

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In this era, every company has its long-term and short-term goals. The purpose of the company in a short-term is to obtain maximum profit with available resources, while in a long-term the main objective is to maximize the company value. Company value itself measures the prosperity of the company. The manager of company holds the key of success in a company and requires to play an important role in operations, marketing, and the formation of corporate strategy as a whole.

Companies listed on the Indonesia Stock Exchange (IDX) consist of various sectors. The company sector used as research object of this study is mining sector. Among all sectors, the writer is interested to choose the mining sector because the mining sector has been one of the key sectors supporting Indonesia's economic growth for a number of years. If seen from the geographical side, Indonesia is a maritime country, a country which consist of many islands and natural wealth in the form of mining products. The mining sector has become one of the contributions that nationally accepted and has the potential to bring forward Indonesia's economy. The existence of overflowing mine wealth attract companies that are engaged in mining to operate in Indonesia. Mining commodities have an important role in the economy of Indonesia. Some of the result produced by mining companies are commodities which is important for the world such as coal, oil and gas, as well as other mining commodities.

Company value can show the value of the assets owned by company. The higher the company value, the higher the prosperity received by shareholders. This gives a positive signal for company

because by increasing the prosperity of the shareholders, shareholders will continue to invest their capital for the company's activities. Therefore, every company should show good performance in order to attract investors to invest their capital into the company. Instead of the company performance, investors also can measure the company either by comparing the book value with the market price or directly through the share price. If the book value of the company is higher than the market price, then the company performance is not good because the market price is low. Whereas, if the book value of the company is lower than the market price, then the company performance is good because the market price is high. (Harmono, 2011, p. 50).

Company value can be measured by Price to Book Value (PBV) or market/book ratio (M/B). This ratio measures the value given by the financial market to management and company organization as developing company. There are some reason why investor use Price to Book Value (PBV) ratio in investment analysis. Firstly, it is because book value is relatively stable. For investors who are lack of confidence in the estimated cash flow, book value will be the simplest way to compare them. Secondly, the existence of accounting practices which are relatively standard among companies cause Price to Book Value (PBV) can be compared between various companies that provide signal, whether company value is under or overvaluation (Brigham & Houston, 2010, p. 28). Important decisions taken by the company, including dividend policy, funding decision, and investment decision (Wijaya & Wibawa, 2010, p. 3).

Dividend policy is one of the factors that affect company value. Dividend policy itself related to the decision whether the profit of the company will be distributed to shareholders as a dividend or held in the form of retained earnings due to financing the investment in the future (Agus, 2010, p. 281).

If the company choose to distribute company profits as dividends, it will reduce the retained earnings and subsequently reduce internal financing. Otherwise, if the profits gained by company is used as retained earnings, then the ability of the company's establishment of internal funds will get bigger (Ningsih & Indarti, 2012). If company increase dividend payments, then it can be defined by the investor as a signal of management's expectations about the improved performance of the company in the future so dividend policy has an influence on company value. Dividend policy involves two different parties with different interests, which is the shareholders and the company itself.

In this research, dividend policy is measured by the Dividend Payout Ratio (DPR). This ratio measure how much part of the net income after tax paid as dividend to shareholders (Sudana, 2011, p. 24). The more the distribution of dividend to shareholders, the less opportunity for the company to obtain internal funding sources due to company reinvestment, which in the long term can decrease company value because the growth of dividend will be decrease. Therefore, the duty of financial manager is to manage the optimal dividend policy due to maintain the company value.

Funding decision is related to determine the right capital structure for the company. The purpose of funding decision is to decide how the company determine the optimal source of funds to fund various investment alternatives, so it can maximize the company value reflected on the share price. Funding decision can be measured by using the Debt to Equity Ratio (DER), where this ratio is used to figure out how the company fund their business activities, either by using debt or equity.

In the company, instead of funding decision, there is also an investment decision, which originating either from internal or external funding sources. Investment decision is a decision on what assets will be managed by the company. Investment decision influence the company value when the financial manager performs the function of

using funds and looking for investment alternatives to be analyzed and to decide which alternative investment decisions to choose. Investment decision is important because they directly affect the amount of investments and the cash flow of the company in the future. Investment decision can be measured by using the Price Earnings Ratio (PER), where this ratio helps investors to determine the market value of a stock compared to the company's earnings.

In this research, company value influenced by several factors include the internal and external factors of the company which commonly used by prospective investors while assessing the company's ability in the business to increase the company value. The first factor is from dividend policy; which measures by using Dividend Payout Ratio (DPR), funding decision; which measures by using Debt to Equity Ratio (DER), and investment decision; which measures by using Price Earnings Ratio (PER).

The calculation of financial ratios of Dividend Payout Ratio (DPR), Debt to Equity Ratio (DER), Price Earnings Ratio (PER) and Price Book Value (PBV) of some samples of mining companies listed in Indonesia Stock Exchange (IDX) from 2013 to 2017 are as follows:

Table 1.1

The value of DPR, DER, PER and PBV of Mining Companies listed on Indonesia Stock Exchange for the period of 2013-2017

Company name	Year	DPR	DER	PER	PBV
PT Adaro Energy Tbk	2013	0,33	1,11	12,39	0,90
	2014	0,42	0,97	15,03	0,82
	2015	0,49	0,78	7,81	0,36
	2016	0,30	0,72	12,30	1,19
	2017	0,21	0,67	9,28	0,99
PT Elnusa Tbk	2013	0,05	0,91	10,05	1,05
	2014	0,29	0,63	12,12	1,94
	2015	0,77	0,70	4,80	0,71
	2016	0,24	0,46	9,86	1,07
	2017	0,13	0,59	10,97	0,89

Source: Data prepared by writer (2019)

From the table 1.1, it indicates the Dividend Payout Ratio (DPR), Debt to Equity Ratio (DER), Price Earnings Ratio (PER), and Price Book Value (PBV) from the two mining sector companies, which are PT Adaro Energy Tbk (ADRO) and PT Elnusa Tbk (ELSA).

According to table 1.1, Adaro Energy Tbk in the year 2013-2017, the value of Dividend Payout Ratio are quite stable during each year. This means that the company has the potential to raise its earnings over the long term. Whereas, the Debt to Equity Ratio is decreasing each year from 1,11 to 0,67. The decrease in DER shows that the company able to pay the interest, which is good for the company. Based on the table 1.1, the value of Price Earnings Ratio in this company is fluctuating. During 2014, the PER is at its peak, which is at 15,03. However, in 2015, the PER is at the lowest which is only at 7,81. Generally, a higher PER means that investors are anticipating higher growth in the future. In Adaro Energy Tbk, the Price to Book Value decrease from 0,90 to 0,36 during 2013-2015. While in 2016, the PBV increased to 1,19 and in the next year it decreases to 0,99. Actually, any value under 1,0 is considered a good PBV, indicating a potentially undervalued stock. However, value investors often consider on a higher PBV because it makes them believe in the company's prospect in the future.

Based on the table 1.1, the Dividend Payout Ratio of Elnusa Tbk is decreasing during each year in 2013-2017, which is from 0,55 to 0,3. A low DPR can give a signal that a company is reinvesting most of its earnings in to grow the business. Relating to the Debt to Equity Ratio of ELSA, the value is fluctuating year by year. The DER increases during 2013-2015, from 0,55 to 0,82. Then, in 2015-2017, the DER decreases from 0,82 to 0,59. Normally, a high DER indicates that the company may not be able to generate enough cash to satisfy its debt obligations. However, low DER may also indicates that a company is not taking advantage of the increased profits that financial leverage may

bring. According to the table 1.1, the Price Earnings Ratio in this company is fluctuating. The PER is at its peak during 2017, which is at 26,35. While in 2015, the PER is at the lowest value, which is only 4,81. Generally speaking, a high PER suggests that investors are expecting higher earnings growth in the future compared to companies with a lower PER. A low PER shows that either the company may currently be undervalued or that the company is doing exceptionally well relative to its past trends. In PT Elnusa Tbk, the Price to Book Value decrease from 0,24 to 0,08 during 2013-2015. Then it increase in the next year at 0,21 and decrease in 2017 at 0,15. The lower the PBV, the lower the company is valued by investors, relating to the funds invested in the company.

According to the previous research conducted by Putri Prihatin Ningsih and Iin Indarti (2012), it is concluded that dividend policy, funding decision and investment decision have a positive effect on company value. The same result in the previous research goes to the research conducted by Irfan Ramadhana and Reni Yendrawati (2012) and research conducted by Wijaya and Wibawa (2010). But there is another previous research conducted by Afzal and Rohman (2012) stated that funding decision and investment decision have a positive effect, dividend policy has a negative effect on company value. Based on the results of these previous researchers, it can be seen that there are still inconsistent between the result of the research. Therefore, the writer is interested to conduct the research with the title as follows: **“The Impact of Dividend Policy, Funding Decision and Investment Decision on Company Value in Mining Companies Listed on Indonesia Stock Exchange”**

1.2 **PROBLEM LIMITATION**

The purpose of problem limitation based on the writer is to be more focus on the limited research object. Companies listed on the Indonesia Stock Exchange (IDX) consist of various sectors. The company sector used as research object of this research is the mining sector. Among all sectors, the writer is interested to choose the mining sector because the mining sector has become one of the contributions that nationally accepted and has the potential to bring forward the Indonesia's economy.

There are some variables that can be related to company value, which are ownership structure, share price, return on asset, profitability, dividend policy, interest rate, investment decision, funding decision. Among those options above, there are three variables that will be related to company value in this research, which are dividend policy, funding decision and investment decision. The main reason of choosing those three independent variables are because compare to all variables, these three variables are related each other. Based on the availability of the data provided in Indonesia Stock Exchange, these three variables also have a very supportive data. Therefore the writer limit the variables in this research to Dividend Policy, Funding Decision, Investment Decision and Company Value. Data is collected from 2013 to 2017.

1.3 **PROBLEM FORMULATION**

Based on the background research above, the clarified problems occurred are as follows:

1. Does dividend policy partially affect company value in mining companies listed on Indonesia Stock Exchange for the year 2013 to 2017?
2. Does funding decision partially affect company value in mining companies listed on Indonesia Stock Exchange for the year 2013 to 2017?

3. Does investment decision partially affect company value in mining companies listed on Indonesia Stock Exchange for the year 2013 to 2017?
4. Do dividend policy, funding decision, investment decision and company value affect simultaneously in mining companies listed on Indonesia Stock Exchange for the year 2013 to 2017?

1.4 OBJECTIVE OF THE RESEARCH

By conducting this research, the writer expect that the purpose of the research are:

1. To analyze the effect of dividend policy to company value in mining companies listed on Indonesia Stock Exchange for the year 2013 to 2017.
2. To analyze the effect of funding decision to company value in mining companies listed on Indonesia Stock Exchange for the year 2013 to 2017.
3. To analyze the effect of investment decision to company value in mining companies listed on Indonesia Stock Exchange for the year 2013 to 2017.
4. To analyze the effect of dividend policy, funding decision, and investment decision to company value in mining companies listed on Indonesia Stock Exchange for the year 2013 to 2017.

1.5 BENEFITS OF THE RESEARCH

The benefits of this research are divided into two types, which are theoretical and practical benefit. Theoretical things are based on theory and ideas, while practical ones are based on practice.

1.5.1 Theoretical Benefit

The theoretical benefit in this research is addressed to investors. Within this research, investor is expected to give contribution in gaining knowledge about the factors that influence in investment decision making.

1.5.2 Practical Benefit

The practical benefit in this research is as follows:

1. This research is expected to be used as a consideration in making decisions and policy decisions for company to increase company value.
2. This research is expected to provide information in decision making for investors while investing.
3. This research is expected to gain knowledge and references for academics to conduct the same research.

1.6 SYSTEM OF WRITING

The systems of writing in this paper will be as follows:

CHAPTER I: INTRODUCTION

This chapter consists of background of the study that explain about the relation between company value and its independent variables, the view of investors about the variable measurements of the company and the variety of result from previous research. The problem limitation contains the limitation of variables, population and the period use for this research in order to give clear boundaries. In problem formulation, it includes questions that will be answered through this research which will become the objective of the research. This research is also expected to be beneficial for investors, further researchers, as

well as academics. Lastly, the system of writing includes some of the summary of each chapter.

CHAPTER II: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter consist of theoretical background which is related to the topic of the research, such as signaling theory, company value, dividend policy, funding decision, investment decision, previous research, hypothesis development which consists of the influence of each independent variable on company value, research model, and framework of thinking.

CHAPTER III: RESEARCH METHODOLOGY

This chapter discusses about the method used in this research, which is a quantitative descriptive method. In this method, researcher measure and analyze the relationship between the variables. The population is the mining industry companies listed in Indonesia Stock Exchange and some criteria that must be fulfilled to be choose as a sample. The data is collected through documentation method based on secondary data which is from the website of Indonesia Stock Exchange. Lastly, this chapter explains the definition of each variable and analysis method used in this research.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter describes the general view of mining industry companies listed in Indonesia Stock Exchange. In data analysis, the data will be processed through statistical tests, such as descriptive statistical test, classical assumption test, and hypothesis testing which will give results in tables or graphs. Lastly, the results obtained are discussed in narrative way.

CHAPTER V: CONCLUSION

This chapter presents the conclusion and some explanation about the result. Then, it also written to whom this research will be expected to contribute which is stated in the implication. Lastly, it is about the recommendation to people who are interested in this field.

