

**ANALYSIS EFFECT OF PROFITABILITY, DEBT POLICY, AND
DIVIDENDS POLICY TO CORPORATE VALUES**

An Empirical Study from Indonesian Manufacturing Companies

PUBLICATION ARTICLE



By

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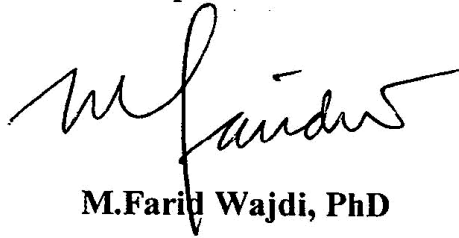
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This publication article is approved by :

Supervisor

A handwritten signature in black ink, appearing to read 'M. Farid Wajdi', is written over the printed name below it.

M.Farid Wajdi, PhD

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ABSTRACT

The purpose of this study was to analyze the factors that affect the value of the company at the companies listed in Indonesia Stock Exchange (IDX). Factors affecting the value of the company in this study are profitability, debt policy and dividend policy on firm value. The sample in this study is a manufacturing company listed on the Stock Exchange 2010-2012. This study used purposive sampling method. Source data were obtained from published financial statements of the company by the Indonesian Stock Exchange (BEI) in 2010-2012, with a sample size of 30 manufacturing companies. The analysis technique used is multiple regression analysis. The results showed that only profitability significantly and positively related to firm value, while debt policy and dividend policy has no significant effect on firm value.

Keywords: Profitability, Debt Policy, Dividend Policy and Firm Value

INTRODUCTION

A. Background Issues

The business world will always require management to be creative in an effort to improve their performance, they should have the ability and can take advantage of any opportunities to improve company performance. It is important to improve the company performance is to create strategies, techniques and business tools are appropriate and suitable for the company (Sudiyatno and Sari, 2012).

In addition, Sudiyatno and Sari (2012) point out that the firm performance as a barometer of the success of the company will be seen as a benchmark for investors to invest their funds. High the firm performance will push the company's stock market price increases, as investors will respond positively as a signal to invest funds. As a representation of the firm value, the rising stock market prices show the firm value is also increasing. Therefore, the firm value are the factors that will determine the firm value through stock price increases.

The debt is considered as the cheapest source of financing just as if firm uses low cost factors like low cost material, low cost wages, and then firm is going to be profitable. The trade off theory predicts that higher debt is associated with higher profitability. There are three reasons to support this theory; first, debt allow tax shield. Second, investors trust that more profitable firm will not go bankrupt; hence high profitable firms get advantage of investors trust and seek more debt. Third, agency cost, for the profitable firms, lenders/creditors give relaxation in monitoring charges, which reduces the debt cost. This motivates profitable firms to go for more debt (Shah, 2012). The influence of debt policies on the corporate performance is determinant for an appropriate capital structure and is a critical decision for any business. Latifi et al (2010) state that the fast-changing nature of the modern business environment means that planning should be a continuous.

Based on the results of previous studies that indicate a research gap, the authors are interested in re-researching on the effect of company's characteristics (profitability, debt policy, and dividend policy) against value of the company. The purpose of this study was to test empirically whether profitability, debt policy, and dividend policy affect value of the company. This topic is interesting to study because, Value of the company is very important because it reflects the performance of the company which can affect investors' perception of the company. Often associated with the value of the company's stock price, where the higher the value of the company's stock price and shareholder wealth was also increased.

B. Problem Formulation

Based on this background, the question research prepared area as follows:

1. Does the profitability influence on the Market Value of the Companies on the manufacturing company listed in Indonesia Stock Exchange?
2. Does the debt policy influence on the Market Value of the Companies on the manufacturing company listed in Indonesia Stock Exchange?
3. Does the dividend policy influence on the Market Value of the Companies on the manufacturing company listed in Indonesia Stock Exchange?

LITERATURE REVIEW

A. Basic Theory

1. Agency Theory

Using agency theory as the theoretical basis of this research is due to that agency theory can explain the relationship between the independent variables (profitability, debt policy, dividend policy, company size, and good corporate governance (controlling shareholders, board of directors and board of commissioners) and the dependent variable Market Value Of The Company). In this study, agency theory to explain the conflict between principals (shareholders) and agents, which the principal use of control systems / controls in the form of institutional ownership to supervise, control and direct the agents (managers) to act to maximize the interests of shareholders (the company's value).

B. Prior Research

Research on the factors affecting debt policy has been conducted by several researchers. Similarly, research on the factors effects of firm value. These studies include:

1. Klein et al. (2005)

This study investigates the relationship between firm value as measured by Tobin's Q, and newly released indices of effective corporate governance (reports on business/ROB) for a sample of 263 Canadian firms. The results of this study

indicated that corporate governance does matter in Canada, and the size was consistently negatively related to performance, as was advantage, growth and performance were positively related. However, they found no evidence that a total governance index affected firm was performance, because they found no evidence that board independence had any positive effects on performance, and it was negatively related for family owned firms.

2. Bocean and Barbu (2005)

Bocean and Barbu (2005) purposes this study to develop the understanding of corporate governance and its effects on corporate performance and economic performance. In doing so, it addressed some of the underlying factors that promote efficient corporate governance, and examined some of the economic implications associated with various corporate governance systems. The study provides a framework for understanding how corporate governance can affect corporate performance. It was found that corporate governance matters for economic performance, insider ownership matters the most, outside ownership concentration destroys market value, direct ownership being superior to indirect.

3. Ivalina Kalcheva and Karl V. Lins, (2006)

Ivalina Kalcheva and Karl V. Lins (2006) examine a relationship between cash holdings and expected managerial agency problems. In this study the dependent variable, the value measured by Tobins Q and independent variables, namely cash holdings, dividend payment, managerial control, shareholders right. To analyze and examine the hypothesis was used regression analysis of cross-sectional. The results of this study was found a negative relationship between cash holdings and dividends to firm value.

This study is different from the above studies about sample. In this study use Manufacturing Company in Indonesia Stock Exchange. Other things that distinguish this study with previous studies is the period of research conducted from 2010 to 2012, the independent variables used are profitability, debt policy, and dividend policy.

C. Conceptual Framework

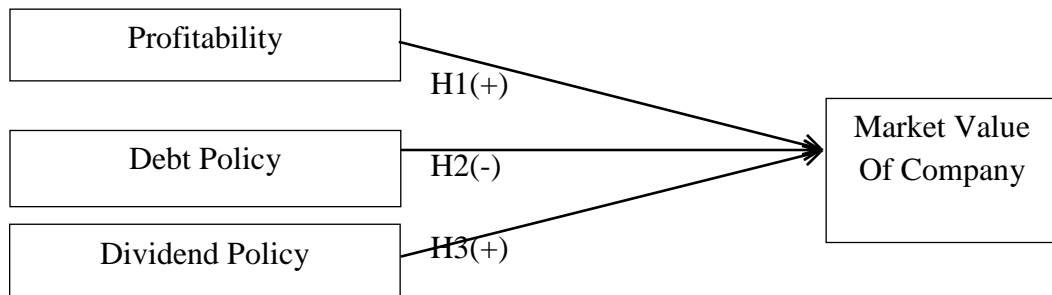
Based upon the foregoing limitations and inconsistencies assessment results previous studies, this study will examine the company's characteristics

factors that affect value of the company with independent variables such as profitability, debt policy, and dividend policy.

Based on this description, the relationship between the variables are shown in the following research model:

Figure 2.1

Model Framework for Research and Thought Hypothesis



D. Hypotheses Development

1. Influence of profitability on Market Value of the Company

Profitability is important determinant of business performance. In the long run, the manager must earn a competitive return on the contributed resources if the business is to continue. In the short run, the manager must earn sufficient return to at least pay for variable costs. If this is not possible, then some short-term response to minimize losses will be necessary. In addition, Shah (2007) argues that there are a number of financial measures or ratios that can provide further insight into a firm's profitability.

Jensen (1986) shows that firms with more likelihood of agency problem use more debt to reduce availability of free cash flows at manager's hand so that managers can be restrained from bad investment decision. Profitability is the net profit level that can be achieved by the company during the course of operation. Decent profit distributed to shareholders is profit after interest and tax. The larger the profits, the greater the company's ability to pay its dividend, and this affects the value of the company increases.

Following Rajan and Zingales (1995), and Supanvanij (2006), the ratio of operating income to total assets is used as a proxy for profitability. Profitability in this study was measured by Earning Power, based on the model proposed by Teker, et al. (2009), by dividing operating income by total assets. This ratio describes the company's ability to generate profit from each dollar of assets used. By knowing this ratio can be determined whether the company efficient in utilizing its assets in the company's operations.

This discussion leads to the following hypothesis:

H1: Profitability has positively effect on Market Value of the Company

2. Influence of debt policy on Market Value of the Company

Incurrence of liabilities will increase the level of risk on the company's revenue stream, which is influenced by external factors while income raises the debt expense remains regardless of the amount of income. The greater the debt, the greater the likelihood of the company is unable to pay fixed obligations such as interest and principal. Bankruptcy risk will be higher because the rates will rise higher than the tax savings. Research conducted by Sadeghian et al. (2013) gives the results of the policies of debt and a significant negative effect on firm value.

According to research of Jensen and Meckling (1976), the conflict between debt-holders and equity-holders arises because debt contract gives equity-holders an incentive to invest sub optimally. More specifically, in the event of an investment yielding large returns, equity-holders receive the majority of the benefits. However, in the case of the investment failing, because of limited liability, debt-holders bear the majority of the consequences. In other words, if the project is successful, the creditors will be paid a fixed amount and the firm's

shareholders will benefit from its improved profitability. If the project fails, the firm will default on its debt, and shareholders will invoke their limited liability status. In addition to the asset substitution problem between shareholders and creditors, shareholders may choose not to invest in profitable projects (under invest) if they believe they would have to share the returns with creditors.

Variables Debt Policy as measured by the proportion of the structure of leveraged debt divided by total assets. With this formula means the higher the leverage the company's debt was also great that the company's large debt risk will be higher, this has resulted in the company's value will decrease, due to the higher leverage will cause financial distress so that the value of the company decreases. These results are consistent with Kelana's (2001) study which proved that leverage variables used to measure the structure of the negative effect on firm value.

On the basis of the above, the paper stated the following hypothesis:

H2: Debt Policy has negatively effect on Market Value of the Company

3. Influence of dividend policy on Market Value of the Company

There are three groups, the first group is Modigliani-Miller (MM) argued that dividend policy of irrelevant meaning no dividend policy of optimal because dividends do not affect firm value. The second group is the opinion of the Gordon-Lintner dividend less risky than capital gains, this resulted in an after-tax dividends will offer a higher dividend yield, so that it can minimize the cost of capital. The third group is that it tends to be taxed as dividends rather than capital gains, then investors will require a higher rate of return for stocks with high yields dividend. This group suggested that the dividend payout ratio (DPR), the lower will maximize firm value. Third opinion seems contradictory, but it can be said that the payment of dividends is often followed by a rise in stock prices. The increase in dividend payments seen as a signal that the company has good prospects. Conversely a decrease in dividend payments will be seen as the new company's prospects (Ishaq Zingina, 2009).

Most companies that committed to distribute dividends to shareholders will believe that dividend policy can affect value of firm's stock price. That was

because dividend reflects firm's prospects to get profit in future. Dividend policy was expected to give a positive signal regarding firm condition. Thus, dividend policy can increase firm value (Baker et al., 1985; Baker and Powell, 1999; Suranta and Machfoedz, 2003; Omran and Pointon, 2004; Dasilas et al., 2009, Mai, 2010).

On the basis of the above, the paper stated the following hypothesis:

H3: Dividend Policy has positively effect on Market Value of the Company

METHODS

A. Population and Sample

The population in this study is all listed manufacturing companies on the Stock Exchange from 2010 to 2012.

The reason manufacturers use in this research is the manufacturing industry is an industry that dominates the companies listed in Indonesia Stock Exchange (IDX). Approximately 148 companies in the manufacturing industry are grouped into several sub-industry categories. Many companies in the industry, as well as current economic conditions have created an intense competition among manufacturers. Competition in the manufacturing industry make each company in order to further improve the performance goals can still be achieved. The main purpose of publicly listed companies are increasing the prosperity of the owners or shareholders by increasing the value of the company (Salvatore, 2005).

The samples in this study were obtained by purposive sampling method samples taken based on the criteria used by Researchers. Samples taken with the criteria:

- a. Company consecutive consecutively listed in the Indonesia Stock Exchange in 2010, 2011, and 2012.
- b. The Company publishes its financial statements closing date December 31 in 2010, 2011, and 2012. Election period intended for research only focuses on a range of time so that the results would be maximized.

d. The financial statements in the sample have been audited by Public Accountant.

Because raw form of the auditor's report contains a statement that the financial statements present fairly, in all material respects, the financial position of an entity, the results of operations, and cash flows in accordance with accounting principles generally accepted in Indonesia.

e. The company pay dividends per year for 3 consecutive years from 2010 to 2012.

B. Data Analysis Methods

In this study, testing was conducted with linear regression analysis, a statistical method that is commonly used for examining the relationship between a dependent variable with some independents. The variable regression models used is as follows:

$$FP = \alpha + \beta_1 \text{ PROF} + \beta_2 \text{ DBP} + \beta_3 \text{ DVP} + \varepsilon$$

Description:

MVC = Market Value of the Company

PROF = Profitability

DBP = Debt Policy

DVP = Dividend Policy

E = Random error

β_i = Parameters to be estimated

α = constant

RESULTS AND DISCUSSIONS

A. Object of Research

1. Overview of Objects Research

The objects of research are companies in manufacture sector listed in

Indonesian stock exchange 2010-2012. There are 30 companies in sub sector of manufacture. The sample used are financial ratio that meets the criteria used in the research variables. The sample selection process can be seen in table 4.1 below:

Table 4.1

The Sample Selection Process

Description	Number
The manufacturing company listed on the Indonesia Stock Exchanged 2010-2012	148
Data can not be obtained from company, Data is not complete, Data can not download from situs www.idx.co.id	(118)
The number of samples used in the research object	30

Sources: Data Samples were processed

B. Descriptive Statistics

In this subchapter, Descriptive Statistics will be describe the value of every variable in term average point, standard deviation, maximum and minimum value and the growth from year to year started from 2010 until 2012. The data is described in the following table 4.3.

Table 4.3 Descriptive Statistics of All Variables during 2010--2012

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PROF	90	-0.19	0.42	0.1029	0.11068
DER	90	-31.78	40.37	0.9630	5.53641
DVP	90	0.00	365.00	23.4778	47.31397
MVC	90	-93.49	39.47	2.9281	11.65168
Valid N (listwise)	90				

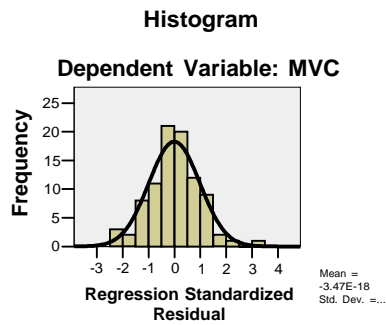
Source: Secondary Data processed, 2014

C. Classical Assumption Test

1. Normality Test

Figure 4.1

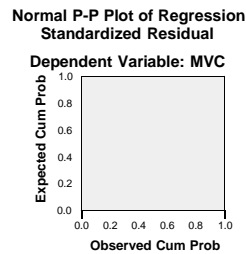
Histogram in Manufacturing Company



Source: Secondary data were processed, 2014

Figure 4.2

Normal Probability Plot Manufacturing Company



Source: Secondary data were processed, 2014

Table 4.4
Normalities Manufacturing Company
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		90
Normal	Mean	0.0000000
Parameters(a,b)	Std. Deviation	2.32195453
Most Extreme	Absolute	0.071
Differences	Positive	0.053
	Negative	-0.071
Kolmogorov-Smirnov Z		0.670
Asymp. Sig. (2-tailed)		0.760

a Test distribution is Normal.

b Calculated from data.

Source: Secondary Data processed, 2014

Based on the results in Table 4.4 above, the data is normally distributed. This is indicated by the value of the Kolmogorov - Smirnov for 0.670 and 0.760 is significant at greater than 0.05. This means that the data is normally distributed residual, because the significance value is more than 0.05.

2. Multicollinearity Test

Multicollinearity in the regression can be seen from the value of Tolerance and Variance Inflation Factor (VIF).

Table 4.5
The Multicollinearity Test Result of Manufacturing Company

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	PROF	0.895	1.118
	DER	0.987	1.013

	DVP	0.906	1.104
	a. Dependent Variable: MVC		

Source: Secondary data were processed, 2014

A regression model is free of multicollinearity problem if it has a value under 1 and VIF tolerance under 10. This show is not the case in the model multicollinearity.

3. Autocorrelation test

Table 4.6
The Autocorrelation Test Result of Manufacturing Company

Model	Durbin-Watson
1	1.984

a Predictors: (Constant), DVP, DER, PROF

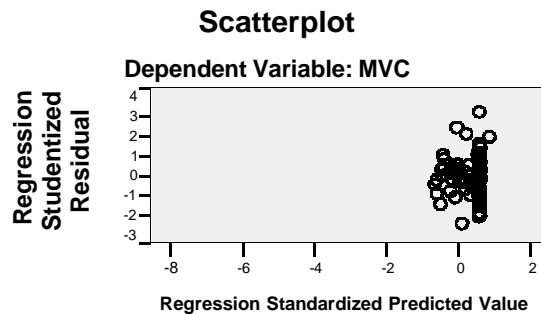
b Dependent Variable: MVC

Source: Secondary Data processed, 2014

Based on the results of the regression analysis on the data value Manufacturing Company Durbin Watson (DW) of 1.984, DW-table size: dL (outer boundary) = 1.589; dU (within limits) = 1.726; 4-dU = 2.274, and 4-dL = 2.411. Because $dU < d < 4-dU$, $1.726 < 1.984 < 2.274$ these results indicate that the regression model is there is no autocorrelation.

4. Heteroscedasticity Test

Figure 4.3
Scatterplot Graph Manufacturing Company



Source: Secondary data were processed, 2014

The test results of the 90 data of heterokedasticity of the data shown in Table 4.7 below.

Table 4.7
The Park Test Results of Heterokedasticity of Manufacturing Company

Coefficients ^a					
		Unstandardized Coefficients		Standardized Coefficients	
Model		B	Std. Error	Beta	t
1	(Constant)	1.246	0.352		3.539
	PROF	0.058	2.392	0.003	0.024
	DER	-0.008	0.046	-0.017	-0.165
	DVP	-0.017	0.006	-0.327	-3.056
Sig.					
					0.001
					0.981
					0.869
					0.099

a. Dependent Variable: LNU2I

Source: Secondary data were processed, 2014

D. Regression Analysis

1. t Test Results

t statistical test basically shows whether the independent variables included in the model has a partial effect on the dependent variable. Based on

SPSS output partial effects of the three independent variables, only Profitability (PROF) has affect on Market Value Of Company (MVC).

Table 4.8

Partial regression calculation results Manufacturing Company

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.485	1.623		-0.915	0.363
	PROF	41.987	11.021	0.399	3.810	0.000
	DER	0.236	0.210	0.112	1.124	0.264
	DVP	-0.006	0.026	-0.023	-0.221	0.825

a. Dependent Variable: MVC

Source: Secondary data were processed, 2014

Table 4.9

Results of Hypothesis Testing

No	Hypothesis	Prediction	Result	Result Coefficient	Conclusion
1.	H1: Profitability has positively effect on Market Value of the Company	+	t-statistic (3.810) > t-table (1.662) p-value (0.000) < 0.05	+	Accepted
2.	H2: Debt Policy has negatively effect on Market Value of the Company	-	t- statistic (1.124) < t-table (1.662) p-value (0.264) > 0.05	+	Rejected
3.	H3: Dividend Policy has positively effect on Market Value of the Company	+	t- statistic (-0.221) > t-table (-1.662) p-value (0.825) > 0.05	-	Rejected

Source: Secondary data processed, 2014

2. F Test Results

F test basically shows whether all the independent variables included in the model have jointly influence the dependent variable.

Table 4.10
Calculation results of F Test Manufacturing Company

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1892.188	3	630.729	5.323	.002 ^a
	Residual	10190.601	86	118.495		
	Total	12082.790	89			

a. Predictors: (Constant), DVP, DER, PROF

b. Dependent Variable: MVC

Source: Secondary data were processed, 2014

From the results of the regression analysis can be seen that the independent variables simultaneously have a significant effect on the dependent variable. This is evident from the value of F count > F table at $5.323 > 2.47$ with a probability of < 0.05 , namely $0.002 < 0.05$. Because the probability is much smaller than 0.05 or 5%, of the regression model can be said that the Profitability (PROF), Debt Policy (DER), Dividend Policy (DVP), have simultaneously affect the Market Value Of Company (MVC).

3. R² Test results

The coefficient of determination (R^2) was essentially measured how far the model's ability to explain variation in the dependent variable. Value (R^2) which is close to one means that the independent variables provide almost all the information needed to predict the variation in the dependent variable (Ghozali, 2006). The results of the calculation of the coefficient of determination can be seen in table 4.11 below.

Table 4.11

The coefficient of determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.396 ^a	.157	.127	10.88556

a. Predictors: (Constant), DVP, DER, PROF

b. Dependent Variable: MVC

Source: Secondary Data processed, 2014

Based on SPSS output appears that the calculation of Adjusted R square value is 0.127 or 12.7%. This means that 12.7%. of variation the Market Value Of Company (MVC) which can be explained by the variation of the three independent variable are the Profitability (PROF), Debt Policy (DER), Dividend Policy (DVP), while the rest of 87.3% influenced by other factors that are not included in the regression model.

CONCLUSIONS AND POLICY IMPLICATIONS

A. Conclusion

Based on test results and discussion on the influence of the the Profitability (PROF), Debt Policy (DER), and Dividend Policy (DVP), on Market Value of the Company. The researcher can summarize the findings in this study are as follows:

1. The result of testing the first hypothesis, the Profitability (PROF) statistically affect on Market Value of the Company (MVC). Results of this study support the agency theory shows the larger the profits, the greater the company's ability to pay its dividend, and this affects the value of the company increases.
2. The result of testing the second hypothesis, the Debt Policy (DER) does not significantly affect on the Market Value of the Company (MVC). The results do not support the agency theory, According to the agency theory, the conflict between debt-holders and equity-holders arises because debt contract gives equity-holders an incentive to invest sub optimally.

3. The results of testing the third hypothesis, the Dividend Policy (DVP) does not significantly affect on the Market Value of the Company (MVC). Results of this study does not support the Modligami-Miller (MM) theory. The Modligami-Miller (MM) theory shows the increase in dividend payments seen as a signal that the company has good prospects. Conversely a decrease in dividend payments will be seen as the new company's prospects.

B. Limitation of Research

This study has limitations that can be considered for the next researcher in order to obtain better results.

1. Observation period used in this study was only 3 years old, led the study results can not see the trend of Capital Structure that occur throughout the year.
2. This study only uses 3 independent variables tested for their affect on *Market Value of the Company*. Subsequent research, the independent variable should add audit field that is not used in this study such as industrial classifications, and others.
3. Adjusted R^2 values of 12.7 percent indicates variables that proxy Market Value of the Company can only be explained by the independent variables the Profitability (PROF), Debt Policy (DER), and Dividend Policy (DVP), while the remaining 87.3% is explained by factors outside the model.
4. Sample only from Manufacturing Company thus generalization to other Industries is limited.

C. Recomendation

Based on some of the limitations that exist in this study, the researchers suggest for future research :

1. The researchers could use more variety other variables such as industry classification, internal audit, others that can be used to test the Market Value of the Company.

2. For the annual report is used as the data in this study, researchers suggest using a longer period to be able to access the effectiveness and implications of factors affecting Market Value of the Company.
3. Other similar studies can also be performed to confirm these results using a different test approach and or add other variables that can affect the perceived Market Value of the Company.

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