

## Corporate Value Impact Of Financial Management Policies

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**Abstract:** The purpose of this study was to determine the impact of financial management policies on firm value in the Automotive and Components sub-sector. Financial management policies in this study consist of investment decisions, measuring indicators using Price Earning Ratio, funding decisions using debt to equity ratios, dividend policies using dividend payout ratios and Price to Book Value as indicators of measuring firm value. This study uses panel data analysis which is a combination of periodic data and individual data. By using purposive sampling method, the total sample is 8 companies in the automotive and components sub-sector. Hypothesis testing is done by partially testing the effect of Price Earning Ratio, Debt to Equity Ratio and dividend payout ratios on firm value. The results of the study stated that Price Earning Ratio has a negative and insignificant effect on firm value, Debt to Equity Ratio has a negative and significant effect on firm value and Dividend Payout Ratio has a positive and significant effect on firm value.

**Keyword:** Price Earning Ratio, Debt to Equity Ratio, Dividend Payout Ratio, Price to Book Value

### 1. Introduction

The company's goal is to maximize firm value. Firm value is the price a prospective buyer is willing to pay if the company is sold. The higher the value of a company, the higher the prosperity of the shareholders. For companies that issue shares on the capital market, the price of shares traded on the stock exchange is an indicator of the value of the company. The prosperity of shareholders will increase if the share price they own also increases (Agus Sartono, 2015: 8). Firm value is determined by three main factors, namely internal, external and technical factors. Internal and external factors of the company are fundamental factors that are often used as the basis for decision making by investors in the capital market. Technical factors are more technical and psychological in nature, such as the volume of stock trading, the value of stock trading transactions, and the tendency for the ups and downs of stock prices. Managers can meet shareholders' expectations of superior performance by creating strategies that are valuable and difficult for competitors to imitate. Financial management is one area that can be used to increase corporate value through the policies taken. The three main policies in financial management are funding policies, investment policies and dividend policies. A manager must be able to take the right financial decisions to achieve the goal of increasing company value. One of the financial decisions that must be taken by a manager is Investment decision. Pujiati and Widinar (2009) state that investment decisions involve the act of spending funds now in the hope of getting cash flow in the future with a greater amount for the development of the company. Prasetyo (2011) states that if the company is able to make the right investment decisions, the company's assets will produce optimal performance. This can provide a positive signal for investors which in turn will increase share prices and increase company value. The automotive and component industry is one of the industries that plays a role in the development of the Indonesian economy. This industry has a complete chain, from component manufacturing, vehicle production and assembly, distribution and sales network to after-sales service. The development of the automotive and component industries has contributed significantly to state revenues. The development of the national automotive industry and its large market potential can attract various investors to develop their investments. However, in reality the industrial sector with the automotive sub-sector is still the company with the largest decline recorded in Indonesia. The domestic automotive industry is still experiencing serious problems. In terms of raw materials, imports of automotive components are still quite high at 80%. Therefore, the Ministry of Industry continues to spur foreign investment to build a component industry in Indonesia. Component imports are currently still at 80%, if there are many component factory construction in Indonesia within 5 years, it can reduce component imports to 30%. Research conducted by Suroto (2016) states that investment decisions have a positive effect on firm value, this is not in line with research by Dea Agustin Adrianingtyas (2019) which states that investment decisions have no effect on firm value. In this study, researchers used the method of calculating the Price Earning Ratio. The results of research by Sartini & Purbawangsa (2014) and Suroto (2016) state that funding decisions have a significant negative effect on firm value. However, according to Hadi Sumarsono & Elzis Hartediansyah, (2012), funding decisions do not have a significant effect on company value. In this study, the funding decision is confirmed using the Debt to Equity Ratio. Research by Suroto (2015) and Raharja & Fenandar (2012) states that dividend policy has a positive effect on firm value. However, the results of this study are not in line with the results of research by Anita & Yulianto (2016) and Azhari (2018) which state

that dividend policy has no effect on firm value. Dividend policy in this study is measured using the Dividend Payout Ratio.

## 2. Literature review

### **THE EFFECT OF INVESTMENT DECISIONS ON COMPANY VALUE**

Investment decisions relate to the company's decision to allocate funds, both sources of funds originating from within and from outside the company, the decision to allocate funds can be seen from the source of funding whether it comes from internally in the form of retained earnings or externally in the form of debt or issuance of new shares (Sinar 2014). The investment decision proposed by Myers (1997) in Susanti (2010) introduces the Investment Opportunity Set which is carried out in relation to investment decisions. The Investment Opportunity Set provides a broader indication of the company's value depending on the company's future expenses, so that the company's prospects can be estimated from the Investment Opportunity Set. The Investment Opportunity Set is defined as a combination of assets in place from investment choices in the future with a positive net present value. Managers in making investment decisions must be carried out with careful consideration, if wrong in making investment decisions it will have a negative impact on company performance in the future, if the company's investment is good it will affect the company's performance, the investor will give a positive signal by giving confidence invest in the company. This is reflected in the increase in share prices, where an increasing share price means that the value of the company in the eyes of the public or investors also increases (Sinar, 2014). Basically, Price Earning Ratio shows the time period required for a refund at the level of stock prices and company profits in a certain period. This ratio illustrates the willingness of investors to pay a certain amount for every rupiah of company profit. Investment decisions are decisions about investing in the present to get results or benefits in the future. According to the signaling theory, investment spending provides a positive signal about future growth, so that it can increase stock prices which are used as an indicator of company value (Wahyudi and Pawestri, 2006). The investment decision in this study is proxied by the Price Earnings Ratio, where this ratio shows how much investors are willing to pay for each reported profit (Brigham and Houston, 2011). The higher the PER ratio of a share, the higher the share price to its net income per share, which means that the investment in the company is also high and shows a signal of the company's future earnings growth. This will be considered as good news which will change investors' perceptions of the company's performance so that it can increase stock prices which in turn will affect the company's value. Thus, investment decisions have a positive effect on firm value. According to Gaver and Gaver in Afzal and Rohman (2012), investment opportunity is the value of the company, the amount of which depends on the expenditures determined by management in the future, in this case at this time are investment choices that are expected to generate greater profits. The results of this study are in line with Smith and Watts in Afzal and Rohman (2012) which state that investment opportunities are a component of company value which is the result of choices to make investments in the future. The theory that underlies investment decisions is the signaling theory, which states that investment spending provides a positive signal for the company's future growth, thereby increasing stock prices as an indicator of company value. This theory suggests that investment spending made by a company provides a signal, especially to investors and creditors, that the company will grow in the future. Research conducted by Wijaya and Wibawa (2010) found evidence that investment decisions significantly influence firm value.

### **THE EFFECT OF FINANCING DECISIONS ON COMPANY VALUE**

A funding decision is defined as a decision concerning the financial structure. The company's financial structure is a composition of funding decisions that include short-term debt, long-term debt and equity. The company's financial structure often changes due to the investment that the company will make. Therefore, the size of the investment that the company will make will affect the company's funding structure (Afzal, 2012). The company expects a capital structure that maximizes firm value and minimizes the cost of capital. According to Salman (2013), a funding decision is a manager's decision regarding the collection of internal and external funds by minimizing the cost of capital that must be borne by the company. Darminto (2008) states that a financing decision concerns the composition of funding in the form of owner's funds, long term loans and current liabilities. The use of debt is a trade between benefits and costs in determining the optimal long-term mix of debt and equity. The optimal mix will contribute between benefits and costs so that it will minimize capital costs and increase company value. Abdul Halim (2007: 327) states that debt is often identified with leverage, which means that debt is used to increase the profits that can be generated from the use of its own sources of capital. A funding decision is defined as a decision concerning the composition of funding chosen by the company. Funding sources within a company are divided into two categories, namely internal funding and external funding. According to the pecking order theory, external funds are preferred by managers in the form of debt rather than equity because 1). Consideration of issuance costs, where the cost of issuing bonds is cheaper than the cost of issuing new shares. This is because the issuance of new shares will reduce the price of old shares. 2). There is a manager's concern that the issuance of new shares can be interpreted as bad news by investors which results in a decline in the value of the company.

Managers can use debt as a more reliable signal to investors, because companies that increase debt can be seen as companies that are confident about the company's prospects in the future. The use of debt is a positive signal from the company that can make investors appreciate the value of shares greater than the value recorded on the company's balance sheet, thereby increasing the value of the company. The funding decision has a positive effect on firm value.

### **THE INFLUENCE OF DIVIDEND POLICY ON COMPANY VALUE**

Dividend policy is the percentage of profit paid to shareholders in the form of cash dividends, maintaining dividend stability from time to time, distributing stock dividends and treasury. Management policies on profits that the company receives are generally within one year, to be distributed as dividends or as retained earnings to support operational activities (Harmono, 2017: 230). Companies that decide to share the profits earned as dividends will reduce the amount of retained earnings which in turn also reduces internal sources of funds. The company does not share its profits as dividends, which will increase the company's internal sources of funds and will increase the company's ability to develop the company (Hemastuti and Hermanto, 2014: 4). This dividend policy can be illustrated through Bird In The Hand Theory, this theory put forward by Myron Gordon and Jhon Litner. Based on bird in the hand, dividend policy has a positive effect on stock market prices, meaning that if the dividends distributed by the company are getting bigger, the market price of the company will be higher and vice versa. This happens because dividend distribution can reduce the uncertainty faced by investors (Hemastuti and Hermanto, 2014: 5).

Dividend policy can be measured using the Dividend Payout Ratio by determining the amount of profit divided in the form of cash dividends and retained earnings as a source of funding. This ratio shows the percentage of the company's profit paid to the company's stockholders in the form of cash dividends. The company's retained profit is large, meaning that the profit that will be paid out as dividends is smaller. Thus, an important aspect of dividend policy is determining the appropriate profit allocation between the payment of earnings as dividends and retained earnings in the company (Sinar, 2014; Hussain et al., 2020). Dividend policy is related to policies regarding how much profit the company receives will be distributed to shareholders. The dividend policy ratio is the amount of dividends paid relative to the company's net income or income per share. Brigham and Houston in Nurhayati (2013) state that the dividend policy ratio is the percentage of profit paid to shareholders in cash. The company's net income can be distributed to shareholders as dividends or retained earnings to finance company investments. Dividend policy concerns decisions about the use of profits that are the right of shareholders. According to Hatta in Wijaya and Wibawa (2010), there are a number of debates about how dividend policy affects firm value. The higher the dividend payout ratio of a company, the lower the company's value. Research by Wijaya and Wibawa (2010) can prove that dividend policy positively affects firm value. Firm value can provide shareholder prosperity if the company has free cash, which can be distributed to shareholders as dividends. The higher the health value of a company will give confidence to shareholders for dividends or capital gains in the future (Wijaya and Wibawa: 2010).

### **3. Hypothesis**

- H<sub>1</sub>: Price Earning Ratio has a significant effect on Price Book Value
- H<sub>2</sub>: Debt to Equity Ratio has a significant effect on Price Book Value
- H<sub>3</sub>: Dividend Payout Ratio has a significant effect on Price Book Value

### **4. Research methods**

The research design used is explanatory research. Based on the level of explanation, this research is categorized as associative research. Associative research aims to analyze the effect or causality relationship between two or more variables through hypothesis testing

#### **Sample Determination Criteria**

1. Companies listed on the Indonesia Stock Exchange for the period 2015-2018.
2. Companies that have PBV, PER, DER and DPR values during the 2015-2018 period.
3. Companies that are still active in buying and selling activities at the Financial Services Authority in the 2015-2018 period.
4. The availability of data is in accordance with the research observation period based on predetermined criteria, so the samples in this study were 8 companies.

### **5. Research results and discussion**

#### **Hypothesis Test**

Hypotheses are statements that can be tested regarding the relationship between variables. The accuracy of the assessment can be measured from the Goodness of fit. Statistically, the estimation is measured from the coefficient of determination, the statistical value of f and the statistical value of t. The statistical calculation is called statistically significant if the statistical value is in a critical area (the area where Ho is rejected). Conversely, it is said to be insignificant if the statistical test value is in an area where H0 is accepted (Ghozali, 2013).

**Table 1 Fixed Effect Model Regression Estimation Results**

Dependent Variable:  
Y

Method: Panel Least Squares  
Date: 06/22/20 Time: 16:20  
Sample: 2015 2018  
Periods included: 4  
Cross-sections included: 8  
Total panel (balanced) observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.417850	0.441490	3.211512	0.0042
X1	-0.000735	0.000540	-1.359727	0.1883
X2	-0.313477	0.463383	-0.676498	0.0061
X3	0.001760	0.003588	0.490456	0.0089

Effects Specification

Cross-section fixed (dummy variables)				
R-squared	0.950101	Mean dependent var		1.632188
Adjusted R-squared	0.926340	S.D. dependent var		1.334096
S.E. of regression	0.362079	Akaike info criterion		1.072379
Sum squared resid	2.753127	Schwarz criterion		1.576225
Log likelihood	-6.158056	Hannan-Quinn criter.		1.239389
F-statistic	39.98513	Durbin-Watson stat		3.125406
Prob(F-statistic)	0.000000			

Source: Data Processing Results (2020)

$$Y = 1,417850 + 0,000735 X1 - 0,313477 X2 + 0,001760 X3 + e$$

The Equation above can be interpreted as follows:

$\beta_0 = 1,417850$  this means that if the variables PER, DER, and DPR are zero (0), then the PBV variable will have a value of 1.417850 units. The regression line will cross the Y axis at the point 1.417850.

$\beta_1 = 0,000735$  it means that if the PER variable increases by one unit and the other variables are constant, then the PBV variable will decrease by 0.000735 units.

$\beta_2 = -0,313477$  it means that if the DER variable increases by one unit and the other variables are constant, the PBV variable will decrease by 0.313477 units.

$\beta_3 = 0,001760$  this means that if the DPR variable increases by one unit and the other variables are constant, the PBV variable will increase by 0.001760 units.

## 6. Research discussion

### **The effect of Price Earning Ratio on Price to Book value in Automotive and Component Sub Sector Companies listed on the Indonesia Stock Exchange for the 2015-2018 period.**

The results of testing the first hypothesis indicate that investment decisions have a negative and insignificant effect on firm value. The level of investment decisions has no effect on firm value. In this case, investment decisions for companies really require large capital to make product innovations, expand and increase sales, technology updates, and so on. However, the existence of investment does not have an influence on the company's judgment on the part of investors, even though investment decisions are able to improve and develop the company. This insignificant influence indicates that the Price Earning Ratio is not one of the main factors that significantly influence firm value, considering that there are many other factors that can affect the value in the eyes of outsiders or investors. The results of this study are in line with research conducted by Endarmawan (2014) and Dea Agustini Adrianingtyas (2019) which states that investment decisions have no effect on firm value.

### **Effect of Debt to Equity Ratio on Price to Book Value in Automotive and Component Subsector Companies listed on the Indonesia Stock Exchange for the 2015-2018 period.**

The results of testing the second hypothesis indicate that funding decisions have a negative and significant effect on firm value. The results of this study are in accordance with the Trade off Theory (Brealey et al; 2007: 18), which states that managers will try to increase the level of debt to a point where the value of additional interest tax protection is completely offset by the additional costs of financial problems, meaning that the use of debt will increase firm value only to an optimal point. After that point, the use of debt can actually reduce the value of the company because the increase in profits from the use of debt is not proportional to the financial costs or interest cost obligations of debt. The results of this study are in line with the results of research conducted by Fitriana (2015), Sartini & Purbawangsa (2014) and Suroto (2016). However, the results of this study contradict the results of research by Pancawati (2009), Mizqia et al (2013), and Afzal & Rohman (2012) which state that funding decisions have a positive and significant effect on firm value. This difference is due to the fact that the use of debt used by Ototomotif and Component companies as a source of funding for the company has exceeded an optimal point. Therefore, an increase in the use of debt causes a decrease in the value of the company.

### **Effect of Dividend Payout Ratio on Price to Book Value in Automotive and Component companies listed on the Indonesia Stock Exchange for the 2015-2018 period.**

The results of testing the third hypothesis indicate that dividend policy has a significant positive effect on firm value. The results of this study are consistent with research conducted by Wirawati (2008), Wijaya (2010), Suroto (2015) and Raharja & Fenandar (2012) which state that dividend policy has a positive effect on firm value. This result is in accordance with the signaling theory (Rozeffs: 1980), which states that dividend payments contain information about the company's prospects in the future. If the company increases dividend payments, this is interpreted by investors as a signal of management's expectations about the improvement in the company's performance in the future, so that dividend policy has a positive effect on firm value. However, according to Gordon and Lintner (Atok, 2007), the required level of profit will increase if the dividend distribution is reduced due to investors.

## 7. Original Research Contributions

1. Investment decisions have a negative effect on firm value in automotive and component companies, so this indicates that the level of investment decisions has no effect on firm value. In this case, investment decisions are decisions concerning the allocation of funds originating from within and outside the company in various forms of investment. However, the existence of investment does not have an influence on the company's valuation in the eyes of outsiders (investors), even though investment decisions are able to improve and develop the company. Outside parties or investors use the company's external factors such as political conditions and others as a reference to influence the company's value.

2. Debt to Equity Ratio has a negative effect on firm value in automotive and component companies, so this indicates that managers will try to increase the level of debt to a point where the value of additional interest tax protection is completely offset by the additional cost of financial problems, meaning the use of debt. will increase firm value only to an optimal point. After that point, the use of debt can actually reduce the value of the company because the increase in profits from the use of debt is not proportional to the financial costs or interest cost obligations of debt.

3. Dividend Payout Ratio has an effect on firm value in automotive and component companies, this indicates

that the dividend policy is policy in making decisions regarding how much profit the company receives to be paid as dividends to shareholders, or the profits generated by the company will be retained for investment. High dividends will increase the value of the company so as to attract investors to invest their assets in the company.

## 8. Conclusion

1. The investment decision (Price Earning Ratio) has no effect on the value of the company (Price to Book Value) in the Automotive and Component sub-sector companies listed on the Indonesia Stock Exchange in 2015-2018 period.
2. Funding Decisions (Debt to Equity Ratio) have a negative effect on Firm Value (Price to Book Value) in the Automotive and Component sub-sector companies listed on the Indonesia Stock Exchange in 2015-2018.
3. Dividend Policy (Dividend Payout Ratio) has a positive effect on Firm Value (Price to Book Value) in Automotive and Component subsector companies listed on the Indonesia Stock Exchange in 2015-2018.

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