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THE EFFECT OF FUNDING POLICY, DIVIDEND POLICY, COMPANY SIZE AND PROFITABILITY ON COMPANY VALUE IN MANUFACTURING COMPANIES

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Abstract

The aim of this research is to examine and analyze the effect of funding policy, dividend policy, profitability and firm size simultaneously and partially on firm value. This study uses causal research. The data source for this research is secondary research. The sampling technique in this study was to use purposive sampling method. The research population is a manufacturing company listed on the Indonesia Stock Exchange. The type of data used is secondary data sourced from the publication of annual reports obtained from www.idx.co.id and the Indonesian Capital Market Directory. The analysis technique uses Multiple Regression Analysis (MRA). The results of the study show that funding policies, dividend policies, profitability and firm size simultaneously affect firm value. And funding policies, dividend policies, profitability and firm size partially affect firm value. Future researchers are expected to be able to take other variables that can affect company value.

INTRODUCTION

In the world of capital markets, company value information is very useful for investors in making investment decisions. Investors assume that the value of the company is very important because it is a market indicator in assessing the company as a whole. According to Ayuba (2019) company value shows the business ability of the company to maximize wealth. The value of the company is determined by the share price. If the stock price increases, the company value will increase. It is believed that the company's value does not only reflect the company's current performance but also describes the company's prospects in the future. Firm value is a comparison between the market price of a share (market price) and earnings per share in the relevant stock (Ang, 2007:24).

As for the capital structure, investors must also understand that the optimal capital structure is a capital structure that optimizes the balance between risk and return so as to maximize stock prices (Brigham and Houston, 2004:602). If debt repayments produce a rate of return that is higher than the risk received, then the company's capital structure is not optimal and additional capital can be made if necessary. The risk that is equal to the rate of return by the company shows the state of the optimal capital structure.

According to Sujoko dan Soebiantoro (2007:82), company owners tend to prefer companies to create debt at a certain level to increase the value of the company. The balance of the proportion between assets funded by creditors and those funded by the company is indicated by a DER ratio. DER identifies the extent to which a company can bear losses without endangering its credit. According to Mayers and Bayles in (Brigham and Houston, 2004:19) mentions the capital structure as a theoretical balancing because the goal is to balance the theory of debt with own capital. Thus, the best capital structure is a capital structure that can maximize firm value. The balance of the proportion between assets funded by creditors and those funded by the company is indicated by a DER ratio. There are several factors that affect the value of the company, including: funding policy, dividend policy, profitability and company size.

Funding policy is a decision that must be made by the company to determine the proportion of external funding sources in the form of debt and internal funding sources used to finance the company. The source of funds from debt will be used by the company to finance its investment which is expected to increase the company's growth. In addition, loan interest expense can be used as a tax deduction for companies. Research conducted by Cheng and Tseng (2011); Novianto and Iramani (2015); Suwardika and Mustanda (2017); Hasanah and Lekok (2019) prove that funding policies have a positive effect on company value. This can be explained that the higher the funding policy can increase the value of the company. However, on the other hand, investors think that the management's debt-sourced funding policy will have an impact on increasing company risk due to the high loan interest expense borne by management. Investors assume that the higher the debt, the riskier the investment. So many investors avoid a company with a high level of debt. As researched by Faridah (2012) which gives the result that funding policies have a positive effect on firm value, meaning that the higher the company's debt will actually increase the company's value.

Dividend policy is a decision about the profits earned by the company to be given to shareholders as dividends or to be kept in the form of retained earnings to finance future investments, both long-term and short-term investments. If the company chooses to distribute profits as dividends, it means that there will be a reduction in retained earnings and further reduce the amount of internal funding sources or internal financing. However, if the company chooses the option to retain the profits generated, then the ability to form internal funds will be greater. Such as research by Putra & Lestari (2016), Hasanah & Lekok (2019), Novianto & Iramani (2015), and Faridah (2012) which gives the result that dividend policy has a positive effect on firm value, meaning that the higher the dividends the company generates, the greater the the value of the company.

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Company size (size) describes the size of a company indicated by total assets, number of sales, average level of sales and average total assets. Large-scale companies will find it easier to obtain loans compared to small companies. In this study, company size is measured using total assets. Larger companies have greater growth than small companies. The results of research Prasetyorini (2013); Putra and Lestari (2016) proved that company size has a significant positive effect on firm value. However, it is different from the results of the study by Hasanah and Lekok (2019) which show the results that company size does not affect company value.

Profitability is the financial performance of a company which is shown by its ability to use its own capital to make a profit. Profitability can be measured using the overall results of its own capital which is usually called Return On Equity (ROE). This ratio is used to measure a company's ability to generate profits based on certain own capital which is a measure of profitability from the point of view of equity holders. Companies that generate profits will affect the interest of potential investors in investing their capital. If the demand for the company's shares increases, it will indirectly increase the value of the shares (Ang, 2007). Research by Suwardika & Mustanda (2017), Prasetyorini (2013), Putra & Lestari (2016), and Hasanah & Lekok (2019) proves that profitability has a significant positive effect on company value.

The objectives of this study can be formulated as follows: 1) To examine and analyze the effect of funding policies, dividend policies, profitability and firm size simultaneously on firm value. 2) To examine and analyze the partial effect of funding policies on firm value. 3) To test and analyze the effect of dividend policy partially on firm value. 4) To test and analyze the effect of company size partially on firm value. 5) To test and analyze the effect of profitability partially on firm value.

RESEARCH METHODS

Based on the objective of this research is explanatory research. According to Sugiyono (2013: 6) explanatory research is research that explains the position between the variables studied and the relationship between one variable and another through testing the hypotheses that have been formulated. This research will be conducted using a quantitative approach that tests between theories through the research variables concerned. Sujoko dkk. (2008: 47), states that quantitative research is a study that emphasizes testing theories and hypotheses through measuring research variables in numbers (quantitative) and conducting data analysis using statistical procedures and or modeling mathematical.

The population in this study are manufacturing companies listed on the Indonesian Stock Exchange. The sampling technique in this study was to use a purposive sampling method, which means that the population to be sampled in this study is a population that meets certain sample criteria. The criteria for companies that will be used as samples in this study are: 1) Manufacturing companies that are still active at the time of research and are listed on the Indonesia Stock Exchange from 2017 - 2021, 2) Companies that always present financial report data for the period 2017 - 2021 and have complete data. 3) Companies that have a positive equity value, 4) Companies that have distributed dividends during the study period, 5) Companies that have not taken corporate action.

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The analysis technique used in this study uses inferential analysis to test the hypothesis with multiple linear regression analysis, then uses the F test to test whether there is or is not a simultaneous effect of the variable funding policy, dividend policy, firm size and profitability on firm value variables. After that, a t test was conducted to test the effect of partial funding variable or dividend risk on firm value. The model tested is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Information:

Y	= Company value
α	= Constant
$\beta_1, \beta_2, \beta_3, \beta_4$	= Regression coefficient
X_1	= Funding policy
X_2	= Dividend policy
X_3	= Company size
X_4	= Profitability
e	= Error

RESULTS AND DISCUSSION

To test whether or not the research hypothesis is significant (the effect of funding policy, dividend policy, firm size, and profitability on firm value), multiple linear regression analysis is used, the results of calculations with the help of the SPSS computer program, the following results are obtained:

Table 1. Multiple Linear Regression Analysis

No.	Variable	Koefisien Regresi	Std. Error	Partial Correlation	
				r	r^2
1.	Constant	-2,811	1,151		
2.	X_1 (Funding policy)	0,177	0,044	0,167	0,0279
3.	X_2 (Dividend policy)	0,124	0,026	0,199	0,0396
4.	X_3 (Company size)	1,050	0,442	0,099	0,0098
5.	X_4 (Profitabilitas)	0,249	0,033	0,304	0,0924

Sumber : Hasil Penelitian (diolah) 2022

Berdasarkan tabel di atas diperoleh persamaan regresi linier berganda sebagai berikut :

$$\mathbf{Y = -2{,}811 + 0{,}177\ X_1 + 0{,}124\ X_2 + 1{,}050\ X_3 + 0{,}249\ X_4}$$

From the equation above, it can be explained that the multiple linear regression equation shows a value of β_o (constant) of -2.811 and has a negative value. This value means that if the independent variables of funding policy, dividend policy, company size, and profitability are equal to 0 (zero) or constant, then the company value is -2.811.

The funding policy regression coefficient (X_1) = 0.177. The positive funding policy regression coefficient value indicates a unidirectional relationship to firm value, meaning that if the funding policy adds one unit, the firm value will increase by 0.177.

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The partial r^2 value for the funding policy variable is 0.0279, meaning that the funding policy variable is able to explain the firm value variable of 2.79%.

Dividend policy regression coefficient (X_2) = 0.124. The regression coefficient value of a positive dividend policy indicates a unidirectional relationship to firm value, meaning that if the dividend policy increases by one unit, the firm value will increase by 0.124. The partial r^2 value for the dividend policy variable is 0.0396, meaning that the dividend policy variable is able to explain the firm value variable by 3.96%.

Regression coefficient Firm size (X_3) = 1.050. The regression coefficient value of positive company size indicates a unidirectional relationship to firm value, meaning that if the company size is added by one unit, the firm value will increase by 1.050. The partial r^2 value for the company size variable is 0.0098, meaning that the company size variable is able to explain the company value variable by 0.98%.

Profitability regression coefficient (X_4) = 0.249. The positive profitability regression coefficient value indicates a unidirectional relationship to firm value, meaning that if profitability is added by one unit, the firm value will increase by 0.249. The partial r^2 value for the profitability variable is 0.0924 meaning that the profitability variable is able to explain the firm value variable of 9.24%.

The value of the coefficient of multiple determination or R^2 is used to measure how far the model's ability to explain the variation of the dependent variable is used to test the correlation coefficient and the coefficient of determination as follows:

Table 2. Correlation Coefficient and Determination Coefficient

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.435a	.189	.184	.99667

a. Predictors: (Constant), LN_ROA, LN_SIZE, LN_DER, LN_DPR

Sumber : Hasil Penelitian (diolah) 2022

The value of the coefficient of multiple determination or R^2 is used to measure how far the model's ability to explain the variation of the dependent variable. The results of the SPSS calculations obtained the value of R^2 = 0.189 which means that 18.9% of the company's value can be explained by the variables of funding policy, dividend policy, company size, and profitability. While the remaining 81.1% is influenced by other variables outside the model studied. The value of the multiple correlation coefficient (R) shows how close the relationship is between the independent variables (funding policy, dividend policy, company size, and profitability) and the dependent variable (firm value), the magnitude of the correlation coefficient is 0.435. This value shows the relationship between the variables of funding policy, dividend policy, company size, and profitability with the company value variable is moderate.

To determine the relationship or influence of the independent variables simultaneously or as a whole on the dependent variable, the F test is used. The following table presents an analysis of the variance of the relationship simultaneously or as a whole.

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Table 3. Simultaneous Influence Analysis Results

ANOVA[b]					
Model	Sum of Squares	df	Mean Square	F	Sig
1 Regression	132.347	4	33.087	33.308	.000[a]
Residual	566.206	570	.993		
Total	698.553	574			

a. Predictors: (Constant), LN_ROA, LN_SIZE, LN_DER, LN_DPR
b. Dependent Variable: LN_PBV
Sumber : Hasil Penelitian (diolah) 2022

Based on calculations using SPSS, a significant level value of 0.000 is obtained, where the significant level is less than the alpha level of 0.05, so that the variables of funding policy, dividend policy, company size, and profitability together have a significant influence on firm value.

To determine the effect of each independent variable partially or individually on the dependent variable, t-test analysis is used.

Table 4. Results of Partial Relationship Variance Analysis

Variabel	**Koefisien Regresi**	**t**	**Sig.**
X_1 (Funding policy)	0,177	4,040	0,000
X_2 (Dividend policy)	0,124	4,854	0,000
X_3 (Company size)	1,050	2,377	0,018
X_4 (Profitabilitas)	0,249	7,608	0,000

Sumber : Hasil Penelitian (diolah) 2022

The Funding Policy variable (Leverage) has a direct effect on the Firm Value variable of 0.177 in a positive direction, where the relationship is proven that the Funding Policy (Leverage) has a significant positive effect on Firm Value with a significance value of 0.000, or less than 0.05. The positive influence that occurs means that the better the Funding Policy (Leverage) applied to the company will increase the Company Value. Therefore, the Company needs to pay attention to the Funding Policy (Leverage) that is made. Capital leverage will affect the value of the company through the creation of sources of funds, namely debt and equity, so as to maximize share value. The high value of shares will increase the value of the company. The results of this study are in accordance with the results of research by Suwardika & Mustanda (2017) and Hasanah & Lekok (2019) which state that leverage has a positive effect on firm value. Companies that have high debt also have a risk in the level of interest expense that must be paid, the benefits of this tax savings can increase the risk so that investors will not be interested in declining company values. However, it is different from the research by Cheng and Tzeng (2011) which states that the opposite is true with the results of this study, namely leverage has a negative effect on firm value.

The Dividend Policy variable has a direct effect on the Firm Value variable of 0.124 in a positive direction, where the relationship is proven that the Dividend Policy has a significant positive effect on Firm Value with a significance value of 0.000 or less than 0.05. Based on the results obtained, dividend policy has a significant positive effect

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on firm value. This positive influence can be interpreted that the better the dividend policy in a company will increase the value of the company. So it is important for the company's management to pay attention to the existing dividend policy in the company so that the company's value can increase. Companies that reduce dividend payments will have large retained earnings, retained earnings will be used as company capital to increase the company which will then increase profits and company value will increase. The results of this study are in line with the findings of Putra & Lestari (2016), Hasanah & Lekok (2019), Novianto & Iramani (2015), Faridah (2012) that dividend policy has a significant positive effect on firm value. However, this is not in line with the findings of Tamrin et al (2017) which state that dividend policy has no significant effect on firm value.

The variable company size has a direct effect on the firm value variable of 1.050 in a positive direction, where the relationship is proven that company size has a significant positive effect on firm value with a significance value of 0.018 or less than 0.05. That is, company size can affect company value. The hypothesis testing that has been done proves that company size has a direct significant effect on firm value with a positive influence. This means that the higher the size of the company will further increase the value of the company. Thus, these findings can be a reference for company management who wish to increase the value of their company to pay special attention to the size of the existing company. The results of the analysis in this study support the findings of Prasetyorini (2013) and Putra & Lestari (2016) proving that company size has a significant positive effect on firm value. However, this research is not supported by the results of Hasanah & Lekok's research (2019) which proves that company size has no significant effect on firm value.

The Profitability variable has a direct effect on the Firm Value variable of 0.249 in a positive direction, where the relationship is proven that Profitability has a significant positive effect on Firm Value with a significance value of 0.000, or less than 0.05. That is, the better the profitability of the company, the better the value of the company. The results of hypothesis testing that has been done, it is proven that Profitability has a significant effect on Firm Value. This means Profitability has an important role in influencing Company Value. The influence that occurs between Profitability and Firm Value is positive, so this can be interpreted that the better the Profitability of the company will increase the Firm Value. By looking at these results, it can be a reference for company management to pay attention to the condition of company profitability in order to increase company value. This is the same as what was explained by the research by Suwardika & Mustanda (2017), Prasetyorini (2013), Putra & Lestari (2016), Hasanah & Lekok (2019) proving that profitability has a significant positive effect on company value.

CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis that has been done, several conclusions can be drawn, among others: 1) Funding policy, dividend policy, profitability and firm size simultaneously affect firm value. 2) Funding policies partially affect the value of the company. 3) Dividend policy partially affects firm value. 4) Firm size partially influences firm value. 5) Profitability partially affects the value of the company.

Suggestions that can be given by researchers based on the results of this study are as follows: 1) The results of the study show that funding policies, dividend policies, company size, and profitability have a significant effect on firm value, therefore company management is advised to maintain or increase the consistency of the existing financial statements in forming firm value. 2) It can be seen that the variables of funding policy, dividend policy, company size, and profitability have proven to have a partial effect on firm value, therefore investors should when making a decision to invest really assess the company carefully. Investors are better off not only looking at financial reports in a physical form, but also other things that are qualitative in nature. 3) Future researchers are expected to be able to take other variables that can affect firm value.

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