The Effect of Profitability, Dividend Policy and Debt Policy on Company Value

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Abstract—**This research aims to determine the effect of Profitability, Dividend Policy, Debt Policy on firm value in manufacturing companies in the Automotive Sub-Sector and the Cable Sub-Sector listed on the Indonesia Stock Exchange (IDX). This research is quantitative research using secondary data sources obtained from downloading the financial statements of manufacturing companies in the Automotive Sub-Sector and the Cable Sub Sector for 2015-2019 at www.idx.co.id. The population in this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX). The sample used in this study was 35 samples—the sampling technique, namely purposive sampling, according to predetermined criteria. The number of samples collected was seven companies. The collected data were analyzed using data analysis, first tested with classical assumptions before testing the hypothesis. Hypothesis testing used multiple linear regression analysis with t-test, f test, and coefficient of determination in this study. The test tool used in this study was SPSS version 24, and data analysis used multiple linear regression tests. The results showed that the variables ROA and DPR did not affect Firm Value. Meanwhile, DER affects Firm Value.**

Keywords—profitability, dividend policy, debt policy, for, company value

I. INTRODUCTION

In the Industrial Age 4.0, capital is flourishing in Indonesia is open and easy to access. The business world, providing a dynamic pressure style so that small companies or large companies develop in finding ways to be able to welcome the competition that is spoken in the global economic market. This situation forms a strong basis for some company management to commit fraud against a company to show the best performance results. By utilizing financial statements, namely the conclusion of the accounting process that symbolizes the condition of a company. Febriana [1] states that company value is the selling value of a company when the company is running.

The company can be stated as an economic entity that has been established to generate and maximize company profits and increase the company's value as high as possible by using the company's resources. Moreover, from the above statement, it can be concluded that the company's short-term goal is to generate and maximize company profits, while the company's long-term goal is the welfare of shareholders by increasing company value [2].

If a company is projected as Diamond Pearl in the world of capital markets that have bright prospects in the future, then the value of its shares will be high. On the other hand, if the company is considered to have fewer prospects, the stock price will be below. For investors, the company's value is an important concept because the value of the company is an indicator of how the market values the company as a whole. Several factors that influence firm value are Profitability which can be measured by ROA (Return On Assets), Dividend Policy, and Debt Policy. The three things that affect the company's value are the financial decisions of a company that is interrelated with each other in maximizing the value of the company.

The purpose of establishing a company can be categorized both in the short and long term. In the short term, the company aims to generate current profits. Meanwhile, in the long term, the company aims to increase the value of the company itself. Firm value is influenced by several factors, one of which is profitability, an important factor in the company related to the results obtained through the activities carried out by the company [3].

The research result conducted by Dewi et al. [2] stated that profitability has a positive and significant effect on firm value. The results of this study are also supported by research Hertina et al. [4], which states that profitability has a positive and significant effect on firm value. It is contrary to the results of research [5], which states that profitability has a negative effect on firm value. It is also supported in research Wulandari et al. [6], which states that profitability negatively affects firm value. Dividend policy is the use of profits that are the rights of shareholders. The greater the profit that the company can generate, it will be possible for shareholders to enjoy profits in the form of large dividends [7].

The research results conducted by Lestari and Harnida [8] stated that dividend policy positively affects firm value. The results of this study are also supported by research Steven and

Rasyid [9] which states that dividend policy positively affects firm value. It is contrary to the results of research Salim et al. [10], which states that dividend policy does not affect firm value. Research Putri et al. [11] also supports it, which states that dividend policy does not significantly affect firm value.

A debt Policy is a policy carried out by the company to find a way out in order to be able to finance through debt. Debt policy needs to be managed. The use of high debt will increase the company's value because the use of debt can save taxes. The use of high debt can also reduce the company's value because of the possibility of bankruptcy costs and agency costs [12].

According to research conducted by Pratiwi and Widyawati [13] Debt Policy has a significant effect on firm value simultaneously. It is supported by research Tambunan et al. [14] which states that Debt Policy has a positive and significant effect on firm value (PBV). It is contrary to the results of research Widyadnyani et al. [15], which states that Debt Policy does not affect firm value. It is also supported by research Nafiah and Sopi [16] which states that Debt Policy does not affect firm value.

II. LITERATURE REVIEW

A. Agency Theory

Agency theory is a theory that explains the relationship between owners and management. Jensen and Meckling [17] describes the relationship between the company owner (principal) and company management (agent), where the company owner delegates power to company management to make decisions related to the company's interests, determine the direction of the company. Hendriksen and Van Breda [18] stated that the relationship between manager and owner is between two individuals to understand financial information better. The two individuals are the principals (the owner referred to as the information evaluator) and the agent (the manager, who is referred to as the decision-maker). The principal is seen as a provider of information which will then be processed by the agent for decision-making for the principal's interest. An agency relationship is a contract between the principal and the agent. Agency relationships can cause problems when the parties concerned have different goals; owners of capital want increased wealth and prosperity, while managers also want increased welfare for managers.

B. Signal Theory

Signal theory is a theory that suggests how a company should give signals to users of financial statements. Signal theory shows the existence of information asymmetry between company management and parties with interest in the information. Information asymmetry is an information gap where one party has more information than another [19].

The company urges to provide information because there is information asymmetry between the company and outside parties. After all, the company knows more about its prospects

than outside parties (investors and creditors). Lack of information to outsiders about the company causes them to protect themselves by charging low prices. Companies can increase the company's value by reducing information asymmetry [20]. It is because the motivation of investors to invest is to make a profit so that companies with bad value tend to be avoided by investors. In other words, investors will not invest their funds in companies that have bad value.

C. Profitability

High profitability is a company's success in obtaining profits based on its assets and capital. Maintaining profitability is important for the company because high profitability is the goal of every company. The profitability ratio shows an increase, and it shows an efficient company performance [21]. Profitability ratios are a group of ratios that show the combined effects of liquidity, asset management, and debt on operating results [19]. Here is the formula for calculating profitability according to Kasmir [22].

$$ROA = \frac{Earning\ After\ Interest\ and\ Tax}{Total\ Assets} \tag{1}$$

D. Dividend Policy

Dividend policy concerns the use of profits that are the rights of shareholders. The greater the profit that the company can generate, it will be possible for shareholders to enjoy profits in the form of large dividends [7]. According to Bodie et al. [23] "The dividend policy does not only provide investors with the benefits that the company has obtained. However, the company's policy in distributing dividends must be followed by considering the opportunity—dividend policy on companies that are not growing (A low Investments Rate Place).

Every company always wants growth for the company on the one hand and can also pay dividends to shareholders, but the two goals are always contradictory. The higher the level of dividends paid, the less profit that can be retained, and as a result, it inhibits the rate of growth in earnings and share prices. If the company wants to keep most of its income in the company, the share of income available for dividend payments is getting smaller [21]. The following is the formula for calculating the Dividend Policy according to Kasmir [22].

$$DPR = \frac{Dividen\ Per\ Share}{Earning\ Per\ Share} \times 100\% \tag{2}$$

E. Debt Policy

Debt policy is the company's policy in determining how much the company's funding needs are financed by debt [24]. According to Sukrini [25] states that debt policy has a positive relationship to firm value. It indicates that debt can be used to control the excessive use of free cash flow by management, thereby avoiding wasted investment. In turn, it can increase the value of the company. According to Kasmir [26] states: "Debt to Equity is the ratio used to assess debt and equity. This ratio

is sought by comparing all current debt with all equity debt." The following is the formula for calculating Debt Policy.

$$DER = \frac{Total\ Debt}{Total\ Equity} \qquad (3)$$

F. Framework of Thinking and Hypotheses

1) The effect of profitability on firm value: Profitability in the company is related to the results obtained through the activities carried out by the company [4]. In attracting investors to invest, the management will try to increase the company's profitability [4]. The research conducted Hertina et al. [4] concluded that profitability has a positive and significant effect on firm value. Research that has been done Dewi and Ekadjaja [2] found that profitability has a positive and significant effect on firm value.

H1: Profitability affects firm value

2) The effect of dividend policy on firm value: According to Lestari and Harnida [8], a Dividend Policy is related to how much profit the company will be distributed to shareholders. The number of dividends can affect stock prices. If the dividend paid is high, then the stock price tends to be high so that the company's value is also high. Companies must consider the percentage of company profits that will be allocated as dividends for the benefit of company shareholders. Maximizing returns for shareholders is something that companies need to prioritize. In this study, dividend policy is proxied by the Dividend Payout Ratio (DPR), which will show how much dividends are to the company's net income distributed by the company to shareholders. The company will allocate net profit that is not distributed to shareholders as additional capital for the company's future operations [9].

H2: Dividend policy affects firm value

3) The influence of debt policy on firm value: A debt policy is a funding policy that comes from external sources. Debt policy must be managed because if the proper use of debt will increase the company's value, Debt Policy in this study is proxied by the Debt to Equity Ratio (DER) [14].

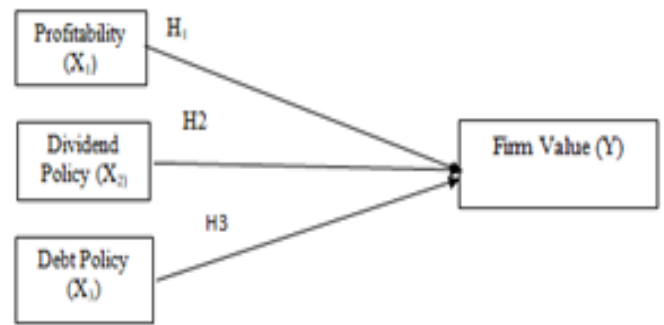The framework of thinking in this research can be seen in the Figure 1.

Fig. 1. Research framework.

III. METHODS

The company's sampling technique in this study used the purposive sampling method. Purposive sampling is a sampling technique with certain considerations. The criteria for the manufacturing industry companies in the automotive sub-sector and their components and the cable sub-sector companies that will be the samples of this research are: (a) Manufacturing industry companies in the automotive sub-sector and its components and cable sub-sector companies listed on the Indonesia Stock Exchange in a row from 2015 to 2019; (b) Manufacturing industry companies in the automotive sub-sector and their components and cable sub-sector companies publish an annual report; (c) Companies that use Rupiah in their Financial Statements; (d) Companies that distribute dividends during the 2015 – 2019 period; (e) There is the completeness of required data related to research variables, namely Profitability, Dividend Policy, and Debt Policy.

A. Definition and Operationalization of Variables

The dependent variable in this study is firm value. A high company value will make the market believe in the company's prospects in the future. High company value also indicates high shareholder prosperity where it is strongly controlled by company owners (investors). Firm value is often proxied by price to book value.

$$PBV = \frac{Price\ Per\ Share}{Book\ Value\ Per\ Share} \qquad (4)$$

The independent variables in this study include:

- Profitability = Profit After Interest and Tax/Total Assets

- Dividend Policy = Dividend Per Share/Earning Per Share

- Debt Policy = Total Debt/Total Equity

B. Technical Data Analysis

The data analysis techniques used are; 1) Descriptive statistical test to provide an overview or description of a data seen from the average value (mean), standard deviation,

variance, maximum, minimum, sum, range, kurtosis, and skewness; 2) Classical assumption test starts from normality test, multi-collinearity, heteroscedasticity, and autocorrelation test, all of these assumptions must pass the test so that the regression equation can be trusted; 3) The feasibility test of the model consisting of the coefficient of determination and the simultaneous F test, and 4) Hypothesis testing, namely the t-test which shows how far the influence of one explanatory or independent variable individually in explaining the variation of the dependent variable [27]. This study using multiple regression analysis to determine the effect of Profitability, Dividend Policy, and Debt Policy on firm value with the following equation:

$$Y= a + \beta\_1\ X\_{i1} + \beta\_2\ X\_{i2} + \beta\_3\ X\_{i3} + e\_i \qquad (4)$$

Where: Y: Company Value; X_i1: Profitability; X_i2: Dividend Policy; X_i3: Debt Policy; A: Constant coefficient; _1 _2 _3: Regression coefficient of each independent variable; e_i: Disturbance variable

IV. RESULTS AND DISCUSSION

A. Data Analysis Results

- Profitability disclosure calculation results show that of the 40 samples, the average is 0.0781 with a standard deviation of 0.06633. The minimum value of PT. Astra Otoparts Tbk in 2016 and 2017 has a Profitability value of 0.00. In 2018, PT. Selamat Sempurna Tbk owns the maximum value with a value of 0.23. It explains that the average ROA states that the Company can utilize its assets well and increase sales without increasing expenses and costs. The standard deviation value is 0.06633. shows good because the average value (mean) of PBV is greater than the standard deviation value (0.0781>0.06633).

- The results of the calculation of the dividend policy disclosure show that of the 40 samples, the average value is 0.7965 with a standard deviation of 1.95388. The minimum value of PT. Kabelindo Murni Tbk in 2019 has a Dividend Payout Ratio of 0.01. In 2015, PT Astra International Tbk owned the maximum value has a Dividend Payout Ratio value of 12.14. It explains that the average Dividend Payout Ratio in manufacturing industry companies in the automotive and component sub-sectors and cable sub-sector companies has decreased due to the lack of consideration for providing dividend funds to these stock investors. The standard deviation value of 1.95388 shows that the spread of the DPR value is not good because the average value (mean) of the DPR is smaller than the standard deviation value (0.7965 <1.95388).

- The results of the calculation of the Debt Policy disclosure show that of the 40 samples, the average is 1.0468 with a standard deviation of 1.00420. The minimum value of PT. Garuda Metalindo Tbk in 2015,

which has a ROA of 0.21. In 2019, *PT Selamat Sempurna owned the maximum value of 3.75.*

It explains that the average ROA is high because the accuracy in making decisions in processing debt policies to provide a stimulus to the Company's achievement level states that the Company can utilize its liabilities well and is attractive to investors. The standard deviation value of 1.00420 shows the spread of the ROA value is good because the average value (mean) of ROA is greater than the standard deviation value (1.0468 > 1.00420).

B. Discussion of Research Results

In the statistical test above, Profitability (ROA), Dividend Policy (DPR), and Debt Policy (DER). Meanwhile, Company Value is measured using Price to Book Value (PBV). The discussion is as follows:

- Profitability to firm value, the profitability variable above shows a t-count value of 5.462 with a significant value of 0.000 or less than 0.05. This shows that the profitability variable has a positive and significant effect on firm value. Thus, the first hypothesis (H1) in this study is accepted.

- Dividend policy on firm value, the dividend policy variable above shows a t-count of -0.861 with a significant value of 0.395 or greater than 0.005. This shows that the dividend policy variable has no effect on firm value. Thus, the second hypothesis (H2) in this study was rejected.

- Debt Policy on firm value, the debt policy variable above shows a t-count value of 4.555 with a significant value of 0.000 or less than 0.05. This shows that the Debt Policy variable has an effect on Firm Value. Thus, the third hypothesis (H3) in this study is accepted.

V. CONCLUSION AND SUGGESTION

A. Conclusion

Based on the results of testing and discussion on the effect of Profitability (ROA), Dividend Policy (DPR), and Debt Policy (DER) on Firm Value (PBV), Company sample data is 40 companies that are members of the automotive sub-sector manufacturing industry and its components and cable sub-sector companies 2015- 2019.

The test results and discussion in the previous section can be summarized as follows:

- Profitability affects firm value. Profitability has a positive value, which means that the higher the profitability, the higher the company's value will also increase, so that profitability affects investors to invest their shares in the company.

- Dividend policy does not affect firm value. It indicates that the level of dividends distributed to shareholders is not related to the high and low value of the company.

- Debt policy has a positive and significant effect on firm value. It means that if the DER increases, the value of the company will also increase. The use of high debt can reduce the company's value due to the emergence of bankruptcy costs and agency costs. The use of debt that is too high will also cause an increase in the risk of bankruptcy if it is not followed by optimal use of debt. It is what will make the company's stock price fall, which then makes investors interested.

B. Suggestion

Based on the conclusions above, the authors try to provide suggestions for the improvement of further research. Suggestions that can be given are:

1) For further research: Further research is expected to re-examine the dividend policy variable because the result of this research does not affect firm value. For further research should examine the use of dividend policy variables other than considered to measure firm value other than those used in this study PB, can use the Price Earning Ratio (PER) or Tobin's Q and also for research results that have no effect can use more data by adding years of research.

2) For investors: This research is expected to be considered in making investment decisions by weighing the benefits and risks of investing by looking at the company's value. The results of this study obtained that Profitability and Debt Policy have a significant effect; this shows that companies that can be considered to invest in shares are by looking at the high or low level of Profitability and Debt Policy so that investment activities can provide financial benefits and can prevent risks in choosing the shares to be invested.

3) For companies: The automotive company, the component sub-sectors, and the cable sub-sector are expected to increase profitability and dividend yields to increase the company's stock price. So, investors will be more confident to invest their capital in the company, and also the Debt Policy is more emphasized because it affects investors in determining a financially sound company.

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