CHAPTER I

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 profitability is the company's ability to earn profits, Saidi (2001). The investors to share in the company is to get a return, which is comprised of yield and capital gain. The higher the ability to make a profit, the greater the expected return investors, making the value of the company. Today many leaders led the company's performance based on financial performance. Paradigms adopted by many companies are profit oriented. Companies that can earn big profits, it can be said to be successful, or have a good financial performance. Conversely where profits derived by the company are relatively small, it can be said the company was less successful or less good performance.

As expressed by Bae, Kang and Wang (2011) and Byun, Hwang and Lee (2011), corporate debt and dividends are relevant in financial strategy, in the creation of corporate value in capital markets, and in a number of relations among stakeholders. Within the framework of both agency theory and information economics, debt and dividends can play a dual role. First, when firms lack growth opportunities, they can be used as control mechanisms to reduce moral hazard and the conflicts of interests among stakeholders thereby alleviating the problem of overinvestment. Second, among firms with growth opportunities, they can act as signals to disclose information in capital markets to mitigate adverse selection problems, although doing so may originate the problem of underinvestment (Harris and Raviv, 1991).

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.

According to Weston and Copeland (2012), dividend policy was a policy relating to firm's decision to share income available in form of dividends to shareholders or hold it as retained earnings for future investment. In addition, Wild, Subramanyam and Halsey (2004) point out that investors invest their funds in firm's stock to make a profit. Expected profit by investors and prospective investors were future shares results namely dividends and capital gains. Firm's commitment to pay dividend should enhance shareholder value. This shows company believes that information within dividend can provide a positive signal to investors.

Previous studies examined some factors that have influence on the firm value. Those are Dittmar and Mahrt-Smith (2007) in their research shows that corporate governance has a substantial impact on firm value through its impact on cash, this depends on the size of corporate governance. Literature suggests that poor corporate governance will result in loss of cash through acquisitions, this means that corporate governance have a positively impact on firm value. Agrawal and Knoeber (1996) reported that there is a negative relationship between the proportion of outside directors and firm performance among firms in the United States. There was a significant negative correlation between the percentages of female board with the value of the company has been founded by Shrader et al. (1997).

Other studies such as Himmelberg et al. (1999) found that managerial ownership and firm performance is determined by a set of characteristics, which is not related to the ownership structure. There is no evidence to support a positive relationship between ownership concentration and corporate performance was reported by Bhagat et al. (2004). Lins and Kalcheva (2004), in their research found that cash holdings (cash holdings) is negatively related to firm value. Previously, Harford (1999), concluded that companies with high cash holdings tend to decrease the value of the acquisition and merger. Furthermore, Myers and Rajan (1998), argues that the current assets can be turned into a benefit firms with lower costs than other assets, however, another study showed that cash holdings have a positive relationship with the value of the company. In Mikkelson and Partch (2003), researchers found that the cash holdings do not result in bad performance. Chen (2008) in his research shows cash holdings can increase firm value by reducing financing costs and increasing the added value by creating investment made by the company. This is consistent with Boyle and Guthrie (2003) who found that cash holdings (cash holdings) at the high level required of a potential investment.

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.

The reason use manufacturing companies because manufacturing company are companies dominate the companies listed on the Indonesia Stock Exchange (IDX), which are grouped into several sub categories. Manufacturing industry was one of most develop industries and providing largest contribution to Gross Domestic Product (GDP) of Indonesia compared to some other industries. The number of manufacturing companies, as well as current economic conditions has created a fierce competition among manufacturers. The competition encourages each company to further improve performance in order to remain objective achieved.

B. Problem Formulation

Based on the backgroud in first subchapter, the problem is known that it is not always the same Market Value of the Company, but also it is changing, as well as some research findings are not consistent, so it needs to be examined again, and therefore posed a few questions to answer the 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?

C. Objectives Research

Based on the above formulation of the problem, the objectives to be achieved In this study are to:

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

D. Research Benefit

This study is expected to be beneficial for those in need, both theoretically and practically. Here are some of the benefits of this research.

1. For the company, giving consideration in formulating financial and non-financial performance of the company to improve company value.

2. For investors, giving consideration in assessing the performance of companies that can help make decisions to invest in the company.

3. As a reference for research on factors that affect the value of the company further.

E. Writing Outline

Writing Outline of this paper contains an explanation which each chapter contains a brief of the whole thesis. The research thesis is divided into 5 (five) chapters and each chapter is further divided into some sub-sections, it is intended to be more clear and easy to understand. Broadly speaking, the discussions of the material of each chapter are explained as follows:

Chapter I: Introduction

Introduction contains background problems, formulation of the problem, the purpose and usefulness of research and writing systematic.

Chapter II: Literature Review

This chapter describes the theory used as a basic reference for the theory of research, framework for research and hypotheses used in the study.

Chapter III: Research Methods

This chapter will describe the type of data, data sources, data collection techniques, the operational definition of variables, and methods of analysis.

Chapter IV: Results and Analysis

This chapter describes the research object descriptions which are used, and the processing of the data has been obtained and interpretated.

Chapter V: Conclusion

This chapter of the conclusion is obtained by processing the data that has been done, and contains about suggestions that may be useful to the parties concerned and other research.