The Influence Of Dividend Policy, Investment Opportunity And Capital Adequacy To Firm Value: Evidence In Indonesia Banking Companies

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The Influence Of Dividend Policy, Investment Opportunity And Capital Adequacy To Firm Value: Evidence In Indonesia Banking Companies

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Abstract: Dividend Policy is a policy of the company's management in determining the profit available to shareholders in the form of dividends or profits needed to finance future investments. There is a lot to consider regarding how dividend policy affects the value of the company.. According to the bird in the hand theory, shareholders prefer high dividends compared to dividends that will be distributed in the future, because high dividends will increase the value of the company. the results of the study using the PLS-SEM analysis tool with the WarpPLS 5.0 application show that dividend policy has a negative effect on firm value with a coefficient value of -0.172. This is consistent with the first view that dividend policy does not affect the value of the company that is supported by the theory of dividend irrelevance.

Keywords: Dividend Policy, Firm Value, Investment Opportunities, Capital Adequacy, Banking Companies.

1. INTRODUCTION

THE main goal of companies that have gone public is to increase the prosperity of their owners or shareholders through increasing the value of the company. Company value is very important because it reflects the company's performance which can affect investor perceptions of the company. (McKecnie et al., 2011) The company's goal that must be achieved is to maximize shareholder wealth. Shareholder wealth can, among other things, be measured through share prices. From every possible action that affects the price of each share of the company will take actions that are expected to increase the price of one share, because the price per share represents the wealth of shareholders, maximizing share price is the same as maximizing shareholder wealth so that the value of the company increases (Beck et al., 2004). Studies conducted in relation to investment opportunities include (Myers 1977), which introduces investment opportunity sets. The investment opportunity set provides broader clues which the value of the company depends on the company's future expenses. So the company's prospects can be estimated from investment opportunities. Investment opportunity set is a combination of assets held (assets in place) and investment options in the future. Investment opportunity is a growth opportunity for the company, the amount of which depends on expenditure determined by management in the future, in this case investment choices that are expected to generate greater profits.

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Investment opportunities are the result of choices to make investments in the future that can increase the value of the company. A company's investment opportunity cannot be observed for parties outside the company so a proxy is needed to see it (Fama and French, 2015)

2 LITERATURE REVIEW

2.1 Dividend Irrelevance Theory

(Dividends Are Not Relevant) Some have argued that the dividend policy has no effect on the company's stock price or on its capital costs. If the dividend policy does not have a significant effect, then it is irrelevant. Supporting the irrelevance of dividend policy is Modigliani-Miller (MM). They argued that however the dividend policy did not affect share prices or the prosperity of shareholders. MM further argues that the value of the company is determined by the earning power and assets of the company. Thus the value of the company is determined by investment decisions. Meanwhile the decision whether profits will be distributed in the form of dividends or will be retained does not affect the value of the company. According to the bird in the hand theory, shareholders prefer high dividends compared to future dividends and capital gains (Lintner, 1956; Bhattacharya, 1979).

2.2 Bird in The Hand Theory

This theory was put forward by (Myron Gordon 1959) and (John Lintner 1956) who argued that the equity or value of the company would decrease if the dividend payout ratio was raised, because investors were less confident in receiving capital gains resulting from retained earnings compared to if investors receive dividends. Gordon and Lintner argued that investors actually value the income expected from dividends far more than the income expected from capital gains. MM in this case does not agree that equity or company value does not depend on dividend policy, which implies that investors do not care about dividends with capital gains. MM named Gordon-Lintner's opinion as a bird-in-the-hand error, which is based on the idea that investors see a bird in the hand is more valuable than a thousand birds in the air. Thus, a company that has a high dividend payout ratio will also have a high company value. But in MM's view, most investors plan to reinvest their dividends in shares of the company or similar companies, and in many cases, the level of risk of a company's cash flow for investors in the long run is only determined by the level of risk of operating cash flow, not by policy dividend distribution.

2.3 Agency Theory

The Agency theory explains the relationship between business management agents and principals (business owners). Agency theory was built as an effort to understand and solve problems that arise when there are incompleteness when entering into contracts (Bratman, 2013). The contract in question is a contract between the principal and the agent. In this case one person or more orders another person to perform a service on behalf of the principal and authorizes the agent to make the best decision for the principal. Agency conflict between managers and shareholders will result in agency costs (Fama, 1980). Therefore, it is necessary to have a party that can carry out the process of supervision or monitoring of the activities carried out by these parties. Agency theory is seen as a version of game theory that makes a contractual model between two or more people (parties), in this case the principal agent. The relationship between agents or management is usually called with shareholders or principals, in agency theory is often called the relationship between agents and principals (Dawar, 2014). Shareholders or principals expect the agent or manager to act in accordance with the interests of the principal so as to delegate authority to the agent. managers must make the best business decisions to increase shareholder wealth (Nielson dan Tierney, 2003). The business decision taken by managers is to maximize the company's resources (utilities) (Eggertsson dan Le Borgne, 2003). To do their job properly, managers must be given incentives and adequate supervision. Supervision can be done through ways such as binding agencies, examining financial statements and restrictions on the decisions taken by management. Supervision activities for managers have cost or service consequences called agency costs (Rose, 1992). This is a threat to the principal or shareholders if the manager will act in his own interests, not in the interests of shareholders or principals. This is the basic problem in agency theory, namely the existence of a conflict of interest between the agent and the owner (Eisenhardt, 1989).

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2.4 Information Asymmetry

According to (MYERS and MAJLUF, 1984) information asymmetry occurs because managers know more about the company's current earnings and investment opportunities compared to outside investors. In addition, managers act in accordance with the interests of the company's existing shareholders. The assumption of information asymmetry can be interpreted that when a manager finds a good investment opportunity (high net present value), he cannot convey this.
information to outside investors because outside investors do not trust. Though the manager is eager to inform the discovery of a good project so that the company's stock price increases. Because outside investors cannot prove the claim of a good project before the project runs a few years, they will underestimate every new project and are only willing to buy new shares issued by the company if there is a large discount. Because of such attitudes, it is not uncommon for managers to be forced to not run a project that is actually good if they have to issue new shares to fund the project. The issuance of new shares will only benefit new shareholders and actually will harm the old shareholders.There is asymmetry between the company's shareholders and management regarding the state of the company and management provides corporate action to other parties. The incorrect price of shares on an exchange is the difference in information between investors and company managers so that the longer it can cause the stock performance to deteriorate (Leland and Pyle, 1977).

3 RESEARCH METHOD

3.1. Data and Data Sources

The object of this research is banking companies listed on the stock exchange from 2009 to 2016. The type of data in this documentary is data in the form of financial statements of banking companies in Indonesia for the period 2009-2016. For the source of the data is secondary data, that is data obtained from other parties, in this case the data source is the Indonesian stock exchange in the form of financial reports (annual report) at the address www.idx.co.id. and bloomberg. Data using panel / pooling data, combined time series data with cross section data so that a large sample can be obtained.

3.2. The Hyphotesis

According to the bird in the hand theory, shareholders prefer high dividends compared to future dividends and capital gains (Lintner, 1956; Bhattacharya, 1979). According to Fama and French (1998) in (Wijaya Wibawa 2010) found that investments resulting from dividend policies have positive information about the company in the future, then a positive impact on the company's value. (Jensen 1992) also confirms the positive relationship between dividends and company value. (Fama and French, 2015) suggest this relationship occurs to reduce agency problems because companies with higher profits have more free cash flow. In addition, more profitable companies can still pay greater dividends without financing investment with debt and risky equity in Indonesia

Hyphotesis 1: Dividend policy has a positive effect on firm value.

The term investment opporTUNITY SET OR IOS APPEARS AFTER being coined by (Myers, 1977) who views the value of a company as a combination of assets owned by investment choices in the future. Investment choices are an opportunity to develop, but often companies cannot always implement all investment opportunities in the future. (Smith Jr dan Watts, 1992) For companies that cannot use investment opportunities will experience higher expenses compared to the value of lost opportunities. Future investment is not merely shown by the existence of projects supported by research and development activities, but also by the company's ability to explore opportunities to take advantage compared to other companies that are equal in an industrial group. According to (Gul, 1999) IOS is measured in three ratios; the market value of the company to record the value of assets, market value of equity to book value of equity and the ratio of earnings prices. (Lyandres and Zhdanov, 2013) that shareholders of companies with valuable investment opportunities will be able or willing to wait longer before failing on contractual debt obligations than shareholders of other similar companies without opportunities. The IOS of a company is an important characteristic of a company and has a big influence on the way the company is seen by managers, owners, investors, and creditors (Lyandres and Zhdanov, 2013).

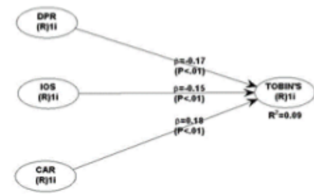
Hyphotesis 2: investment opportunity has a positive effect on company value.
The capital adequacy ratio, which is often referred to as the capital adequacy ratio (CAR), reflects the ability of banks to cover the risk of loss from their activities and the ability of banks to fund their operational activities (Abba et al., 2013). As with other companies, banks have capital that can be used for bank operations. Bank capital consists of two types, namely core capital and supplementary capital. In accordance with the Capital Financial Services Authority regulation, the minimum capital requirement of banks is 8%. Research conducted by (Hidayat 2014) states that CAR has a significant positive effect on firm value. In contrast to research (Srihayati 2015) which provides results that CAR does not significantly influence Company Value.

Hyphotesis 3: Capital adequacy has a positive effect on firm value.

4 RESULT

Based on the goodness of fit test shows the research model has a very good fit. Test results test, among others; the model does not have multicollinearity problems between exogenous variables, there is no causality problem in the model, the model is free of negative R-square contributions. Thus the evaluation model is suitable or supported by data. Based on the results of the appropriate model, it can be concluded that this research model is appropriate. This is also supported by the AVIF value of 1.015 and the AFVIF value of 1.045 whose value is smaller than 3.3 so that there can be no multicollinearity problems between indicators and between exogenous variables. The predictive power of the model is shown by the GoF value of 0.297 so it can be concluded from a very large prediction model because it is greater than 0.36. Based on the results of the composite reliability coefficient and Cronbach's alpha coefficient test results show that the composite reliability value is greater than 0.7 for the entire construct, as well as the Cronbach alpha value greater than 0.7 for the entire construct, so that the composite and Cronbach alpha reliability requirements of this research instrument have been met .Based on the results of predictive validity test showed Tobin's Q-square value of 0.104 which means greater than zero (0), so it can be concluded that this research model has predictive validity. Variations that affect the value of the company (Tobin's) in R squared 0.088 which means the effect of variations in dividend policy, investment opportunities, capital adequacy to the value of the company by 8.8% and the remaining 91.2% explained by other variables not included in this research. If seen from the rule of thumb for evaluating the structural model in this study, it is categorized as weak because it is smaller than ≤ 0.25. The adjusted R squared value for the variation of the effect of dividend policy, investment opportunities, capital adequacy to the value of the company is 0.080 or 8.0% and the remaining 92% is explained by other variables not included in this research model. The rule of thumb for evaluating the structural model in this study is in the weak category, where the adjusted R squared of 0.080 is smaller than ≤ 0.25.

Figure 4.1. *Full Model*



5 CONCLUSION

Based on the hypothesis test the findings of this study show first, Hypothesis 1 states that "dividend policy has a positive effect on firm value" in this hypothesis test results are obtained according to WarpPLS 5.0 output that the dividend policy variable has a positive effect on firm value with a coefficient value of -0.172 and significant <0.001 *** so that these results support the hypothesis, then it is concluded that hypothesis 1 is rejected. This is consistent with the first view that dividend policy does not affect the value of the company supported by the theory of dividend irrelevance (Miller and Modigliani 1961). Research in line with this has been conducted by (Black and Scholes 1974), (Petit 1974) and (Miller and Scholes 1982). Based on the hypothesis test the findings of this study indicate the second, Hypothesis 2 states "positive investment opportunities towards firm value" in testing this hypothesis obtained results in accordance with WarpPLS 5.0 that the investment opportunity variable is positive to firm value with a value of -0.154 and significant 0.002 * ** So the results this supports the hypothesis, then it is concluded that hypothesis 2 is rejected. Based on the hypothesis testing the findings of this study indicate the third, Hypothesis 3 states that "capital adequacy has a positive effect on firm value" in this hypothesis test results are obtained according to WarpPLS 5.0 output that the capital adequacy variable has a positive effect on firm value with a coefficient value of 0.183 and significant <0.001 * ** so that these results support the hypothesis, then it is concluded that hypothesis 3 is accepted. Banks are the heart and pulse of trade and economic development of a country. Banks can only carry out operations if the funds are available. The more funds a bank has, the greater the opportunity to carry out its activities in achieving its objectives. (Ezike dan MO, 2013)capital is the amount of funds invested in a company by its owners for the establishment of a business entity and in its development the capital may shrink due to losses or develop due to the profits obtained. According to (Bhattacharya, 2013) bank capital is funds invested by the owner at the time of the bank's establishment which was intended to finance the bank's business activities. The use of bank capital is intended to meet all needs to support bank operations. The amount of capital is considered insufficient if it does not meet certain purposes. Capital is the most important factor in efforts to develop a bank's business.

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