

The Influence of Funding Decisions, Dividend Policy, Profitability, and Company Size on Company Value

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ABSTRACT: This study aims to examine and analyze the effect of funding decisions, dividend policy, profitability, and firm size on firm value. The dependent variable in this study is firm value. The independent variables in this study consist of funding decisions proxied by DER (Debt to Equity Ratio), dividend policy proxied by DPR (Dividend Payout Ratio), profitability proxied by ROA (Return on Assets), company size proxied by SIZE (Ln Total assets). The object of this study was taken from manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period with a total of 33 companies. The data used in this study is secondary data, namely annual financial reports. The sample used in this study was selected using a purposive sampling method. The results of this study indicate that dividend policy and profitability have a positive and significant effect on firm value while funding decisions and firm size have no effect on firm value.

KEYWORD: Funding decision, dividend policy, profitability, company size, and company

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I. INTRODUCTION AND LITERATURE REVIEW

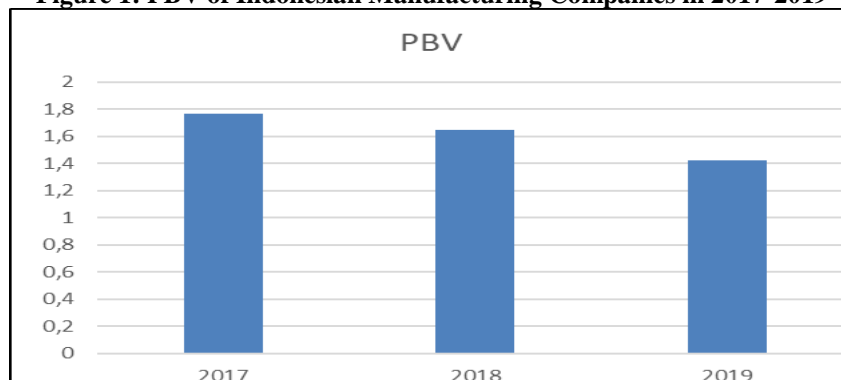
The company has two main goals, namely short-term and long-term goals. The company's short-term goal is to generate and maximize profits, while the company's long-term goal is to increase the welfare of shareholders by increasing the value of the company.

Firm value reflects investors' view of a company's level of success. According to Massie et al, (2017), firm value is the price potential investors are willing to pay if a company is to be sold. High company value reflects a good view of investors on the company's current performance and prospects.

Firm value is often associated with the market price of the company's stock. If the stock market price is high, then the company value is also high. The financial ratio that is often used to measure a company's value is the comparison between the stock market price and the price-to-book value (PBV) ratio. Darmadji & Fakhrudin, (2006) defines PBV as a ratio that describes how much the market appreciates the book value of shares of a company. PBV shows the company's ability and creates company value in the form of prices for available capital. A higher PBV means that the company can be said to be successful in creating owner value and prosperity.

The phenomenon of the decline in the value of manufacturing companies in Indonesia in recent years has become an interesting matter to study.

Figure 1: PBV of Indonesian Manufacturing Companies in 2017-2019



Source: www.idx.co.id

In Table 1 above, there has been a decrease in company value as indicated by the Price Book Value (PBV) ratio of the manufacturing industry in 2017-2019. From an initial value of 1.77, the PBV of the manufacturing industry decreased to 1.65 in 2018 and closed again at 1.42 in 2019.

One of the factors that affect the value of the company is the funding decision. Funding decisions are financial decisions related to funding sources used by companies to finance their investments and operational activities. According to Prapaska (2012), sources of funding can be obtained through internal company funds and external company funds. Internal funding sources come from retained earnings or own capital while external funds come from debt as well as from additional equity participation from new shareholders and bond sales. Funding decisions affect the value of the company as proven by research by Jannah et al., (2019), Murniati et al., (2019), Syafitri & Farida, (2017), Himawan & Christiawan, (2016) and Wulandari et al., (2017). In this study, the ratio used to measure funding decisions is the ratio between debt and equity (DER).

Another factor that affects the value of the company is the dividend policy. According to Syahyunan, (2015), dividend policy is a decision whether the profits to be received by the company at the end of the year will be distributed to shareholders in the form of dividends or will be retained to be used as a capital increase. Firm value has a relationship with dividend payments as evidenced by research conducted by Senata, (2016) and Fenandar, (2012), which states that the dividend policy has a significant positive effect on firm value.

Another factor that affects the value of the company is profitability. Profitability is the ability of a company to generate profits during a certain period. Fau, (2015) states that the higher the profit earned, the higher the firm value, because high profits will indicate good company prospects so which can trigger investors to participate in increasing demand for shares so that the company's stock price will rise and will cause a higher company value. increase. Research results by Nurmayasari, (2012), Octavia, (2013), and Abdillah, (2014) state that profitability has a positive and significant effect on firm value.

Company size is also considered capable of increasing the value of the company. The larger the size or scale of the company, the easier it will be for the company to obtain funding sources because the company's assets can be used as collateral for financing. In addition, a large company size shows good company performance in the past while at the same time describing good prospects in the future. Research conducted by Arindita & Sampurno, (2015), and Fau, (2015) said that company size has a positive and significant effect on firm value.

1.2 Research Objectives

This study aims to identify the factors that influence firm value in manufacturing companies listed on the Indonesian Stock Exchange.

1.3 Research Methodology and Data Analysis

To identify the factors that influence firm value, this study will use hypotheses related to the variables used in the study, including funding decisions, dividend policy, profitability, and firm size.

H1: Funding Decisions Have a Significant Positive Relationship to Firm Value

Funding decisions are financial decisions related to funding sources used by companies to finance their investments and operational activities. In this study, the ratio used to measure funding decisions is the ratio between debt and equity (DER).

H2: Dividend Policy Has a Significant Positive Relationship to Firm Value

A dividend policy is a decision related to the profits received by the company will be distributed to shareholders in the form of dividends or will be retained to be used as a capital increase. Dividend policy is measured by the Dividend Payout Ratio (DPR), which is the ratio that shows the amount of profit paid to shareholders in the form of dividends.

H3: Profitability Has a Significant Positive Relationship to Firm Value

Profitability is the ability of a company to generate profits during a certain period. Profitability is measured by Return on Assets (ROA), which is a ratio to measure a company's ability to earn profits available to company shareholders.

H4: Company Size Has a Significant Positive Relationship to Firm Value

Company size can be indicated by total assets, total net sales, average level of sales, and average total assets. This study assesses company size by the natural logarithm of the company's total assets.

The data for the variables above were taken from the Indonesian Stock Exchange website from 2016 to 2020. This study uses Panel Data Regression Analysis techniques with the following models:

$$Y = a + b1DER + b2DPR + b3ROA + B5 Ln Total Assets + e$$

Where:

Y = Company Value

a= Constant

DER = Funding Decision

DPR = Dividend Policy
ROA = Profitability
Ln Total Assets = Company Size
b1 = Funding Decision Regression Coefficient
b2 = Dividend Policy Regression Coefficient
b3 = Profitability Regression Coefficient
b4 = Capital Structure Regression Coefficient
e = Standard Error

The results of the regression analysis test show the following results:

Table 1
Regression Analysis Results

Variable	coefficient	t-Statistics	Prob.
C	-7.473895	-1.380439	0.1694
DER	0.277164	1.534896	0.1268
DPR	0.330943	3.458041	0.0007
ROA	16.65656	7.007301	0.0000
SIZE	0.264817	1.370230	0.1725

Based on Table 1 it can be concluded as follows:

First Hypothesis Testing (H1)

According to Table 1, the results on the DER variable have a t-count of 1.534896 with a probability value of 0.1268 > from α 0.05 and a positive regression coefficient of 0.277164. This suggests that the DER has no significant positive effect on PBV. So, these results prove that the first hypothesis (H1) is rejected.

Second Hypothesis Testing (H2)

According to Table 1, the results on the DPR variable have a t-count of 3.458041 with a probability value of 0.0007 < from α 0.05 and a positive regression coefficient of 0.330943. This suggests that the DPR has a significant positive effect on PBV. So, these results prove that the second hypothesis (H2) is accepted.

Third Hypothesis Testing (H3)

According to Table 1, the results on the ROA variable have a t-count of 7.007301 with a probability value of 0.0000 < from α 0.05 and a positive regression coefficient of 16.65656. This suggests that the ROA has a significant positive effect on PBV. So, these results prove that the third hypothesis (H3) is accepted.

Fourth Hypothesis Testing (H4)

Based on Table 1, the results on the SIZE variable have a t-count of 1.370230 with a probability value of 0.1725 > from α 0.05 and a positive regression coefficient of 0.264817. This suggests that SIZE has no significant positive effect on PBV. So, these results prove that the fourth hypothesis (H4) is rejected.

1.3 Findings and Interpretation

This study has identified two factors that positively and significantly influence firm value: dividend policy and profitability. The dividend policy has a significant positive effect on firm value because investors prefer companies that provide certainty for their return on investment in the form of dividends. The high interest of investors in stocks that always pay dividends will increase the stock price and the company's value. Profitability significantly affects firm value because a rational investor will choose a company that generates profits over a loss-making company.

This study also identified two factors that positively but did not significantly influence firm value: funding decisions and firm size. Funding decisions are internal managerial decisions regarding the sources of funds used by the company, while company value is the perception of external parties of the company/investors regarding the company's performance and prospects in the future. This is why funding decisions are not significantly related to firm value. Size also does not significantly affect company value because investors do not see the size of the company to invest in but, once again, pay more attention to the company's performance and prospects in the future.

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