



THE INFLUENCE OF CAPITAL STRUCTURE, DIVIDEND PAY OUT ON FIRM VALUE AND FIRM PERFORMANCE : EVIDENCE FROM INDONESIA STOCK EXCHANGE

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ABSTRACT

The purpose of this study is to test empirically the effect of leverage, investment stock, bond, and dividend policy on firm value and firm performance for agriculture, basic chemical industry, consumer goods, and finance on the Indonesian stock exchange. The population of this study is 632 companies listed on the Indonesian stock exchange, with a sample of 236 companies in 2018-2019, secondary data sources from ICDM, and audited financial reports by collecting documentation data and processing data with moderate multiple linear regression.

The findings of the research are that financial policy proxied by leverage, investment in stocks and bonds shows a significant positive effect on firm performance, and dividend policy also shows a significant positive effect on firm value. To increase the generalizability of research results, future studies will collect data with different populations or different countries. This study contributes to the performance and value of the company where the increase in leverage, investment, bonds, and dividends will increase the performance and value of the company. The implication of this research is to improve the performance and value of the company for the better. This research is limited to capital structure, dividend policy on firm value with firm performance as moderation. Further research can be developed with different samples and more for generalizations.

Keywords: : capital structure, dividend payout, firm value, firm performance

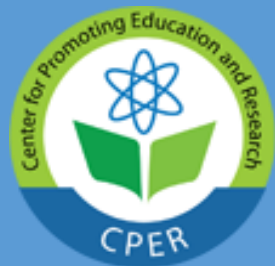
Introduction

To support the National development policy system, which focuses on the development of education, infrastructure, and poverty alleviation as well as equitable distribution of employment and income, to overcome the high level of intellectual unemployment, what an entrepreneur must do is invest. Technology for poverty alleviation by expanding access to information and markets with entrepreneurship, empowering open source technology to increase the nation's competitiveness. In 2017 there is a policy to inhibit investment for entrepreneurs carried out by the government, namely the approval of the Minister of Energy and Mineral Resources for changes in share ownership, transfer of interest, and management of companies, including changes in directors and/or commissioners (Minister Regulation ESDM No 42/2017).

Presidential Regulation dated January (1) (2018), will be a remedy for stagnation in investment. Hopefully, the business license can be completed in a matter of hours. With this step, world investment in Indonesia, which is currently

low at 1.97% from an average of US \$ 1,417.58 billion per year, is expected to continue to increase. Investment realization will also continue to increase from an average of 27.5% for PMA and 31.8% for PMDN in 2010-2016 (Kontan Newspaper, Saturday, September 29, 2017). Economic policy package in the form of policies to accelerate investment licensing. Investment is the main driver of economic growth. 2019 economic growth of 5.01% direct investment contributed 33% of total national economic growth (Dutu, R, 2016; ElBannan, M, A, 2017, Gallup, 2014; Kusumajaya, 2011; Safrida, E, 2008; Varaiya, N, Kerin, RA, 1987).

Indonesia competes with neighboring countries aggressively for investment to grow the economy. Like Thailand, Vietnam, the Philippines, Myanmar made improvements to the investment climate to attract foreign investors to come. With the MEA, it is hoped that it will bring in foreign investment in the future. In this case, to support investment policy, it requires the availability of infrastructure, such as roads, ports, electricity, the availability of educated human resources from the education sector who need to be



prepared to attract investment. By investing in the stock exchange, the application can be done online. Each year the stock exchange can conduct an IPO of 30 companies with an emission value of trillions (6T).

During one year the financial services authority managed funds of nearly 102 Trillion. For the coming years, the government is trying to increase the number of investors and investees. July 14, 2018, Indonesia officially purchased 88 trillion shares of PT Freeport with 51% ownership, namely PT Inalum, as the leader of 3 state-owned mining companies. Inalum group provides funds of 21 trillion, while the rest is funded by debt of 33 trillion, for investment from 2018 to 2041, for 23 years, Indonesia can get a profit of 860 trillion. With companies incessant to conduct IPOs, there are opportunities for investors to invest in the stock market. If the stock price falls, investors can buy with the hope that in the future the stock price will rise, so that investors get a return on capital gain or an increase in stock prices. If the share price has gone up, investors can sell part of their share ownership to enjoy profits from the increase in share price (capital gain). Or it is owned until the end of the accounting period for dividend distribution or for life to control or control the firm if the performance of the firm is good. In the era of the AEC (Asian Economic Community), it will involve many aspects, including the free flow of goods, free flow of services, free flow of skilled labor, free flow of capital, and free flow of investment from Indonesia to Asian countries or from Asia to Indonesia. In the free flow of investment, investors will be free to invest either in Indonesia or in Asian countries.

In investing according to positive accounting theory and agency theory, it states that shareholders delegate responsibility to managers and employees to manage firm funds properly. To maximize firm value by managing or managing firm assets that can be obtained through debt, stock investment, and performing earnings management for the benefit of managers (agents), shareholders (principals), and other stakeholders such as creditors, investors, government, and other parties. involved with firm operations to find out where the firm's management performance, the increase in stock prices (capital gain) as well as firm value and the firm's market capitalization.

Astuti (2019) examines the effect of performance and capital structure on firm value in 13 automotive companies listed on the IDX in 2013-2017, the results show that performance and capital structure have a significant effect on firm value (Le, T.P.V, 2017; Martellini, Lmilhau, V, 2018; Apriyanti, C, 2015; Hoque, J. Hossain, A, 2014; Sucuahi, W, 2016).

The greater / higher the leverage, the greater the tendency for companies to choose accounting methods that increase profits. And companies with bonus programs tend to choose accounting methods that increase profits.

Husna (2018) examines the capital structure and firm performance on firm value in food and beverage companies with 70 observations, the results show that capital structure hurts firm value and firm performance has a positive effect on firm value. The relationship between stock investment and investment growth (IOS) creates wider economies of scale, product diversification, patents, trademarks, or brand loyalty (Chung and Charaenwong 1991). Cristie (1989) argues that investment in the investment opportunity set will be determined by the choice of business lines based on competitive advantage. Research by Smith and Watts (1992) states that investment growth will encourage earnings management so that it can increase compensation, with high investment growth tend to pay higher levels of compensation to top executives compared to the low investment opportunity set.

Managers as firm managers know more about the firm's internal information and the firm's prospects in the future compared to owners (shareholders). Therefore, as a manager, the manager is obliged to provide a signal about the condition or performance of the firm to the owner. The signal given can be known through the disclosure of accounting information such as financial reports. However, the information that the manager sends to the owner is sometimes received by the owner that does not match the actual conditions of the firm. This condition is known as information asymmetry. Information asymmetry occurs because managers are superior in controlling information compared to other parties (owners or shareholders). Information asymmetry will encourage the opportunist attitude of managers.

High dividends will affect the reaction of investors and firm value. The firm's performance can be reflected in high earnings per share, high dividends per share, high return on investment, high return on equity, and high return on assets. This can be influenced by the high level of debt and investment which is strengthened by the good management of firm agents and the high level of investment opportunities. This will also affect high investor reactions and high corporate value so that welfare for stakeholders can be achieved. Based on the description above, the effect of capital structure and dividend policy on firm value and firm performance is examined as a mediation on the Indonesian stock exchange.

Literature Review

Positive Accounting Theory and Model Agency Theory (TAPAM)

Positive accounting theory states that shareholders delegate authority and responsibility to agents to manage firm funds properly (good corporate governance) and use accounting methods that maximize firm performance and value and increase stakeholder welfare. Agency theory states that the majority shareholder is the principal and as monitoring and

controlling agents as firm managers (Jensen & Meckling, 1976).

Investment Theory (Pecking Order Theory)

This investment theory states that rational and risk-averse investors will consider the risk and return received in investing their funds. With good management of the funds obtained by the firm, it is hoped that it will be more prosperous and prosperous for shareholders.

Leverage Theory (Bondholder Theory)

Capital structure theory states that firm capital consists of internal and external capital, internal capital is the issuance of shares, and external capital is bank loans and bonds payable (Abor, J, 2005; Campbell, G, 2018; Devereux, M, P, Maffini, G, 2018; Kakilli Acaravci, S, 2015; Lachmann, L. M, 1978; Nimalathasan, 2010; Nurhikmah, D, 2013; Robichek, A & Myers, C, 1966; Swanson, Z, Srinidhi, B.N, 2003; Welch, I, 2011).

Bird Theory in The Hand Dividend Theory and Residual Dividend

This theory states that investors prefer to receive cash dividends and investors will get dividends after profits are used for additional investment (Ang, J, S, Fateni, A, 1997).

Stakeholders Theory

This theory states that the agent/manager of the firm will make every effort to operate the funds obtained by the firm from the principal either through debt, stock investment, bond sales, or SUN for the welfare of all parties involved in the firm (stakeholders) by using the funds obtained for reinvestment, innovation, product diversification to obtain optimal results/returns so that stakeholders will be more prosperous (McGuian, J, R, Moyer, R, C, 2011; Pandey, I, M, 2004; GitmanL. J, 2014). Company performance is the result of work or work performance achieved by the company during the company's operating period as measured by Tobins Q. Firm Value is jumlah ekuitas yang dimiliki oleh Perusahaan yang diukur dengan total Saham yang beredar dikalikan dengan Harga Saham Perusahaan (Vo, X.V & Ellis, C, 2017). The conceptual framework and hypothesis of this study are:

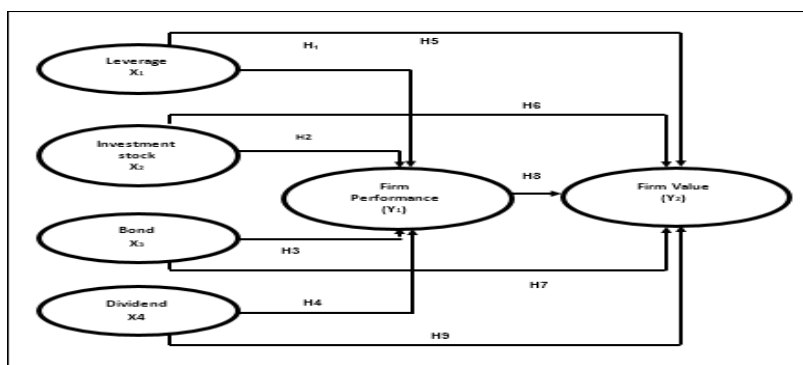


Figure 1: Conceptual Framework Model

Research Hypothesis Development:

- H1: Leverage has a significant positive effect on firm performance
- H2: Investment has a significant positive effect on firm performance
- H3: Bond has a significant positive effect on firm performance
- H4: Dividend payout ratio has a significant positive effect on firm performance
- H5: Firm performance has a significant effect on firm value
- H6: Leverage has a significant positive effect on firm value
- H7: Investment has a significant positive effect on firm value
- H8: Bond has a significant positive effect on firm value
- H9: Dividend payout ratio has a significant positive effect on firm value

Research Methods

Research Design

The design of this research is a quantitative research that applies and develops knowledge in the field of capital markets with the type of applied research which explains the influence

and relationship of the independent variables of leverage, investment, dividend payout ratio to firm value with the following empirical research model:

$$\text{Firm Performance (Y1)} = a + b1 \text{ Leverage (X1)} + b2 \text{ Investment (X2)} + b3 \text{ Bond (X3)} + b4 \text{ Dividend (X4)} + e.$$

$$\text{Firm value (Y2)} = a + b1 \text{ Leverage (X1)} + b2 \text{ Investment (X2)} + b3 \text{ Bond (X3)} + b4 \text{ Dividend (X4)} + b5 \text{ Firm performance (Y1)} + e.$$

Population and Sample

The population in this study were 632 companies listed on the Indonesian stock exchange, with a research sample of 236 companies in 2018-2019 consisting of agricultural companies, basic chemical industries, consumer goods, and finance with the following details: 18 companies, 1 livestock, fishery 1 firm, Perhutani 1 firm, basic cement industry 6 companies, ceramic glass and glass 7 companies, metal and the like 15 companies, 13 chemical companies, 11 plastics, and packaging companies, 5 animal feed companies, wood and processing 2 companies, pulp and paper 9 companies, 2 companies, food and beverage companies 27, cigarette 5 companies, 10 pharmaceutical companies, 6

cosmetics companies, 5 equipment, and other companies, 44 banks, 16 financial institutions, 5 securities companies, insurance, and others 24 companies with a total 236 companies.

Data Collection and Processing

Secondary data sources were collected from ICDM and firm financial reports that were audited in 2018 and 2019 in the documentation then tabulated and processed using SPSS version 26.

Research Results and Discussion

Hypothesis Testing

In this study, the analysis used to test the proposed hypothesis is path analysis. Path analysis is used to determine the magnitude of the direct influence between exogenous variables on endogenous or indirect effects between exogenous variables on endogenous variables through intermediate variables.

The path model that will be sought to explain the functional relationship of the variable Leverage (X1), Stock Investment (X2), to Firm performance

(Y1) both directly and through the firm performance variable (Y1) as an intermediary variable is as follows:

$$Y_1 = \rho_{Y1X1} X_1 + \rho_{Y1X2} X_2 + \rho_{Y1X3} X_3 + \rho_{Y1X4} X_4 + e \dots\dots\dots(1)$$

$$Y_2 = \rho_{Y2X1} X_1 + \rho_{Y2X2} X_2 + \rho_{Y2X3} X_3 + \rho_{Y2X4} X_4 + \rho_{Y2Y1} Y_1 + e \dots\dots\dots(2)$$

Information:

X1 = Leverage

X2 = Stock Investment

X3 = Bonds

X4 = Dividend

Y1 = Firm performance

Y2 = Firm Value

e = Contribution of other variables (error)

ρ_{x1y1} = Path coefficient from exogenous to endogenous

The path model above shows that equation (1) explains the hypotheses H1 and H2, equation (2) explains the hypothesis H3. In detail, to find out how the results of the hypothesis test can be seen in detail as follows.

Table 1. Summary of Path Analysis Testing

Sub-Structural	Variable		H	Path Coefficient	Partial Hypothesis		Conclusion
	Exogenous	Endogenous			t-value	p-value	
1	Leverage (X1)	Firm Performance (Y1)	H ₁	0,244	2,742	0,007	Significant Effect
	Investment Stock (X2)		H ₂	0,213	2,484	0,015	Significant Effect
	Bond (X3)		H ₃	-0,236	-2,940	0,004	Significant Effect
	The dividend (X4)		H ₄	0,230	2,680	0,009	Significant Effect
2	Leverage (X1)	Firm Value (Y2)	H ₅	0,143	2,718	0,008	Significant Effect
	Investment Stock (X2)		H ₆	0,028	0,548	0,585	Not Significant Effect
	Bond(X3)		H ₇	0,129	2,694	0,008	Significant Effect
	The dividend (X4)		H ₈	0,005	0,105	0,917	Not Significant Effect
	Firm Performance (Y1)		H ₉	0,824	14,904	0,000	Significant Effect

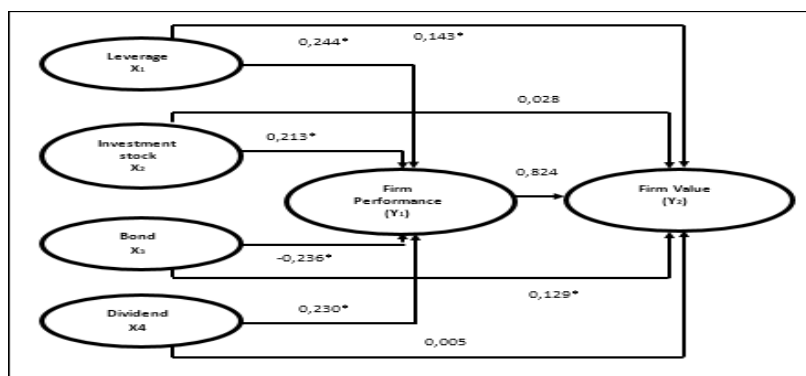


Figure 2. Result of Path Analysis



Based on the table above, it can be seen that the results of estimation and hypothesis testing

1) on the variable leverage (X1) on firm performance (Y1) are known where the Path coefficient is 0.244 with a p-value of 0.007 because the p-value is smaller than alpha (0.05), then the statistical hypothesis states Ho is rejected, meaning that leverage (X1) has a significant effect on firm performance (Y1).

2) In the stock investment variable (X2) on firm performance (Y1) where it is known that the Path coefficient is 0.213 with a p-value of 0.015. Because the p-value is smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that stock investment (X2) has a significant effect on firm performance (Y1).

3) In the bond variable (X3) on firm performance (Y1) where it is known that the path coefficient is -0.236 with a p-value of 0.004, because the p-value is smaller than alpha (0.05), the statistical hypothesis states Ho is rejected, meaning that bond (X3) has a significant effect on firm performance (Y1).

4) In the dividend variable (X4) on firm performance (Y1) where it is known that the Path coefficient is 0.23 with a p-value of 0.009. Because the p-value is smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that dividend (X4) has a significant effect on firm performance (Y1).

5) In the variable leverage (X1) on firm value (Y2) where it is known that the Path coefficient is 0.143 with a p-value of 0.008. Because the p-value is smaller than alpha (0.05), the statistical hypothesis states Ho is rejected, meaning that leverage (X1) has a significant effect on firm value (Y2).

6) In the stock investment variable (X2) on firm value (Y2) where it is known that the path coefficient is 0.028 with a p-value of 0.585. Because the p-value is greater than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that stock investment (X2) affect, but not significant, to firm value (Y2).

7) In the bond variable (X3) to firm value (Y2), where the path coefficient is known to be 0.129 with a p-value of 0.008. Because the p-value is smaller than alpha (0.05), the statistical hypothesis states Ho is rejected, meaning that bond (X3) has a significant effect on firm value (Y2).

8) In the dividend variable (X4) on firm value (Y2) where it is known that the Path coefficient is 0.005 with a p-value of 0.917. Because the p-value is greater than alpha (0.05), the statistical hypothesis states Ho is rejected, meaning that dividend (X4) affect, but not significant, to firm value (Y2).

9) In the variable firm performance (Y1) on firm value (Y2) where it is known that the path coefficient is 0.824 with a p-value of 0 because the p-value is smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, it means that firm performance (Y1) has a significant effect on firm value (Y2).

Furthermore, to find out how the indirect influence between leverage (X1) on firm performance (Y1) through firm value (Y2) and the indirect effect between stock investment (X2) on firm performance (Y1) through firm value (Y2), then the structure decomposition is carried out, namely multiplying the path coefficient of sub-structure 1 by sub-structure 2.

Table 2. Indirect Effect between Variables

Indirect Effect	Count	Result	t-statistics	p-value	Information
Leverage (X1) on Firm Value (Y2) through Firm Performance (Y1)	0,244 x 0,824	0,201	2,697	0,007	Significant
Investment in Shares (X2) to Firm Value (Y2) through Firm Performance (Y1)	0,213 x 0,824	0,176	2,450	0,014	Significant
Bonds (X3) to Firm Value (Y2) through Firm Performance (Y1)	-0,236 x 0,824	-0,194	2,884	0,004	Significant
Dividend (X4) to Firm Value (Y2) through Firm Performance (Y1)	0,23 x 0,824	0,190	2,638	0,008	Significant

Based on the table above, it is known that the indirect effect between variables is as follows.

- 1) Indirect effect of leverage (X1) on firm value (Y2) through firm performance (Y1) is 0.201 with a p-value of 0.007 (Significant).
- 2) Indirect influence of stock investment (X2) on firm value (Y2) through firm performance (Y1) is 0.176 with a p-value of 0.014 (Significant).
- 3) The indirect effect of bonds (X3) on firm value (Y2) through firm performance (Y1) is -0.194 with a p-value of 0.004 (Significant).

- 4) The indirect effect of dividend (X4) on firm value (Y2) through firm performance (Y1) is 0.190 with a p-value of 0.008 (Significant).

Conclusions

The results show that leverage, investment, bonds and dividends have a significant effect on company performance, as well as leverage, bonds have a significant effect on firm value while investment and dividends do not affect firm value. Meanwhile, leverage, investment, bonds and dividends have an indirect effect on firm value through company performance.

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