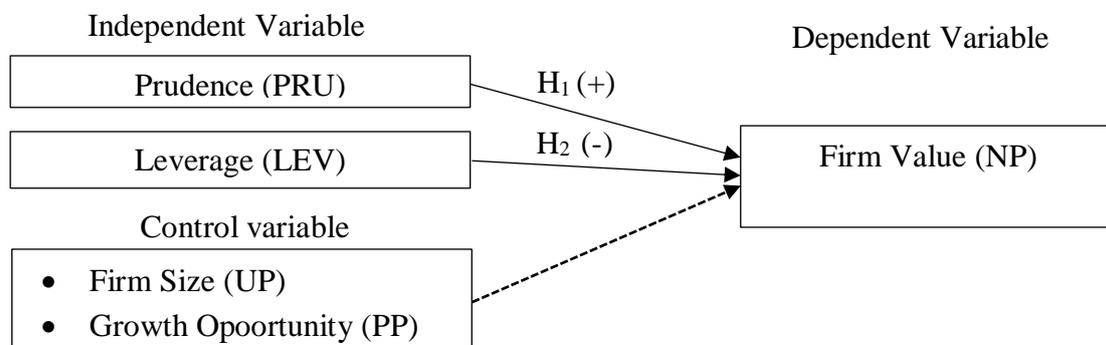


Figure 1. Conceptual Framework

2.8. The impact of prudence on firm value

Nofianti (2023) Stating that financial statements that produce quality earnings. According to Bestari (2020), Companies that apply prudential principles in their operations, including in decision-making and administration, including the financial reporting process, can create credible performance and increase firm value. According to Sinaga (2023) in the financial statements and audit reports are available quickly can convey good signals to investors. This aligns with Signaling Theory, where the company sends signals to external parties. This is consistent with the research conducted by Rizkiadi & Herawaty (2020), Nofianti (2023) and Yasmin et al. (2024) stated that prudance has a positive effect on firm value. This approach has a positive impact as it can minimize the risk of errors in financial reporting, which may otherwise mislead users of the financial statements..

H₁ : Prudence has a positive effect on firm value

2.9. The impact of leverage on firm value

How highly leveraged a firm is reflects its reliance on borrowed capital. In general, investors shy away from highly leveraged firms since there is a significantly high risk in such situations, especially when the company is not able to fulfill its obligations in a timely manner. Investors prefer if the company's leverage ratio is lower (Adinda, 2023). Firms with a higher debt ratio distribute smaller dividends because it is the profits that are earned that go to servicing obligations, this will make the company's value in the eyes of investors also decrease (Indrayani et al., 2021). This is evidenced by the research results Anggraini & Widhiastuti (2020), Agustiningih & Septiani (2022), and Sunarto (2023) which states that leverage can reduce the value of a company. Signal theory suggests that high leverage can be perceived as a negative signal, indicating increased risk. This adverse signal may deter investors from investing in the company, leading to a decrease in both stock price and firm value.

H₂ : Leverage has a negative effect on firm value.

3. RESEARCH METHODOLOGY

3.1. Type and source of data

This study uses secondary data sourced from external channels, such as annual reports provided by the Indonesia Stock Exchange through its official website, www.idx.co.id. The research methodology employed is quantitative.

3.2. Measurement variables operational

3.2.1 Firm value

The focus of this research is the firm value, which is determined through the utilization of the Tobin's Q ratio. Yale University Professor James Tobin is credited with inventing this measurement technique. According to Fambudi & Murwaningsari (2024) firm value is formulated as follows :

$$NP_{i,t} = \frac{(MVE_{i,t} + Debt_{i,t})}{TA_{i,t}}$$

Description :

NP_{i,t} : Firm Value
MVE_{i,t} : Market Value of Shares outstanding
Debt_{i,t} : Total Company Debt
TA_{i,t} : Total Assets of the Company

3.2.2 Prudence

The measurement of prudence in this study was developed by Fambudi et al. (2023) using the Heckit Model. Prudence can be calculated by the formula :

$$TAC_{i,t} = NI_{i,t} - CFO_{i,t} \dots\dots\dots (1)$$

$$\frac{TAC_{i,t}}{A_{i,t-1}} = a_0 + a_1 \left(\frac{1}{A_{i,t-1}} \right) + a_2 \left(\frac{\Delta SALES_{i,t} - \Delta AR_{i,t}}{A_{i,t-1}} \right) + a_3 \left(\frac{PPE_{i,t+1}}{A_{i,t-1}} \right) + a_4 ROA_{i,t} + \varepsilon_{i,t} \dots\dots\dots (2)$$

$$P\text{-Score} = \frac{DE + OCI + PROV + LKO}{A_{i,t-1}} \dots\dots\dots (3)$$

$$\text{Prob (DA=1)} = a_0 + \beta_1 P\text{-Score} + \varepsilon_{i,t} \dots\dots\dots (4)$$

$$\lambda = \text{Bias} = 1/\beta_1 \dots\dots\dots (5)$$

Description :

TAC_{i,t} = Total accruals of company i at the end of year t
NI_{i,t} = Net income of company i at the end of year t
CFO_{i,t} = Operating cash flow of company i at the end of year t
A_{i,t-1} = Assets of company i at the end of year t-1
ΔSALES_{i,t} = Difference between company i's revenue at the end of year t and t-1
ΔAR_{i,t} = Difference of receivables of company i at the end of year t with t-1
PPE_{i,t} = Fixed assets of company i at the end of the year
ROA_{i,t} = Rate of return on assets of company i at the end of year t
ε_{i,t} = Residual error of regression result
P-Score = Prudential score of company i in year t
DE = Depreciation expense of company i in year t
OCI = Other comprehensive income of company i in year t
PROV = Provisioning of company i in year t
LKO = Contingent liabilities of company i in year t

3.2.3 Leverage

In this study Debt to Asset Ratio (DAR) is a ratio used to show how much the company uses debt in financing its total assets or assets. According to Fambudi & Murwaningsari (2023) leverage is formulated as follows:

$$DAR = \frac{\text{Total Debt}_{i,t}}{\text{Total Assets}_{i,t}} \times 100\%$$

3.2.4 Firm size

Firm size is proxied by the natural log of total assets, the use of natural log assets because companies in this research sample can have varying amounts of assets due to

differences in firm size. According to Fambudi & Murwaningsari (2024) firm size is formulated as follows:

$$\text{Size} = \text{LN} (\text{Total Assets})$$

3.2.5 Growth opportunities

According to Wulanningsih et al. (2020) Growth opportunities refer to changes in the amount of assets experienced by the issuer in one period, be it an increase or decrease. To measure growth opportunities, the change in total assets is used as the formula:

$$\text{Growth opportunities} = \frac{\text{Total Aset}_t - \text{Total Aset}_{t-1}}{\text{Total Aset}_t}$$

3.2.6 Data analysis method

In this study, the data analysis method used multiple linear regression. The research data collected is processed and then hypothesis testing is carried out. The following is the formulation of the main model used in this study :

$$NP_{i,t} = \alpha_0 + \alpha_1 PRU_{i,t} + \alpha_2 LEV_{i,t} + \alpha_3 UP_{i,t} + \alpha_4 PP_{i,t} + \varepsilon_{i,t}$$

Description :

- NP_{i,t} = Firm Value i in year t
- PRU_{i,t} = Prudence of Company i in year t
- LEV_{i,t} = Leverage of Company i in year t
- UP_{i,t} = Firm Size i in year t
- PP_{i,t} = Growth Opportunity of Company i in year t
- ε_{i,t} = Residual Error regression results

4. ANALYSIS OF DATA PROCESSING RESULTS

4.1. Research results

4.1.1. Description of research objects

The data in this study were analyzed using Eviews software. The data used has met the criteria that have been determined through the purposive sampling method. The criteria for selecting the sample are as follows:

Table 1. Selection of research samples

No	Criteria	2017	2018	2019	2020	2021	Total
1	Companies listed on the Indonesia Stock Exchange	548	605	660	711	767	3291
2	Financial Sector Companies	-91	-96	-99	-103	-105	-494
3	Companies that do not have complete data	-396	-461	-508	-529	-512	-2422
4	Companies with outlier values on variable	-4	-6	-7	-9	-17	-43
	Total	41	42	46	70	133	332

4.1.2. Descriptive statistical analysis

Table 2 summarizes the results of descriptive statistical analysis of each variable, as follows:

Table 2. Descriptive Statistic

Variable	Mean	Median	Max	Min	Std.Dev
NP	0.0296	-0.0527	0.8099	-0.4348	0.3388
PRU	-0.0008	-0.0013	0.0168	-0.0197	0.0080
LEV	0.2901	0.2834	0.6260	0.0192	0.1774
UP	13.1866	13.2185	14.0442	12.1516	0.5538
PP	0.0459	0.0338	0.3466	-0.2457	0.1436
Total Observations	332				

Description: NP = Firm Value, PRU = Prudence, LEV = Leverage, UP = Firm Size, PP = Growth Opportunities

The maximum firm value of 0.8099 was recorded by Merdeka Copper Gold Tbk in 2019 within the energy sub-industry, while the minimum value of -0.4348 was reported by Nusantara Infrastructure Tbk in 2020 within the infrastructure sub-industry. The average value obtained is 0.0296, while the standard deviation is 0.3388.

The prudence measure recorded a maximum value of 0.0168, reported by PT FKS Food Sejahtera Tbk in 2020 within the consumer non-cyclicals sub-industry. In contrast, the minimum value of -0.0197 was reported by PT Petrosea Tbk in 2021 within the energy sub-industry. The average value is -0.0008, with a standard deviation of 0.0080. The variation in this variable is relatively high, as the standard deviation exceeds the average value.

The leverage measure recorded a minimum value of 0.0192, held by Astra Graphia Tbk 2021 industrials sub-industry company. Meanwhile, the maximum value is 0.6260 for the 2021 Waskita Beton Precast Tbk recorded the lowest value for the leverage measure at 0.0192. The average leverage is 0.2901, indicating that 29.01% of the firm's value is financed by debt, while 68.71% is financed through internal capital. The standard deviation of this measure is 0.1774.

The firm size recorded a minimum value of 12.1516 or total assets of Rp. 270 billion owned by PT Betonjaya Manunggal Tbk 2021 basic material subindustry. Meanwhile, the maximum value is 14.0442 or assets of Rp. 351 trillion belonging to PT Astra International Tbk 2019 sub industrials industry, the average firm size is 13.1866, with a standard deviation of 0.5538.

The growth opportunity measure recorded a minimum value of -0.2457 for PT Astra Graphia Tbk in 2020 within the industrials sub-industry. In contrast, the maximum value of 0.3466 was reported by Indika Energy Tbk in 2021 within the energy sub-industry. The average growth opportunity is relatively low at 0.0459, indicating that the company's growth opportunities are not strong. The standard deviation is 0.1436, reflecting a relatively low variation in the data.

4.1.2. Hypothesis testing

The main function of hypothesis testing is to determine decisions about a population based on information that has been tested through sample data.

Table 3. Hypothesis testing

Variable	Prediction	Coefficient	P-Value	VIF	Decision
C		0.6039	0.00***	3.4003	
PRU	+	2.8987	0.00***	3.8113	H ₁ accepted
LEV	-	-0.1782	0.00***	3.7682	H ₂ accepted
UP		-0.0394	0.01***	3.1055	
PP		0.1724	0.00***	3.4003	
R ²					0.6798
Adj-R ²					0.6376
F-Statistic					23.2185
Prob (F-statistic)					0.0000
Effect				Random Effect Model	
Observation					332

Notes : *** Significant 1%, C = Constant, PRU = Prudence, LEV = Leverage, UP = Firm Size, PP = Growth Opportunities

$$NP_{i,t} = \alpha_0 + \alpha_1 PRU_{i,t} + \alpha_2 LEV_{i,t} + \alpha_3 UP_{i,t} + \alpha_4 PP_{i,t} + \varepsilon_{i,t}$$

The first hypothesis (H1) shows the coefficient of prudence worth 2.8987 with a probability of 0.00 below the 1% level or 0.01. then the first hypothesis (H1) is accepted, indicating that prudence has a significant positive impact on firm value.

The second hypothesis (H2) shows the leverage coefficient of -0.1782 with a probability of 0.00 below the 1% level or 0.01. then the second hypothesis (H2) is accepted, indicating that leverage has a significant negative impact on firm value.

The R-squared value from the coefficient of determination test was 0.6376. This suggests that 63.76% of the variability in firm value is explained by the independent variables of prudence and leverage, while the remaining 36.24% is influenced by other factors not covered by the model.

The results of the F test in Table 3 show that the Prob (F-statistic) value is 0.00, which is below the 0.05 threshold. This indicates that both prudence and leverage have a significant simultaneous impact on firm value within the model.

4.2. Discussion

4.2.1. The impact of prudence on firm value

The regression coefficient test results show that prudence has a positive and significant effect on firm value. Therefore, an increase in prudence leads to a higher firm value, while a decrease in prudence results in a lower firm value. These findings align with the research results presented by Rizkiadi & Herawaty (2020), warseno et al (2022), Nofianti (2023) and Yasmin et all. (2024). According to Bestari (2020),

companies that apply the precautionary principle in their operations, including in decision making, financial reporting processes, can create credible performance and increase firm value.

Signaling theory suggests the application of prudence policies from management, serving as a positive signal, reflected in the financial statements provided to report users (Nurasiah & Riswandari, 2023). Prudence increases transparency by recognizing losses earlier and delaying the recognition of profits until they are more certain. This results in more conservative and realistic financial statements, thus, contributing to a more accurate understanding of the company's financial situation, which affects investment decisions. In general, accurate and transparent financial reports increase investor confidence because they feel more confident about the company's financial health (B. Safitri & Oktaviani, 2024).

Prudence serves as a tool to manage and mitigate financial risks. By recognizing potential losses early and avoiding overly optimistic profit recognition, a company can protect itself from unexpected risks and market fluctuations. This creates a more stable and predictable environment for investors. Better risk management through prudence makes companies more resilient to market volatility and economic crises. Investors who are familiar with conservative financial statements will not give an extreme response to the crisis, so they will not rush to sell their shares. Therefore, the value of the company during the crisis period is minimized (Ismanto & Zulfiara, 2020). Companies that practice prudence are often viewed as cautious and responsible entities. This good reputation builds trust not only from investors, but also from creditors and customers. This trust is an intangible asset that can increase the attractiveness of the company and influence investment and financing decisions. Meanwhile, in practice, companies that apply the precautionary principle can benefit in the form of better relationships with stakeholders (B. Safitri & Oktaviani, 2024).

4.2.2. The impact of leverage on firm value

The testing results for the leverage regression coefficient reveal that leverage has a significant negative effect on firm value. In other words, an increase in leverage causes a decrease in firm value. Conversely, reducing leverage will result in an increase in firm value, as a lower debt ratio contributes to a higher firm value. Companies with little debt attract investors, because it reflects that the company provides greater protection against the risk of debt default (Adinda, 2023). A high DAR ratio indicates that the company has a large debt and tends to be more risky, as a result investors often stay away from stocks that have a high DAR value (Marsadu et al., 2024).

According to signal theory, high leverage is perceived as a negative signal of increased risk, leading to reduced investor interest in purchasing the company's shares, resulting in lower stock prices and firm value. A high debt position implies greater leverage, which can lead to more difficulties for the company in securing additional funds. This is due to concerns that the company's assets may not be adequate to cover its existing debts (Indrayani et al., 2021). A company with high leverage carries a substantial amount of debt, resulting in higher interest expenses. These increased interest payments can reduce the company's profitability and potentially affect investors' decisions regarding the purchase of the company's shares (Safaruddin et al., 2023). The

results of this study are consistent with the findings reported in the research by Anggraini & Widhiastuti (2020), Agustiningih & Septiani (2022), and Sunarto (2023).

4.2.3. The impact of control variables (firm size and growth opportunities) on firm value

firm size is believed to be a factor that affects firm value. In general, larger companies tend to have higher firm value. Larger companies have higher firm value. In theory, large companies have an advantage in obtaining external funding due to easier access. Nevertheless, the examinations reveals that firm size negatively impacts firm value, indicating that a company with very large total assets might be viewed as a negative signal by investors. Companies with large total assets may experience a buildup of assets if they cannot optimally utilize these assets, resulting in slow asset turnover. According to (Wufron, 2017), Investors in the capital market prefer to invest in growing companies rather than companies that have high assets. Companies with high total assets tend to allocate a larger amount of retained earnings than they distribute as dividends to shareholders. Large companies are often overly dependent on established markets or products, which may be approaching a point of saturation. If the market believes that large companies no longer have significant growth potential, stock prices may stagnate or even decline, which can negatively affect the company's value. When a company is too large in size, it is considered to result in inefficient supervision and can cause operational errors (Ramdhonah et al., 2019). Investors are worried about companies that have large total assets because management is free to use company assets as they wish (Clarinda et al., 2023). These findings align with the results presented in the study by Ramdhonah et al. (2019), Krisnando & Novitasari (2021), and Meifari (2023).

The test results show that growth opportunity, when used as a control variable, has a significant positive impact on firm value. These results are consistent with the research conducted by Oktavia & Fitria (2019) and Zidane (2022). High growth opportunities allow companies to achieve higher firm value and encourage business expansion with substantial funds, which in turn affects corporate funding decisions (Salsabilla & Rahmawati, 2021). Companies that have growth opportunities often show that they have a competitive advantage that allows them to maintain or increase their market share. Company growth reflects its productivity and is a desirable target for internal and external parties because it brings positive impacts. For investors, company growth is a positive signal that signals potential profits, and investors will expect to get a high level of investment (Ramdhonah et al., 2019).

5. CONCLUSION

The purpose of the research has been conducted to identify and examine how prudence and leverage affect firm value. Taking samples through predetermined criteria in public companies in Indonesia for the period 2017-2021. Prudence has a significant positive effect on firm value (Empirical Study on Public Companies in Indonesia) in the period 2017 to 2021. Companies that apply the prudential principle in their operations, including in decision making, financial reporting processes, can create credible performance and increase firm value. Leverage has a significant negative effect on firm

value, as demonstrated in an empirical study of public companies in Indonesia during the period from 2017 to 2021. High leverage is perceived as a negative signal of increased risk, which diminishes investor interest and leads to lower stock prices and firm value.

In this study, prudence and leverage have been shown to affect firm value. For future research it is recommended to apply different variable measurement methods in measuring prudence and leverage or can be tested together with interview techniques. Furthermore, it can examine and expand other variables or factors that are thought to have an impact on firm value such as earnings quality, corporate governance, or risk management.

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