



## Analysis of determinants of manufacturing company value

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### ABSTRACT

In general, the company's goal is to maximize company value as reflected in the share price and increase the wealth of company owners by achieving targeted profits. This research aims to analyze the influence of dividend policy, investment decisions, liquidity, profitability, capital structure and company size on company value. The objects of this research are all manufacturing companies listed on the Indonesia Stock Exchange during the 2018-2021 period. This research uses secondary data obtained through documentation methods. The results of this research prove that investment decisions, profitability, capital structure and company size have a significant effect on company value. Meanwhile, dividend and liquidity policies have no influence on company value. The resulting coefficient of determination was 84.9%.

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## INTRODUCTION

Company value is an investor's perception of the company's level of success which is closely related to its share price. So in this case the success of company management is seen from the company's ability to provide prosperity to its shareholders (investors). A high share price makes the company value also high and increases market confidence not only in the company's current performance but also in the company's prospects in the future. In general, when a company is built it certainly has a certain target which is the main target for the company. One of the main targets a company has is making a profit. The Indonesia Stock Exchange (IDX) is a capital market that serves as one of the alternative sources of funds for companies. The development of the stock exchange can be seen from the number of companies listed on the exchange and changes in the price of stocks traded. Changes in stock prices can provide clues about how bearish and bullish the capital market activities are and they also show investors' interest in buying and selling stocks for high returns as well as for future investments (Tiwari et al., 2020). High profit aims to maximize the welfare of shareholders. (Kuo et al., 2022) argued that there are three decision factors in finance, namely investment, funding, and dividends. This is often translated as an effort to maximize firm value, which is very important for investors before making any decision on investments. Every increase in operational performance and financial performance of the company will generally have an impact on stock prices on the stock exchange, which in turn will raise the overall value of the

company. Various policies are adopted by management in an effort to improve firm value for the sake of the prosperity of owners and shareholders (Badurdeen & Jawahir, 2017). According to (Miller et al., 2013) firm value is based on the present value of the company with profits being generated from the assets owned today and some of tangible assets have a higher rate of return (Liu et al., 2023). Thus, the better the financial performance shown by a company, the higher its stock price will be and the returns are assumed to be in accordance with investors' expectation. Efforts to maximize firm value involve some parties, such as management and lenders. An agency relationship occurs if owners (an individual or some persons) employ another person or organization, for example the manager, to carry out the work and provide him or her with authority to make decisions. Improved financial performance is the most important consideration for investors. A company's firm value reflects the result of its performance in one period as presented in its financial statements. The better the financial performance, the better the value of a company is. The firm value of a company will be stronger and the return rate will be higher. If the return is high, shareholders will prosper (Agut et al., 2020). Apart from these goals, companies must maximize company value on the stock market. As time goes by, the level of competition for manufacturing companies continues to increase, so each company must maximize performance in order to produce good company value. Companies must think about their strategies in gaining profits in competition between other companies. The aim of increasing profits is to find out how much the company can maximize its company value. Therefore, companies must maintain their effectiveness in managing the company. Industry growth can be seen in how much investment is allocated to the company. Investment decisions are those in the form of fixed assets and long-term assets. Investments must look at opportunities and examine them well. This is called an investment project. A finance manager is projected to study the investment project carefully and must be able to calculate and determine the amount of capital needed for investments and the IOS must be those of the promising one. It is an investment option used either individually or by companies. For companies, investment opportunities will affect the opinion of agents (managers), owners, investors, and creditors about firm value (Rinaldi M, Kurniawan D, 2016). The funding policy is considered by investors when making investment decisions. Investors see highly indebted companies as a problem as this condition has a negative effect on the return rate and can pose serious risks for them. This depends on the company's capital structure. There is a tradeoff decision on return and risk with the increasing amount of financial obligation in the form of debt, fluctuating market price in a certain period or the scale of changes in total cash can improve the final results. Therefore, it is important to keep debt and equity balanced for an optimal capital structure (Hermawan, 2005). A healthy capital structure is one that can balance risk and return to maximize stock market prices. The main reason to use debt to finance corporate activities is that in tax calculation, interest can be reduced, in other words, this can slash costs (Doan, 2019). A high level of debt will cut the profits earned by the company. Consequently, it will also have an impact on the level of dividends distributed (Kim et al., 2009). Dividend policy is also a problem for management. This is because the company expects sustainable growth by retaining earnings that are used by management to further improve the welfare of shareholder. Thus, it needs policies that improve the welfare of investors while not hampering management to increase firm value (PJOK, 2019). The investment objective is not only limited to obtaining capital gains (Baru et al., 2019). It is also related to the distribution of dividends. Investors will be interested in investing in the companies that regularly pay dividends and more investors will raise firm value (Bischof et al., 2015)

Company value is a measuring tool for whether a company can manage its management effectively and efficiently. The value of the company can make shareholders feel happy when there is a maximum increase in share prices. The greater the increase in the price of a share, the happier the shareholders feel. In recent years, more and more manufacturing companies have been born to

gain profits for this purpose (Adlin et al., 2020). Not only does it make a profit, companies also want to get good quality by maximizing the value of their company. Therefore, the company wants to get a better company value so that investors can invest their wealth in the company. Research on the factors that influence company value in Indonesia produces differences that are interesting to replicate. As well as developing research with variables of profitability, liquidity, leverage, dividend policy, company size and sales growth. (Alfiyah et al., 2021) This research raises the problem of how profitability, size, growth, capital structure, dividend policy and investment decisions actually influence company value.

Industry growth can be seen in how much investment is allocated to the company. Investment decisions are those in the form of fixed assets and long-term assets. Investments must look at opportunities and examine them well. This is called an investment project. A finance manager is projected to study the investment project carefully and must be able to calculate and determine the amount of capital needed for investments and the IOS must be those of the promising one. It is an investment option used either individually or by companies. For companies, investment opportunities will affect the opinion of agents (managers), owners, investors, and creditors about firm value (Chetioui & El Bouzidi, 2023). The funding policy is considered by investors when making investment decisions. Investors see highly indebted companies as a problem as this condition has a negative effect on the return rate and can pose serious risks for them. This depends on the company's capital structure. There is a tradeoff decision on return and risk with the increasing amount of financial obligation in the form of debt, fluctuating market price in a certain period or the scale of changes in total cash can improve the final results. Therefore, it is important to keep debt and equity balanced for an optimal capital structure (Wibowo et al., 2021). A healthy capital structure is one that can balance risk and return to maximize stock market prices. The main reason to use debt to finance corporate activities is that in tax calculation, interest can be reduced, in other words, this can slash costs (Sahrudin et al., 2022). A high level of debt will cut the profits earned by the company. Consequently, it will also have an impact on the level of dividends distributed (Ashiq et al., 2021). Dividend policy is also a problem for management. This is because the company expects sustainable growth by retaining earnings that are used by management to further improve the welfare of shareholder. Thus, it needs policies that improve the welfare of investors while not hampering management to increase firm value. The investment objective is not only limited to obtaining capital gains. It is also related to the distribution of dividends. Investors will be interested in investing in the companies that regularly pay dividends and more investors will raise firm value (Tandelilin, 2012).

## RESEARCH METHOD

This type of research is explanatory research (Putra et al., 2020) which aims to test the hypothesis about the effect of one or several variables (independent variables) on other variables (the dependent variable). The population of this research is manufacturing companies on the Indonesia Stock Exchange (BEI). (Aris et al., 2021) The sample selection used a purposive sampling method with the criteria of (1) manufacturing companies on the IDX for the 2018-2021 period, (2) not delisting during the 2018-2021 period, (3) issuing financial reports in Rupiah, (4) publishing financial reports consecutively - participated during 2018-2021, (5) earned profits during 2018-2021, and (6) distributed dividends during 2018-2021. (Sanny et al., 2020) This research uses secondary data in the form of company financial reports taken from [www.idx.co.id](http://www.idx.co.id) using the documentation method. (Hardianza, 2016). The population used in this study was companies listed on the Indonesia Stock Exchange. This research used purposive sampling. Based on the pre-determined criteria, manufacturing companies were selected as the object of this research. The independent variable in this study was investment decision ratio with the market to book value of equity

(MVBVE) as the indicator. Funding decisions were measured using the leverage (Lev) indicator in the debt-to-equity ratio (DER) proxy. Dividend policy was measured using the dividend payout ratio (DPR) indicator. While the dividend payout ratio (DPR) measured the ratio of dividend per share and earnings per share. The size of the company was the value that shows the size of the company based on the value of equity, sales, and assets. The size of the company in this study was expressed by total assets. The greater the total assets of the company, the bigger the size of the company is (Novianti & Ruslim, 2022)

## RESULTS AND DISCUSSIONS

Description analysis describes the description of a data that is seen from the average (mean), maximum, minimum and standard deviation of each variable (Nurbaiti et al., 2020). Before testing the hypothesis with multiple regression analysis, it is necessary to carry out a series of classical assumption tests. (Rojak et al., 2021). The significant value of the data is  $0.059 > 0.05$ , which means the data is normally distributed. All variables have a tolerance value  $> 0.1$  and  $VIF < 10$ , meaning that all independent variables do not experience symptoms of multicollinearity. The significant value of each variable is  $> 0.05$ , which means that all variables in the research do not have heteroscedasticity. Furthermore, the results of the autocorrelation test showed that the Durbin Watson score was 1.870 or  $1.5 < 1.870 < 2.5$ , so it was concluded that there was no autocorrelation in this data. (Goldstein et al., 2022). The sign value is 0.000, which means that simultaneously all independent variables in this research have an influence on company value. The adjusted R Square value is 0.849. This means that dividend policy, investment decisions, liquidity, profitability, capital structure and company size are able to explain changes in the company value variable by 84.9% and the remaining 15.1% is explained by other variables outside this research. The significance value of the dividend policy variable (X1\_DPR) is  $0.574 > 0.05$  and the calculated t value is  $0.564 < t$  table value (1.976). This means that dividend policy (X1\_DPR) has no significant effect on company value (Y) (H1 is rejected). If there is an increase in dividend policy, it will not continue to be accompanied by an increase in the value of the company. (Wirtz & Lovelock, 2021)

This condition occurs because a decrease in dividend payments will be seen as a bad opportunity for the company, whereas an increase in dividend payments is seen as a sign that the company has good prospects. Therefore, paying dividends to shareholders can increase the value of the company. The significance value of the investment decision variable (X2\_PER) is  $0.000 < 0.05$  and the calculated t value is  $18.801 > t$  table (1.976), which means that investment decisions (X2\_PER) have a significant effect on value. company (Y) (H2 accepted). If there is an increase in investment decisions, there will also be an increase in company value. So the right investment decision can produce greater profits. The significance value of the liquidity variable (X3\_CR) is  $0.145 > 0.05$  and the calculated t value is  $-1.464 > t$  table value (1.976). This means that liquidity (X3\_CR) has no effect on company value (Y) (H3 is rejected). If liquidity increases, there will be a decrease in company value, because the company cannot utilize assets in operational activities. The CR ratio only shows the company's ability to fulfill short-term liabilities so it does not contribute to company value. This condition occurs because liquidity sends predictions about the company's capacity to settle short-term obligations. (Ekonomi et al., 2018). Well-managed liquidity can signal good company opportunities so that it can cause investors to increase demand for shares which can increase the value of the company. This is in line with research by Patricia, Primsa & Tarigan, (2018) that capital structure has no effect on company value. The significance value of the profitability variable (X4\_ROA) is  $0.000 < 0.05$  and the calculated t value is  $22.272 > t$  table (1.976). This means that profitability (X4\_ROA) has a significant effect on company value (Y) (H4 is accepted). This condition occurs because an increase in profits gives rise to a positive response from investors which can increase share prices in the market which ultimately increases value of

the company in the eyes of investors. The significance value of capital structure (X5\_DER) is  $0.001 < 0.05$  with a calculated t value of  $3.470 > t$  table (1.976). This means that the structure of the capital structure has a significant effect on company value (H5 is accepted). Capital structure is the key to improving company productivity and performance, the higher the capital structure has less influence on increasing company value. (Susyanto, 2019). The large use of capital structure has no effect on share prices and company value because the use of long-term debt will cause the cost of equity to rise at the same rate. If the capital structure increases, the company's performance is good, able to protect the company's losses. (Ridwan, 2016) The significance value of company size (X6\_SIZE) is  $0.008 < 0.05$  with a calculated t value of  $2.698 > t$  table (1.976). This means that company size has a significant effect on company value (Y) (H6 is accepted). This happens because large companies are considered to have developed and have good performance, large companies have an easy time entering the capital market, making it easier for companies to obtain additional funds. The company's total assets increase, so the value of the company also increases.

## CONCLUSION

The results of this research succeeded in proving empirically that partially investment decisions, profitability, capital structure and company size influence company value. However, on the other hand, dividend and liquidity policies have no effect on company value. For issuers, the results of this research can be used as a reference for evaluating, improving and increasing company value. It is hoped that further research can expand the research object by adding non-manufacturing companies. Apart from that, you can also add other independent variables that have not been used in this research. This research focused on manufacturing companies. Future studies can expand the population and research samples, such as the Kompas100 index, the Sri Kehati index, and other sectoral indices on the Indonesia Stock Exchange. The research period can be extended for the sake of better results. Investment opportunity set has three types of proxies, namely price-based proxy, investment-based proxy, and variance-based proxy that can be used in further research. Further research can use growth, profitability, and others as the control variable. This research focused on manufacturing companies. Future studies can expand the population and research samples, such as the Kompas100 index, the Sri Kehati index, and other sectoral indices on the Indonesia Stock Exchange. The research period can be extended for the sake of better results. Investment opportunity set has three types of proxies, namely price-based proxy, investment-based proxy, and variance-based proxy that can be used in further research. Further research can use growth, profitability, and others as the control variable

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