

Funding decisions and dividend policy to company value

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Abstract

This study aims to examine the relationship between funding decisions and dividend policy on the value of industrial companies. The samples tested in this study were industrial companies listed on the Indonesia Stock Exchange in 2017-2021. Determination of the sample in this study using purposive sampling method, using secondary data while the analysis method used is panel data regression analysis. The results of this study that partially funding decisions have a negative and significant effect on firm value. Dividend policy partially has a negative and insignificant effect on firm value. This study provides input to enrich the theory of the relationship between funding decisions and dividend policy on the value of industrial companies.

Keywords: Company Value; Dividend Policy; Funding Decisions; Indonesia stock exchange

1. Introduction

Economic development and growth are growing rapidly in the era of digital globalization, both in Indonesia and throughout the world. The condition of the existence of each individual in the business world is getting sharper, resulting in companies in the economic field being required to continue to innovate in creating and implementing strategies to maintain their existence, both independently and as a corporation. With the existence of free economic competition, each company and individual needs to plan and innovate strategically, so that it can become a reference for other companies to improve operational efficiency to achieve business success and achieve company goals.

Every company will always try to achieve its company goals. First, the short-term goal of the company is to maximize company profits, while the long-term goal of the company is to improve the welfare of the owners and shareholders by increasing company value [1]. The owner or director in the company must be able to fulfill the shareholders' desire for superior performance by creating strategies that are useful, easy to use and can be carried out by other companies. With the management of the company that has been carried out, if the company is sold, the value of the company will be paid by potential buyers is even greater. The profits obtained by the buyer will be proportional to the high value of the company that has good company management, the value of the company can increase according to the activities carried out by the company, it will create prosperity for the owner of the company.

The state of the company can be described by the value of the company. The company can be said to be good by potential investors if the company's value is good, the better the company's value, the better the company's performance. Cooperation between companies will be good if potential investors can find out information about the development of the company to be carried out the cooperation, so that the information can be used as a reference in making investment decisions in the capital market. The main focus in looking at the value of the company is by looking at the high and low value of the company. Companies that go public will have stock prices that tend to be stable.

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Investors can invest in a company if they see the high value of a company. Optimization of financial management is needed to increase the value of the company through the policies taken because one financial policy will affect other financial policies and have an impact on the value of the company. Investors can invest in a company if they see the high composition of capital to be used. The source of funding from within the company in the form of retained earnings and external funding sources in the form of debt.

Debt policy is very sensitive to changes in firm value. The value of the company will be higher if the proportion of debt set by the company is high, but if the debt owned exceeds the established standard, the value of the company will decrease. The tradeoff theory is that if the funds are high, the burden will be high too and that will cause financial distress. The burden borne is greater than the others, namely bankruptcy costs, agency costs, increasing interest expenses and so on.

Dividend policy has an effect on firm value. Dividend policy relates to decisions that explain how much of the company's net profit will be paid to shareholders as dividends or retained as retained earnings for future financing [2]. Dividend policy is the same as part of internal spending decisions. Because the size of the dividend paid will affect the company's internal source of funds, namely retained earnings.

According to The Bird in The Hand Theory (relevant dividends) proposed by Gordon and Lintner (1956) investors are much more appreciative of income from dividends than income from capital gains in this case called capital gains, because investors believe that the risk possessed by dividends smaller than the capital gains obtained from capital gains. High dividends will increase the confidence of potential investors in buying shares of a company.

Shareholders' wealth will increase with dividends [3]. The determination of the number of dividends distributed is the authority of the company's management, the determination of this policy will at the same time affect the value of the company and the stock market price. The larger the dividends distributed, the value of the company will increase because the stock price will tend to be high so that it will attract investors to invest [4].

Funding decisions affect the quality of earnings obtained by the company, which the quality of these earnings can also affect the dividend policy that will be distributed to investors [5]. The management's desire to obtain funding sources through the capital market and the desire to maximize the value of the company will trigger the company to make discretionary accruals so that the company's performance looks good. The purpose of the discretionary accrual manipulation is to manipulate the magnitude of the profit figure so that it can affect the quality of earnings.

Funding decisions in this study will be measured using the Debt Equity Ratio (DER) and dividend policy is measured using the Dividend Payout Ratio (DPR). These measurements will be used to determine the effect of each variable on firm value which is measured using the Price to Book Value (PBV) ratio. And the quality of earnings which is the moderating variable in this study will be measured using the Quality of Income Ratio (QIR). Firm value in this study is measured by using the ratio of the stock market price to its book value (PBV). Price to book value (PBV) is used by securities analysts to estimate stock prices in the future. The magnitude of the results of the PBV calculation shows the comparison between the performance of the company's shares in the stock market with its book value. Companies with relatively high returns on equity usually have a stock market price that is greater than its book value compared to companies with low returns on equity. Companies that have a higher PBV indicate that the company's performance in the future is considered more prospective by investors.

Based on the PBV ratio and the average company value in industrial sector companies listed on the IDX in 2017-2021.

Table 1 Average PBV of Industrial Company Sector in 2017-2021

Sector	Price value book (PBV)				
	2015	2016	2017	2018	2019
Various Industries	1.25	1.24	1.42	1.36	2.34
Consumer Goods Industry	5.85	6.19	6.97	6.76	5.89
Basic and Chemical Industry	1.04	1.68	1.74	1.80	2.29

Source: processed field data (www.idx.co.id)

As seen from table above, it can be explained that the average PBV value fluctuates every year from 2017-2021. From 2017-2019 the PBV value has increased every year for the three sectors. Then in 2020, the various industrial sectors and the consumer goods industrial sector both experienced a decline from the previous year, while the basic & chemical industry sector experienced an increase. In 2021, the sectors that experienced an increase in the PBV value were the various industries and basic & chemical industries, while the consumer goods industry experienced a decrease of 0.89.

2. Literature Review and Hypothesis Development

This research is guided by previous studies. According to research conducted by [2] with the research title "Investment Decisions, Funding Decisions, Dividend Policy, Profitability, Firm Size, and Company Value in the Various Industry Sector on the Indonesia Stock Exchange". The results show that funding decisions have no effect on firm value and dividend policy and firm size have a negative effect on firm value. In contrast to the research conducted by [6] with the research title "The Influence of Financial Decisions on Firm Value with Profitability as a Moderating Variable" shows the results that dividend policy (DPR), debt policy (DER), together positive and significant effect on firm value. Research conducted by [7] also shows that dividend policy has a positive effect on firm value. Another study was also conducted by [8], entitled "The effect of investment decision, funding decision and dividend policy on company value study on manufacturing companies listed in Indonesia stock exchange period 2009-2013". The results of the study show that there is a simultaneous positive effect of funding decisions and dividend policy on firm value. In addition, partially there is no significant negative effect on funding decisions on firm value. And partially there is a significant positive effect of dividend policy on firm value

2.1 Signal Theory

Signaling theory helps investors to consider and determine whether or not investors will invest their shares in the company concerned, by providing signals about the actual condition of the company [9]. The signal in question can be in the form of promotions or other information stating that the company is better than other companies. However, the value of the company can be increased if management voluntarily reports or provides credible information on the entity so as to reduce the uncertainty faced by outsiders regarding the future prospects of its investment.

2.2 Funding Decision

Funding decision, which is a financial decision related to the composition of debt, preferred stock and common stock that must be used by the company. Funding decisions arise from the opportunity cost of funds or own capital used, funding decisions that are not done carefully will cause fixed costs in the form of high capital costs, which in turn can result in low company profitability, so that company value will decrease. The results of the study [9] show that funding decisions have a significant positive effect on firm value. Where the benefits obtained from financing with debt are reducing the company's taxable income due to interest costs on debt. The higher the proportion of debt, the higher the stock price because the use of debt is expected to increase the company's rate of return so that in the end it is able to increase the company's price through the fulfillment of capital needed by the company in order to launch operational activities. In addition, optimal debt policy making has an influence in disciplining the behavior of managers.

Based on the description above, it can be put forward the hypothesis:

H1: Funding decisions have a positive effect on firm value.

2.3 Dividend Policy

The company distributes dividends if the company has excess funds obtained from the company's operations (profit after tax + depreciation). The maximum amount of funds to be distributed as dividends is measured using net profit after tax (dividend payout ratio). The higher the cash dividend payment of a company, the more positive a signal will be for shareholders. This signal indicates that the company's profits are increasing. The increase in the company's profit resulted in an increase in the company's stock price. An increase in the company's stock price will have an impact on increasing the value of the company.

Research conducted by [6], [1] regarding the effect of dividend policy on firm value. Both result in the conclusion that dividend policy has a significant positive effect on firm value. The influence of dividend policy on firm value shows that if dividend payments to shareholders increase, the value of the company will also increase. These results are consistent with the Bird in the Hand theory proposed by Myron Gordon (1963) and John Lintner (1962) in [10] that shareholders prefer dividends paid to the promise of growth resulting from bird in the hand earnings. According to this theoretical view, dividend payments made today are better than capital gains in the future.

Based on theoretical studies and the results of previous studies, the following hypotheses are formulated:

H2: Dividend policy has a positive effect on firm value.

3. Method

The population that will be observed in this study are all industrial sector companies listed on the Indonesia Stock Exchange for the period 2017-2021. In the Consumer Goods Industry Sector, there are 61 listed companies. Then in the Basic Industry and Chemical Sector there are 80 companies. Lastly, in the Miscellaneous Industry Sector there are 52 companies. So, the overall population in this study were 193 companies. The use of these five periods, with the following considerations:

- To see the consistency of the influence of each independent variable on the dependent variable.
- Data for the year includes new data.
- As a continuation of the previous research period which was used as a reference for this research.

According to [11], the sample is part of the characteristics possessed by the population. For this reason, samples taken from the population must be truly representative. The sample in this study was determined by using the purposive sampling method, namely the technique of determining the sample with certain considerations or criteria. The criteria used in sampling are as follows:

- Industrial Companies listed on the Indonesia Stock Exchange.
- Industrial Companies that present financial reports for 5 years of observation for the 2017-2021 period, which can be accessed through the IDX website (www.idx.co.id) or from the company's official website.
- Industrial Companies that use the rupiah currency in their financial statements for the period 2017-2021.
- Industrial Companies that distribute dividends during the observation period, namely the 2017-2021 period.
- From the above criteria, manufacturing companies that meet the criteria and are used as samples in this study amount to 54 samples of companies.

4. Results

Based on the calculation results from the table above, it can be seen that the amount of data on each variable is 270 which comes from 54 samples of industrial companies listed on the Indonesia Stock Exchange for the period 2017 to 2021. Each variable will be described according to the data in the table above as the results of the descriptive analysis show that from 270 observations, firm value data ranges from 0.120000 to 30.170000 with a median value of 1.585000 and an average (mean) of 2.780296 with a standard deviation of 4.127379.

The table above shows that from 270 observations, capital structure data ranges from 0.080000 to 4.550000 with a median value of 0.540000 and an average (mean) of 0.811074 with a standard deviation of 0.761500. from 270 observations, managerial ownership data ranges from -0.590000 to 5,000000 with a median value of 0.350000 and a mean of 0.456852 with a standard deviation of 0.502848.

Table 2 Research Data Descriptive Statistics

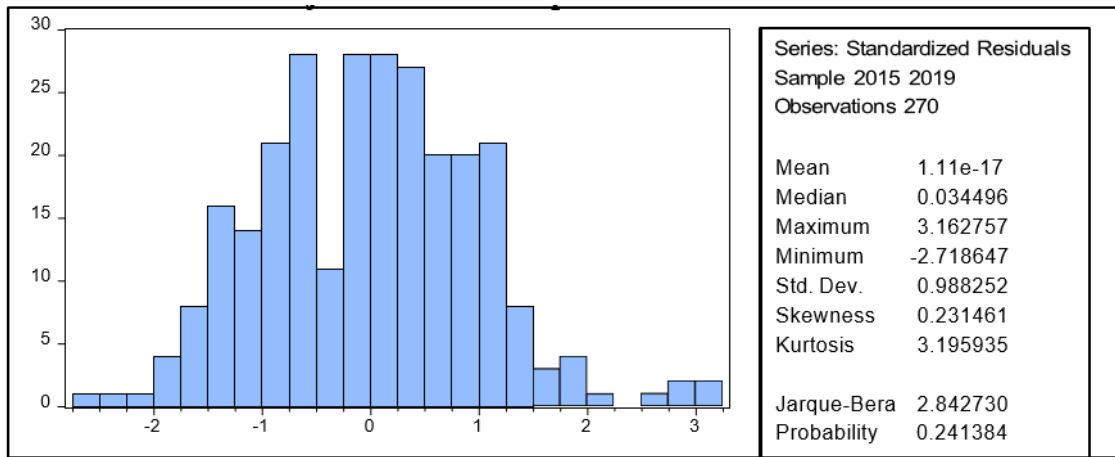
	PBV	DER	DPR
Mean	2.780296	0.811074	0.456852
Median	1.585000	0.540000	0.350000
Maximum	30.170000	4.550000	5.000000
Minimum	0.120000	0.080000	-0.590000
Std. Dev.	4.127379	0.761500	0.502848

Source: processed field data

Prior to the regression analysis, the classical assumption test was carried out which included normality test, multicollinearity test, and heteroscedasticity test.

4.1 Normality test

The normality test aims to determine whether the residual model is normally distributed or not. In this study, the normality test was carried out using the jarque-fall test. The residual is said to be normally distributed if it has a value above or equal to 0.05. The results of the normality test can be seen from the image below:



Source: processed field data

Figure 1 Normality Test Results

Based on the results of the Jarque-Bera test in the image above, it can be seen that the Jarque-Bera value is 2.842730 with a probability of 0.241384. Because the probability value is $0.241384 > 0.05$, it can be said that the residuals in this research model are normally distributed.

4.2 Multicollinearity Test

Table 3 Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.189093	3.035452	NA
DER	0.107950	2.141124	1.001154
DPR	0.247565	1.830602	1.001154

Source: processed field data

In the table above, it can be seen that each independent variable used has a cantered VIF below 10 so it can be concluded that each independent variable used is free from multicollinearity symptoms.

4.3 Heteroscedasticity Test

Table 4 Heteroskedasticity Test: Harvey

F-statistic	2.048098	Prob. F(2,267)	0.1310
Obs*R-squared	4.079633	Prob. Chi-Square	0.1301
Scaled explained SS	3.200835	Prob. Chi-Square	0.2018

Source: processed field data

The results of the heteroscedasticity test (Harvey) based on the table above shows that the probability value of Chi Square is 0.1301 which is greater than the alpha level of 0.05 so that based on the hypothesis test H_a is accepted, which means that all research variables that will be formed into the regression model are free from symptoms. heteroscedasticity.

4.4 Estimated Random Effect (RE)

Table 5 Estimated Result of Random Effect (RE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.621889	0.208863	2.977495	0.0032
DER	-0.121765	0.059120	-2.059631	0.0404
DPR	-0.107281	0.063002	-1.702815	0.0898
Effects Specification				
			S.D.	Rho
Cross-section random			0.917469	0.8684
Idiosyncratic random			0.357183	0.1316
Weighted Statistics				
R-squared	0.023413	Mean dependent var		0.081323
Adjusted R-squared	0.016098	S.D. dependent var		0.362728
S.E. of regression	0.359797	Sum squared resid		34.56410
F-statistic	3.200605	Durbin-Watson stat		1.223912
Prob(F-statistic)	0.042305			
Unweighted Statistics				
R-squared	0.004387	Mean dependent var		0.474117
Sum squared resid	273.1937	Durbin-Watson stat		0.154848

Source: processed field data

Based on the selected estimation model, the panel data regression model equation is obtained as follows:

$$Y = 0.621889 - 0.121765X_1 - 0.107281X_2 + e$$

Based on the results of the panel data regression above, it can be interpreted as follows:

- The value of constant a is 0.621889, meaning that if the funding decision and dividend policy are considered constant (fixed or unchanged) then the firm value is 0.621889.
- The value of the regression coefficient for funding decisions is -0.121765, meaning that if the funding decision increases by one unit, with dividend policy considered constant, the firm value will decrease by 0.121765.

The value of the dividend policy regression coefficient is -0.107281, meaning that if the dividend policy increases by one unit, with funding decisions considered constant (fixed), the firm value will decrease by 0.107281.

5. Discussion

The results of testing the first hypothesis show that the results of the partial test on the funding decision variable have a t-statistic value of -2.059631 with a probability of 0.0404 < 0.05. Because the probability value is smaller than the 5% significance level, it shows that the funding decision variable partially has a negative and significant effect on the firm value (PBV) of industrial companies listed on the Indonesia Stock Exchange in 2017-2021. Thus, H_0 is rejected, H_a is accepted. The results of this study are in line with research conducted by [12] which shows that funding decisions have a significant positive effect on firm value. This shows that with a large debt, management is expected to be able to optimize debt to finance its operational activities properly, in order to obtain a large profit as well. So that the value of the company will increase. The results of this study support the signaling theory, in which the source of funding obtained from outside the company by using debt is expected by investors to capture positive signals indicating that the company has prospective prospects in the future.

The results of testing the second hypothesis show that based on the results of the partial test, the dividend policy variable has a t-statistic value of -1.702815 with a probability of 0.0898 > 0.05. Because the probability value is large from a significance level of 5%, it shows that the dividend policy variable partially has a negative and insignificant effect on firm value in industrial companies listed on the Indonesia Stock Exchange in 2017-2021. Thus, H₀ is accepted H_a is rejected.

The results of this study are different from the research conducted by [13], [7] which both concluded that dividend policy has a significant positive effect on firm value. And in line with research conducted by [14], which states that dividend policy has no significant effect on firm value. The level of dividends distributed to shareholders is not related to the high and low value of the company because the value of the company is determined only by the company's ability to generate profits. Shareholders only want to get short-term profits by obtaining capital gains. So, for users of financial statements who will make a decision should not rely only on data regarding funding decisions, dividend policy of a company but also pay attention to other factors or other ratios in relation to company value.

5.1 Managerial Implication

This study provides input to enrich the theory of the relationship between funding decisions and dividend policy on the value of industrial companies.

6. Conclusion

From the results of this study, it can be concluded that the funding decision variable partially has a negative and significant effect on the firm value (PBV) of industrial companies listed on the Indonesia Stock Exchange in 2017-2021. The dividend policy variable partially has a negative and insignificant effect on firm value in industrial companies listed on the Indonesia Stock Exchange in 2017-2021.

Compliance with ethical standards

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Disclosure of conflict of interest

The Authors wish to declare that none has any interest to disclose.

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