

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

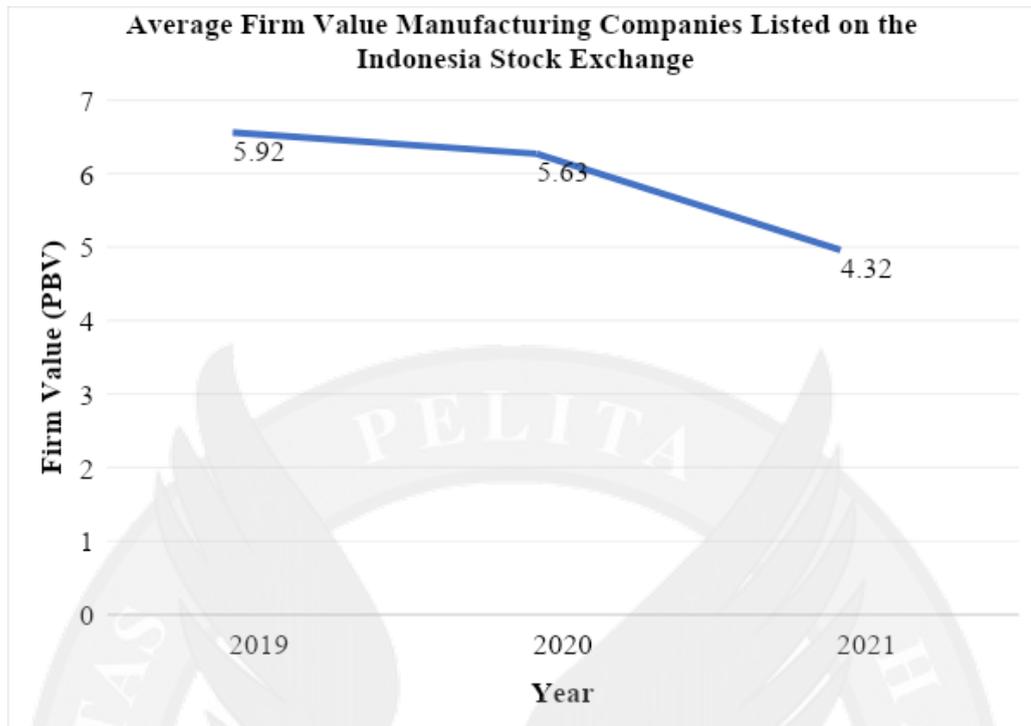
As a business, a company has both short-term and long-term goals. The short-term objective of the company is to maximize profits through asset management, while the long-term objective is to maximize the firm's value (Prasetya Margono & Gantino, 2021). Therefore, in this globalization era, where competition between companies to attract shareholders and to perform better is ramping up, companies must be able to face and anticipate all situations in order to survive and remain ahead, particularly in the context of achieving the company's primary objectives, which are also the firm's long-term objectives.

According to Syahyono (2019), it is generally acknowledged that the value of the company reflects not only the present performance of the company but also the prospects for the company in the future. The perception of an investor regarding the success of a business is referred to as the firm's value. This is due to the fact that a high corporate value indicates that shareholder wealth is also at a high level. (Santioso et al., 2020). On the other hand, the increase of the shareholders' prosperity will attract the shareholders to continuously invest their capital into the company for supporting the company's activities and business expansion (Jihadi et al., 2021).

According to Lungkang & Rusgowanto (2022), investors can get a glimpse of the company's worth by comparing the existing share price to the company's book value (PBV). When the company's book value exceeds its market price, the market price for each share is below the book value. In contrast, a company which book value is less than its market price indicates that investors see possibility in the business (Stephen A. Ross et al., 2020).

As an addition, PBV is used by investors to perform investment analysis for other reasons. First, accounting practices allow the company to compare its price book value to other firms, which tells investors if the stock price is fair. Second, price book value measures the company's market price to its equity, not earnings, which fluctuate. The shareholders' equity component makes valuation more stable on a bigger basis. Another reason is that PBV allows the investors to evaluate whether the price is undervalued, overvalued, or fairly valued (Nurmindanda et al., 2017).

There are many contributors to Indonesia's economic expansion, including the manufacturing, transportation, real estate, and many other industries. The manufacturing industry is particularly important in helping Indonesia's economy flourish as there has been an upward trend in the manufacturing sector's contribution to GDP in recent years (Kemenperin, 2023). In addition, Mr. Airlangga Hartarto, Coordinating Minister for Economic Affairs Republic of Indonesia, states that manufacturing sector also highly contributed to income from customs and labor absorption.



**Figure 1.1 Average Firm Value Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX)**

Source: Prepared by Writer (2023)

In spite of the prominence of the manufacturing industry in Indonesia, as shown in Figure 1, the PBV-calculated average firm value of the manufacturing industry in Indonesia is decreasing from 2019 to 2021. In 2019, the average firm value is 5.92; notwithstanding, in 2020, the average firm value decreased by 4.9% to 5.63, and again by 23% to 4.32 in 2021.

**Table 1.1 The Value of DER, DPR, ROE, and PBV of Manufacturing Companies Listed on Indonesia Stock Exchange for the period of 2019-2021**

No	Name of the Company	YEAR	DER	DPR	ROE	PBV
1	PT. Garudafood Putra Putri Jaya Tbk (GOOD)	2019	0,831	0,304	0,158	4,029
		2020	1,256	0,872	0,083	3,082
		2021	1,233	0,268	0,163	1,291

2	PT. Buyung Poetra Sembada Tbk (HOKI)	2019	0,323	0,252	0,162	3,466
		2020	0,369	0,753	0,057	3,926
		2021	0,479	0,772	0,019	2,634
3	PT. Siantar Top Tbk (STTP)	2019	0.342	0.207	0.225	0.000
		2020	0.290	0.159	0.235	4.655
		2021	0.187	0.162	0.187	2.996

Source: Compiled by Writer (2023)

Further, referring to Table 1.1, there are some conflicting phenomena between leverage (DER), dividend policy (DPR), profitability (ROE), and firm value (PBV) on manufacturing companies listed on the Indonesian Stock Exchange for the years 2019 to 2021 that have met the specific criteria.

PT. Garudafood Putra Putri Jaya Tbk (GOOD) experienced an increase in its leverage from 2019 to 2020, but its leverage ratio experienced a modest decrease from the year 2020 to 2021; however, the firm value of the company experienced a gradual decrease from the year 2019 to 2021. However, when the leverage of PT. Buyung Poetra Sembada Tbk (HOKI) progressively increased from 2019 to 2021; regrettably, the firm value of the company showed an increase during the years 2019 to 2020 and a decrease in the year 2021. On the other hand, the leverage of PT. Siantar Top Tbk (STTP) encountered a regular decrease from the year 2019 to 2021; but then again, the firm value of PT. Siantar Top Tbk (STTP) demonstrated an increase from 2019 to 2020 and a decrease during the year 2021. According to Purwanti (2020), Jihadi et al. (2021), and Maulida & Karak (2021), leverage (DER) has significant impact towards firm value, because the value of the company, as measured by its share market value, is influenced in a certain direction by the investment opportunities that are taken into consideration

by prospective investors. One of financial measurements that can be used to evaluate a company's capacity to fulfill its financial commitments is called leverage ratio. The value of a business will increase as a direct result of improved public confidence brought about by a favorable leverage ratio.

Contradictory trends can be seen in the dividend policies of PT. Garudafood Putra Putri Jaya Tbk (GOOD) and PT. Siantar Top Tbk (STTP). PT. Garudafood Putra Putri Jaya Tbk (GOOD) distributed higher dividends in 2020 and decreased in the following year, while PT. Siantar Top Tbk (STTP) had decreasing dividends in 2020 and became higher the next year. Besides that, the firm value situations of both companies are clearly different. PT. Garudafood Putra Putri Jaya Tbk (GOOD) had shown its value gradually decreased while PT. Siantar Top Tbk (STTP) had portrayed its value improved in 2019 and 2020 before declining in 2021. PT. Buyung Poetra Sembada Tbk (HOKI) on the other hand, improved its dividend policy gradually from 2019 to 2021, while its firm value rose in 2020 and decreased in 2021. In accordance with Sondakh (2019), A & Wiksuana (2018), and Maulida & Karak (2021), dividend policy (DPR) was indicated to have significant impact toward firm value as investors favor dividend-paying companies because they know they will receive a steady stream of income from their holdings. The higher the dividend paid out, the more successful and well-liked the company is, and the higher the equity price will be as a result. Moreover, a high dividend payout ratio is an encouraging sign, as it indicates that the company is performing well and able to produce substantial profits.

The profitability ratios of PT. Garudafood Putra Putri Jaya Tbk (GOOD) and PT. Siantar Top Tbk (STTP), which are both in full compliance with the dividend policy, demonstrated an opposing situation. In 2020, the profitability ratio of PT. Garudafood Putra Putri Jaya Tbk (GOOD) decreased and the profitability ratio of PT. Siantar Top Tbk (STTP) increased. However, in 2021, PT. Garudafood Putra Putri Jaya Tbk (GOOD) performed an increase in its profitability while PT. Siantar Top Tbk (STTP) indicated a decrease in its profitability. Further, PT. Garudafood Putra Putri Jaya Tbk (GOOD) had demonstrated a steady decline in its value, whereas PT. Siantar Top Tbk (STTP) had demonstrated an improvement in its value in 2019 and 2020 before experiencing a decline in 2021. Between 2019 and 2021, PT. Buyung Poetra Sembada Tbk (HOKI) profitability ratios steadily decreased, while the company's value increased in 2020 and decreased in 2021. According to Journal 18, 20, and 28, it was elaborated that profitability (ROE) had a significant impact towards the value of a company. A high profitability rate is indicative of positive company prospects, and a good company represents a positive company growth rate. As a result, investors will have a favorable impression of the company's performance, and investors will be able to simultaneously increase the company's value. This occurs as a result of the fact that a company that has succeeded in recording increased profits can indicate that the company has good performance, which can attract investors to invest their funds in the company, which ultimately results in an increase in the price of the company's stock.

Hence, based on this background of study described above, therefore, the writer is interested to conduct research with the title of **“The Effect of Leverage, Dividend Policy and Profitability on Firm Value in Manufacturing Companies Listed on the Indonesia Stock Exchange”**.

## **1.2 Problem Limitation**

In order to avoid deviations from the topic, the writer set some problem limitations as below:

1. The object of this research is manufacturing companies classified as consumer goods industry listed at Indonesia Stock Exchange from 2019 to 2021.
2. In this research, the dependent variable is Firm Value, while the independent variables are Leverage (Debt to Equity Ratio), Dividend Policy (Dividend Payout Ratio), and Profitability (Return on Equity).

## **1.3 Problem Formulation**

According to the previously outlined background, the formulation of the research problems are as follows:

1. Does Leverage have significant effect toward Firm Value in Manufacturing Companies listed on the Indonesia Stock Exchange partially?

2. Does Dividend Policy have significant effect toward Firm Value in Manufacturing Companies listed on the Indonesia Stock Exchange partially?
3. Does Profitability Policy have significant effect toward Firm Value in Manufacturing Companies listed on the Indonesia Stock Exchange partially?
4. Do Leverage, Dividend Policy and Profitability Policy have significant effect toward Firm Value in Manufacturing Companies listed on the Indonesia Stock Exchange simultaneously?

#### **1.4 Objective of the Research**

The research's objectives are as follows:

1. To find out whether Leverage have significant effect toward Firm Value in Manufacturing Companies listed on the Indonesia Stock Exchange partially.
2. To find out whether Dividend Policy have significant effect toward Firm Value in Manufacturing Companies listed on the Indonesia Stock Exchange partially.
3. To find out whether Profitability Policy have significant effect toward Firm Value in Manufacturing Companies listed on the Indonesia Stock Exchange partially.

4. To find out whether Leverage, Dividend Policy and Profitability have significant effect toward Firm Value in Manufacturing Companies listed on the Indonesia Stock Exchange simultaneously.

## **1.5 Benefit of the Research**

### **1.5.1 Theoretical Benefit**

Theoretically, the writer expects that this study can be used as literature material for studies and references for other academics who want to do further research on firm value. The writer also hopes that this research's results can increase knowledge and insight about the influence of leverage, dividend policy, and profitability toward firm value.

### **1.5.2 Practical Benefits**

Practically, the writer expects that this research can be used as follows:

1. For Scholars

This study is meant to serve as a resource for future researchers in the same area by providing them with background material, citations, and data.

2. For Investors

It is anticipated that the findings of this study will, in addition to providing illustrations, provide information pertaining to the state of the companies, particularly those that were the focus of this study. In addition, the findings of the research can be used as inputs in decision making that is connected to investments if they are taken into consideration.

3. For Companies

This research's results are expected to supply information for the company regarding factors affecting firm value so that the company can make strategic decisions regarding the company's leverage, dividend policy, and profitability policy which are expected to help the company to improve their firm value.

4. For Other Stakeholders

This study is anticipated to give useful information to stakeholders according to their interests.

