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PROFITABILITY, COMPANY SIZE, DIVIDENDS, AND CAPITAL STRUCTURE EFFECTS ON COMPANY'S VALUE

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ABSTRACT

The main purpose of this research is to obtain evidence or answers referring to the effect of profitability, company size, dividends, and capital structure on the value of consumer non-cyclical manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. This research used purposive sampling technique. This research used 24 consumer non-cyclical manufacturing companies with a total of 72 samples during the period. The result of this research was obtained by using application which was called Eviews-12 with regression analysis technique. By using the technique and application, the result show that profitability and company size have a significant effect on company's value. However, dividends and structure effects do not have a significant effect on company's value.

Keywords: *profitability, company size, dividends, capital structure, company's value*

1. INTRODUCTION

Many investors in Indonesia are interested in investment. In the olden days, investment is not appealing to millennial and as time goes by, lots of millennial are into investment. The millennial, which do not have much knowledge of investment, makes some wrong decisions by invest in random companies. This does not simply for millennial, but also for newcomer in investment. Companies must improve in many aspects such as performance in order to appeal in investor's eye. Therefore, company must be wary in every decision, because each decision will have an impact to company performance [1].

Company's value reflects on stock price. In order to raise company's value, companies need to give more attention to factor that will make an impact, such as profitability, company size, dividends, and capital structure. Companies that pay closely to these factors are believed to have maximize profit, pay out dividends to shareholders, large in company's size, and have an optimal capital structure. If companies maximize in all factors will increase the company's value [2].

Company's value matters the most because will affect investor's decision in investing. Company's value also represents the satisfaction of the company's shareholders [2]. However, it is still on vague whether those factors significantly impact company's value.

This research will help investors and companies to look out which factors significantly impacts the company's value. Therefore, investors will not make wrong decisions in investing and companies will improve in performance in order to enhance the value.

2. LITERATURE STUDY

Signalling Theory

Signalling Theory is the most commonly used in companies. Signalling Theory is defined as a theory that help investors to make an investment decision. According to [3], companies give an information, such as performance to help investor make an investment decision.

Based on the theory, information that companies give out will be divide into two, such as positive and negative. Companies that give negative information are not as appealing as companies that give positive information. This can be proven through empirical research by [3]. For example, when companies consistently pay out dividends to shareholders. It can be interpret as positive information because it is believe that companies that able to pay out dividends constantly to shareholders have good strategy and have the potential to grow in the future.

On the contrary, if companies are not constantly pay out dividends to shareholders, will be seen as negative sign to investors because it reflects on the company's bad performance in managing the business and cash flow.

Agency Approach

According to [4], Agency Approach is defined as a theory that reveal the relationship between management and shareholders. According to [4], conflicts frequently arise because of the difference between the objective of management and shareholders. It will lead to have a miscommunication between management and shareholders due to asymmetric information received by shareholders because financial statement prepared by the management tend to favour the management.

Based on the explanation, this theory can help to reduce the conflict between management and shareholders through financial statement that was prepared by management must informative in order to reduce the asymmetric information received by shareholders [4].

Dividend Irrelevant Theory

According to [6], Dividend Irrelevant Theory is defined as a theory that explain dividends and capital income from companies don not have a significant effect on company's value. Companies that constantly pay out dividends are not automatically attract investors to invest in the companies. Investors are more attracted to companies that good at seeking opportunity and to have potential growth in the future by invest in other companies. If companies invest in others will help them to have support financially and physically such as become the customer or supplier.

According to this theory, investor will not be interested in companies that constantly pay out dividends because it indicates that the company is unable to seek an opportunity and have potential growth in the future

Company's Value

According to [7], company's value can be positive or negative. It can be positive if there is benefit. Meanwhile, it can be negative it does not involve any benefit. According to [7], company's value is an indicator for investors to be able to determine company's ability to succeed in competition that reflects in company's stock price. According to [7], company's value and stock price are one, thus if stock price rise, company's value will also high. Conversely, if the stock price constantly falls, then company's value will also fall.

Based on the explanation above, it can be concluded that company's value reflects on stock price. Company's value also reflects on company's performance. Therefore, companies will strive to enhance stock price in order to boost company's value.

Profitability

According to [8], profitability reflects on how company receive margin from business operation, such as sales, assets, and capital. Profitability also an indicator to determine management's efficiency in gaining profit from sales and investments. Because of that, investors will be attracted to companies that earn lots of profit by thinking that companies that earn lots of profit have good management. The explanation proves that profitability has a significant effect on company's value.

Based on the explanation, the hypothesis in this research can be developed as follows:
Ha_1: Profitability has a positive and significant effect on company's value.

Company Size

According to [9], Company Size is a measure that can determine whether a company can be categorized as large or small by the nominal of company's assets, sales, and equity. The greater company's assets, the larger company size in investor's eye. Investor will be attracted to company that larger in size because it indicates that the company has the capability to produce more, so the company will earn more profit.

Based on the explanation, the hypothesis in this research can be developed as follows:
Ha_2: Company size has a positive and significant effect on company's value.

Dividends

Dividends are distribution of company's profit to shareholders in form of money or others, such as shares, goods, debts, or liquidity. According to [10], dividends is a distribution of company's profits to shareholders in accordance with the percentage or proportion of shares. Dividends also define as profits that earn by company during the current financial year and distribute to shareholders according to dividend policy regulations that has been mutually agreed upon at General Meeting of Shareholders (GMS).

According to explanation above, investors will be attracted to invest in companies that constantly pay out dividends, because it benefits investors in gaining passive income just by investing in beneficial company.

Based on the explanation, the hypothesis in this research can be developed as follows:
Ha3: Dividends has a positive and significant effect on company's value.

Capital Structure

Capital Structure is used by company to run its business, such as using debt or equity. According to [11], capital structure closely related to long-term debt owned by company. However, capital structure support company to run their business without using internal fund. Company will be able to succeed if it can balance the usage of both debt and equity.

According to explanation above, investors will be attracted to invest in companies that have the capability to manage both debt and equity while running the business without any financial distress that leads to bankruptcy or unable to pay back debt.

Based on the explanation, the hypothesis in this research can be developed as follows:
Ha4: Company size has a positive and significant effect on company's value.

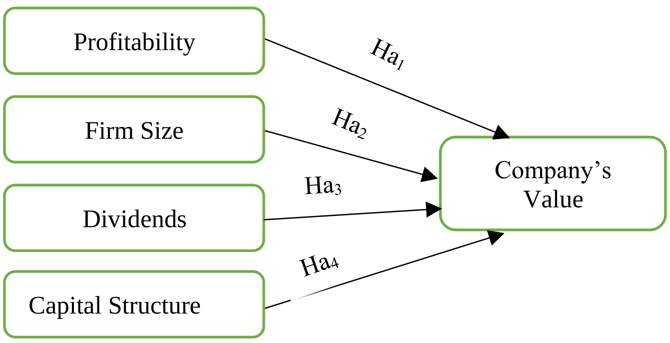

Figure 1 Research Framework

3. RESEARCH METHOD

This research used the purposive sampling technique, which is a method that eliminates data based on specific criteria. Samples that are use in this research are the one that meets the criteria. Companies that in non-cyclical consumer category that are listed on Indonesia Stock Exchange from 2019-2021 is the subject of the sample.

This research used 72 samples during three periods from 24 companies. The criteria use in this research are: 1) Consumer non-cyclical manufacture company that are listed in IDX. 2) Consumer non-cyclical manufacture company that are not listed in IDX during the research period. 3) Consumer non-cyclical manufacture company that do not earn profit during the research period. 4) Consumer non-cyclical manufacture company that do not pay dividends to shareholders during the research period.

Company's value is a result of the company's performance to offer a positive impression in investor's eye, which reflects on company's stock price.

According to [12], the company's value formula is as follows:

$$\text{PBV} = \frac{\text{Price of shares per share}}{\text{Book value per share}}$$

$$\text{BV} = \frac{\text{Total equity}}{\text{Number of outstanding shares}}$$

Profitability is a variable used to determine whether a company be able to earn profit from the money invested by investors. Profitability is measured by Return on Equity (ROE). According to [13], Profitability formula as follows:

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Equity}}$$

Company Size is an indicator or determinant to categorized company into three sections, which is small, medium, and large. Company Size will give company benefit such as easy access to capital market because larger company usually attract more investors to invest in the company. According to [14], the Company Size formula is as follows:

$$\text{Firm Size} = \ln \text{Total asset}$$

Dividends are payments made by company to shareholders based on the proportion of share that they own. Dividends usually distribute if the company gain profit. According to [15], the dividend formula is as follows:

$$\text{Dividend Payout Ratio (DPR)} = \frac{\text{Dividend}}{\text{Net Income}}$$

Capital Structure is the amount of capital and debt use by company to run business and to maintain the company's financial performance. According to [16], the capital structure formula is as follows:

$$\text{Debt Equity Ratio (DER)} = \frac{\text{Total Liabilities}}{\text{Equity}}$$

Classical assumption test, descriptive statistical test, t-test, F-test, and adjusted R^2 are all used in this research.

4. RESULTS

Descriptive statistical test is a summary of the data provided, which include mean, median, minimum values, maximum values, and standard deviation. Descriptive statistical test also helps external such as investor to understand the big picture of the data without reading in details.

The following are the outcomes of descriptive statistical test performed on data prepared in accordance with the objective of this research that are presented in Table 1.

Table 1 Descriptive Statistical Test

	PBV	ROE	SIZE	DPR	DER
Mean	2.972083	1.169167	29.78566	0.187736	1.128415
Median	1.495000	0.780000	29.85458	0.120000	0.875000
Maximum	16.49000	4.230000	32.20096	1.446000	4.230000
Minimum	0.350000	0.160000	27.08104	0.010000	0.160000
Std. Dev.	3.399781	0.986606	1.356183	0.257377	0.970567
Observations	72	72	72	72	72

According to the data presented in Table 1, it can be interpreted that the mean value of company's value is 2.972083, the median value is 1.495000, the maximum value is 16.49, the minimum value is 0.35, and the standard deviation value is 3.399781. The mean value of profitability is 1.169167, the median value is 0.78, the maximum value is 4.23, the minimum value is 0.16, and the standard deviation value is 0.986606. The mean value of company size is 29.78566, the median value is 29.85458, the maximum value is 32.20096, the minimum value is 27.08104, and the standard deviation value is 1.356183. the mean value of dividends is 0.187736, the median value is 0.12, the maximum value is 1.446, the minimum value is 0.01, and the standard deviation is 0.257377. the mean value of capital structure is 1.128415, the median value is 0.875, the maximum value is 4.23, the minimum value is 0.16, and the standard deviation is 0.970567.

This research also used classical assumption test to determine the best model that fit the data. Following is the result of the test. The model that being used in this research is Fixed Effect Model (FEM).

FEM is being showed in Table 2 as follows:

Table 2 The Results of Fixed Effect Model (FEM)

Variable	Coefficient	Std. Error	t-Statistics	Prob
C	116.2247	53.61767	2.167657	0.0356
ROE	2.097892	0.981012	2.138497	0.0381
SIZE	-3.913000	1.818952	-2.151239	0.0370
DPR	9.148567	4.560145	2.006201	0.0510
DER	-0.772425	0.591519	-1.305833	0.1984
R-squared			0.915542	
Adjusted R-Squared			0.863715	
Prob (F-statistics)			0.000000	

Based on the result that being showed above, profitability has positive and significant effect on company's value, which showed from the value of Prob 0.0381. Company size has negative and significant effect on company's value, which showed from the value of Prob 0.0370. Dividends has positive and insignificant effect on company's value. Capital Structure has negative and insignificant effect on company's value.

Based on the output above, Adjusted R-Squared value is 86.3715%. It means that 86.3715% factors such as profitability, company size, dividend signals, and capital structure be able to explain the effect on company's value, while 13.6285% explained by other factors.

5. DISCUSSION

The test result state that profitability has positive and significant effect on company's value. This indicates that if a company earns lots of profit, it will affect the company's performance and investors in making investment decisions. It in sync with Signalling Theory, which state that if company give a signal and in this case is positive. Investors will be attracted to invest in companies that always earn profit every year because it means the company have a potential growth. In conclusion, profitability really affects investors in decision making, whether they want to invest in the company.

The result of this research is in line with research that conduct by [17], which stated that profitability has a positive and significant effect on company's value. However, research that conduct by [18] stated that profitability has a negative and significant effect on company's value. Meanwhile, research that conduct by [19] and [20] stated that profitability has positive and insignificant effect on company's value. Contradict with research that conduct by [21], stated that profitability has negative and insignificant effect on company's value.

The test result states that company size has negative and significant effect on company's value. It indicates that companies that are larger in size will not be appealing in investor's eyes, because it means that the company just has lots of assets but without any guarantee that the company will grow or gain profit from those assets. It also can lead company get into debt because the asset that the company buy cannot help company to earn profit as the company expect. In conclusion, companies that are smaller in size much more appealing than companies that are larger in size. The result in this research is in line with research that conduct by [20] stated that company size has negative and significant effect on company's value. However, research that conduct by [22] stated that company size has positive and significant effect on company's value. While, research that conduct by [23] stated that company size has positive and insignificant effect on company's value. Contradict with research that conduct by [24] stated that company size has negative and insignificant effect on company's value.

The test result states that dividend has positive and insignificant effect on company's value. It indicates that if company constantly pay out dividends means the company also constantly earn profit. It does not guarantee affect investors in making investment decisions because if a company solely earn profit but cannot seek an opportunity on investment will not be noticed by investors. It in sync with Dividend Irrelevant Theory.

The result in this research is in line with research conduct by [19] stated that dividend has positive and insignificant effect on company's value. While, research conduct by [2] stated that dividend has positive and significant effect on company's value. However, research conduct by [1] stated that dividend has negative and significant effect on company's value. Meanwhile, research conduct by [25] stated that dividend has negative and insignificant effect on company's value.

The test result states that capital structure has negative and insignificant effect on company's value. It indicates that investors do not think how company manages debt and equity as an important factor in making investment decisions. If a company uses debt to run business, it automatically will increase company's debts, which investors interpret as negative signal, according to Signalling Theory. However, capital structure is not the main variable seen by investors to make investment decisions.

The result in this research is in line with research conduct by [2] stated that capital structure has negative and insignificant effect on company's value. Meanwhile, research conduct by [17], [26], [20], and [27] stated that capital structure has positive and significant effect on company's value. However, research conduct by [28] stated that capital structure has positive and significant effect on company's value.

6. CONCLUSIONS AND SUGGESTIONS

Based on the research, profitability has positive and significant effect on company's value. Company size has negative and significant effect on company's value. Dividends has positive and insignificant effect on company's value. Capital structure has negative and insignificant effect on company's value. This research hopefully helps investors and company to pay more attention in four factors, such as profitability, company size, dividends, and capital structure to enhance the company's value that reflects on stock price and for investors to help in making investment decisions. This research has some limitation, which is not all factors that affect company's value are being included in this research and there are other manufacture companies that are not included in this research. Hopefully, next research will add other factors that affect company's value, such as company's growth and price earnings ratio, and also apply an updated research period to give an up-to-date information and knowledge to investors and companies.

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