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The Effect of Debt Policy, Dividend Policy, Investment Decisions and Corporate Size on Corporate Value

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ABSTRACT

Business development in the era of globalization requires all types and sectors of businesses to compete for survival. A company must implement a strategy that can improve its performance to achieve its goals. A company's value deals with the price a potential buyer would pay when the company is sold. This recent paper examines the impacts of debt policy, dividend policy, investment decisions, and corporate size on the values of IDX-listed manufacturing companies of 2018-2020. We purposively selected 69 manufacturing companies and conducted 207 observations. Research data were analyzed by a multiple linear regression test. The results suggest that debt policy, investment decisions, and company size has a partial effect on firm value. Also, dividend policy has no partial effect on company value.

Keywords: Company Size, Debt Policy, Dividend Policy, Firm Value, Investment Decision.

INTRODUCTION

The evolution of the business world in the age of globalization requires that all types and sectors of businesses can compete for survival. To survive, a company must implement strategies to improve its performance and achieve its goals. Starting a company has goals to achieve maximum profits, strive for owner prosperity or shareholders, and maximize the company value (Dewi & Novitasari, 2021).

It is confirmed that the number of medium-large-scale manufacturing industry companies reaches 30,381 companies (Kemenperin, 2020), a fairly large number that contributed to the Indonesian economy. The Covid-19 outbreak at the end of 2019 made several countries close access to and from their countries, giving a hard impact on people's life activities, especially business activities. Companies in Indonesia had to make appropriate policies to deal with the worst that might happen to their business as a result of this condition. They must be able to manage their finances and make wise decisions regarding debt, assets, investments, and dividend policies. Some parties in the company hope the company can increase its value during economic turmoil due to the pandemic.

Stocks are the main purpose of a company. The fund obtained by the company from investors become a source of funding for operational activities. The companies will try to improve stock performance, especially during the pandemic. Investor confidence in the company's performance needs to be maintained properly to get a positive reaction to every policy taken by the company. A factor affecting corporate value is debt policies. Debt policy is a policy pursued by a company to direct its operations to financial debt, commonly referred to as financial leverage (Brigham and Houston, 2014). Investors and shareholders tend to choose companies with low debt levels. A company's low debt level means that the company's operations are financed with less debt. This demonstrates that a company's financial performance can operate efficiently and effectively. As a result, investors will have more confidence in companies that perform well, which will affect the company's value.

Dividend policy also affects company value (Wijaya & Sedana, 2015). This policy involves two parties with different interests: shareholders and the company management. When a company implements a policy to allocate a larger profit (dividends) than retained earnings, the opportunity for investors to obtain a return on capital in the form of dividends is greater. This will improve investor welfare and become one of the attractions for potential investors. Consequently, the stock price will increase so does the company's value.

In general, investment is an activity of placing a number of funds during a certain period in the hope of earning income and increasing its value in the future (Jogiyanto, 2010). Research conducted by Sunengsih and Kusumawardani (2021) underlined a positive effect of investment decisions on firm value. Company size also affects its value. The larger the size, the easier to gain internal and external initial resources (Novilian & Zulfikar, 2016). The increase in total assets and income affects the company's capital. Also, sales volume increases along with the increase in company turnover. Firm size affects firm value from the investor point of view (Yulfiatmi, 2021). Arifianto and Chabachib (2016) concluded that firm size positively affects firm value. However, Widiyasari and Nursiam (2020) found that firm size does not affect firm value.

LITERATURE REVIEW

Signaling Theory

This theory states that managers can use signaling to minimize information asymmetry. Managers submit information obtained from financial statements that they apply a conservatism accounting policy to obtain quality profits. The company can prevent taking actions to increase profits and help users of financial statements to present profits and assets that are not overstated.

Firm Value

The high corporate value increases shareholder wealth allowing them to invest. A company with good value shows good performance. Company value is shown in its share price. A high stock value indicates good company value. Thus, companies must increase their value by increasing the owner's or shareholder's prosperity because this is the company main goal (Wahidahwati, 2002).

The Effect of Debt Policy on Firm Value

Firm value is largely determined by financial policies that describe the composition of financing in the company's financial structure. The larger the company, the greater it will require capital, which is usually met by using external funding sources or, in other words, debt. Companies with high debt values will lead to investor interest decline. They believe that too high debt will bring a big risk to the company and reduce the amount of profit, causing stock prices to fall and decreasing company value. Hertina, Bayu, Hidayat, and Mustika (2019) stated that debt policy has a negative effect on firm value. This indicates that, when a company has a high amount of debt, investor confidence in the company's financial performance decreases. They are not interested in investing or buying its shares. Under these conditions, the stock price will decrease, and so does the company's value. Attractive debt will reduce investor confidence, so the decline in stock prices will also automatically reduce the company's value. The first hypothesis is:

H_1: Debt policy has a negative effect on firm value

The Effect of Dividend Policy on Firm Value

Dividend policy influences the profit the shareholders get. When it stipulates to distribute greater profits greater than the amount of retained earnings, shareholders will be more interested in investing. Profits (dividends) determine company welfare. The higher the dividend, the better the company's performance. Companies with good managerial performance are profitable and has better assessment (Lontoh & Lindrawati, 2004). Widiyasari and Nursiam (2020), Tannia, Tanado, and Putri (2018) contended that dividend policy positively affects firm value. This indicates that the higher dividend, the better the view of shareholders on the company's performance, increasing company value. The second hypothesis is:

H_2: Dividend policy has a positive effect on firm value.

The Effect of Investment Decisions on Firm Value

Investment decisions are taken by managers to apportion funds to various kinds of assets. It describes the company's growth rate. It is vital to maximize profits and minimize losses. The decision-making is not easy because it has to consider many aspects of the company's financial management. The high amount of company investment increases company value and attracts

investors (Wijaya & Sedana, 2015). The company comprises the value of real assets with investment options. Accurate investment decisions increase company value. Maiyaliza (2013) stated that investment decisions positively affect firm value. The third hypothesis is:
H_3: Investment decisions have a positive effect on firm value.

The Effect of Firm Size on Corporate Value
The size of company assets drives its operational activities. Companies must be smart in managing their finances or assets to the maximum extent to produce a good performance. Company performance will be better and brings in investors to increase stock prices (Arifianto & Chabachib, 2016). Yulfiatmi (2021), Arifianto and Chabachib (2016) revealed that firm size positively affects firm value. We hypothesized:
H_4: Company size has a positive effect on corporate value

RESEARCH METHOD

We researched manufacturing companies registered as issuers and annual financial report data for the 2018-2020 period through the IDX website. These companies were chosen because they are rapidly growing companies in Indonesia and. In three years (2018-2020), have experienced the economic impact of the pandemic in 2019-2020. Those companies which were listed on IDX from 2018-2020, submitted their financial statements for three years in a row, and used IDR for the financial statements, were purposively selected as the sample. Based on the results of the sampling, 69 companies were obtained with 207 observations for three years. The collected data were analyzed using a multiple linear regression test.

RESULTS

Table 1 shows the descriptive test in below with the observation (N) is 207 and the statistics for each research variable are Debt Policy (DP), Dividend Policy (DIP), Investment Decision (ID), Company Firm Size (CZ), and Firm Value (FV).

Table 1. Descriptive Statistics (*N* =207)

	Min.	Max.	Mean	S. Dev
DP	.00	8.39	1.5714	1.95337
DIP	.02	4.46	.6180	.79374
ID	1.10	246.00	32.3009	33.02920
CZ	7.46	26.73	18.7168	4.51991
FV	.00	45.90	3.6517	6.29434

Table 2. Multiple Linear Regression Analysis Test

Construct	B	Std. E	β	t	Sig.	Tolerance	VIF
constant	9,322	2,132		4.372	.000		
DP	0,607	0,225	0, 188	2.699	.008	.821	1.217
DIP	0,290	0,610	0,037	.476	.635	.676	1.480
ID	0,060	0,015	0,316	4.140	.000	.688	1,453
CZ	0,365	0,098	0,262	3.723	.000	.805	1.242
FV (Dependent Variable)							
Ftest = 12.003, .sig.= 000b							

Based on Table 2, the multiple regression model is:

$$FV = 9.322 + 0.607\ DP + 0.290\ DIP + 0.060\ ID + 0.365\ CZ$$

The t-test to partially test the regression coefficients determines whether each of the independent variables used as research models (DP, DIP, ID, CZ), affect FV with a significant level of 10%. The multiple linear regression analysis shows the constant value obtained is 9.322, meaning that if all independent variables are considered constant (0), the dependent variable is 9.322. The debt policy coefficient (DP) is 0.607 with a significance of 0.008 less than 0.05. If DP increases by one unit, FV increases by 0.607 units. DIP coefficient is 0.290, and the significance is 0.635 (>0.05), DIP does not affect FV. ID coefficient is 0.060 and the significance is 0.000 (<0.05). If ID increases by one unit, FV will increase by 0.060 units. CZ coefficient is 0.365 with a significance of 0.000 (>0.05). If CZ increases by one unit, FV will increase by 0.365 units.

The multicollinearity determines the correlation between the independent variables. Good regressions show no correlation between the independent variables, indicated by tolerance (TOL) or Variance Inflation Factor (VIF) values. VIF not more than 10 and TOL not less than 0.1 indicates the model is free from multicollinearity (Ghozali, 2016). Table 2 indicates that all independent variables have TOL values of >0.10 and VIF values of <10, suggesting no double correlation between the independent variables. The F test shows a significance value of 0.000 (<0.05). It indicates that the variables have a simultaneous effect on FV.

Table 3. Npar Test

	Unstandardized Residual
N	207
Kolmogorov Smirnov	.213
Asymp. Sig. (2-tailed)	.065c

The Kolmogorov Smirnov test in Table 3 shows the Asymp value. Sig. (2-tailed) of 0.065 (>0.05), highlighting that the normal distribution.

Table 4. Model Summary

Adjusted R Square	.176
Durbin-Watson	1,953

To test the autocorrelation, we conducted the Durbin-Waston statistical test (DW test) with the following criteria: (1) Values below -2 means positive autocorrelation; (2) Values between -2 to +2 means no autocorrelation; (3) Values above +2 means negative autocorrelation (Ghozali, 2016). Table 4 illustrates that N = 207 and the four independent variables will be compared with the Durbin Watson value and a significance level of 5%. The DW value is 1.953 greater than the limit above DU which is 1.662 and less than (4-DU) 4-1.662 = 2.338. It can be concluded that there is no autocorrelation. The Adjusted R^2 value is 0.176 or 17.6% by DP, DIP, ID, and CS. The remaining 82.4% is explained by other variables.

Table 5. Heteroscedasticity Test Results

Construct	t	Sig.
Constant	1,848	0,066
DP	-0,999	0,319
DIP	0,545	0,586
ID	1,347	0,179
CZ	-1,032	0,303
Dependent Variable: ABRES		

Table 5 confirms that all independent variables have a significant value greater than 0.05 to the absolute residual, indicating no heteroscedasticity.

DISCUSSION

The regression model in this study, after being analyzed, has met the overall classical assumption test, signifying that this regression model has no heteroscedasticity, multicollinearity, and autocorrelation, and the resulting data are normally distributed. Partially, Debt Policy with a t-count value of 2.699 with a significance of 0.008 <0.05 indicates a positive effect on the company's value. Therefore, the first hypothesis is rejected. This question may suggest that when a company has a high debt ratio, the market response to the value of the company increases. This is supported Widiyasari and Nursiam (2020), Wati, Sriyanto, and Khaerunnisa (2018) and in contrast with Hertina et al., (2019), asserting that debt policy negatively affects firm value. However, Purnomo (2017) and Palupi and Hendiarto (2018) concluded that debt policy does not affect firm value.

The t-count value is 0.476 with a significance of 0.635 (>0.05), suggesting that Dividend Policy does not affect Company Value. Thus, the second hypothesis is rejected. Dividend payout ratio is just a detail and does not affect the shareholders. The increase is not necessarily followed by the increase in company value. This study is supported by Steven (2021) and Aprilia and Yulianto (2016) contending that dividend policy does not affect company value.

The investment decision has a t-count value of 4.140 with a significance of 0.000 (<0.05), suggesting the third hypothesis is accepted. The higher the investment decision, the higher the investor's confidence will increase, increasing company share demand and company value. This is supported by Maiyaliza (2013), Sunengsih, Iskandar, and Kusumawardhani (2021) stating that investment decisions positively affect firm value.

The t-count value of Company Size is 3.723 with a significance of 0.000(<0.05). This means that the fourth hypothesis is accepted. This shows that high company size causes higher company value since large companies tend to be more stable. This increases company share price. Investors highly expect large company dividends. The increase in share demand increases share prices. This study corroborates Yulfiatmi (2021), Arifianto and Chabachib (2016), and Hertina et al., (2019) contending that firm size positively affects firm value.

CONCLUSION

Our analysis concludes that the Debt Policy, Investment Decision, and Company Size reflect the manufacturing companies' value. They must take the right policy in proportioning the amount of debt needed, and make wise investment decisions. They must manage finances as much as possible so that investors can see an increase in company performance. This is because the proportion of the debt is directly proportional to company value and the market response is positive. Most investors will consider the company's average debt holdings in their investment decisions. Investors who prefer large profits in the future hope that they will not find too many risks in the future. Even though there is a high risk in investing, the expectation of getting a high return is also there. Well-decided investment activities bring a good impact on company value, bringing benefits in the future. This investment decision must also be taken as wisely as possible given the existence of several assets and capital ownership in the company. If the number of assets and capital ownership is greater, it can optimize the company's performance so that the value of the company gets better from time to time. Better company value will foster public confidence to act as investors in the company. However, dividend policy cannot affect firm value because investors expect dividends in the future to be greater than current small profits. This may still make sense because it considers the interests of the company in prioritizing the fulfillment of obligations. This affects the dividend policy and the investor pursues greater profits than before.

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We declare no potential conflicts of interest concerning the study, authorship, and/or publication of this article.

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