

# THE EFFECT OF FINANCIAL POLICY ON VALUE OF FIRMS IN CONSUMER GOODS INDUSTRY LISTED ON INDONESIA STOCK EXCHANGE

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## ABSTRACT

*A consumer goods industry is one of the sub-sectors in the manufacturing industry. The consumer goods industry is characterized by (1) products that are needed to fulfill daily rudimentary needs of people and able to speedy sold, (2) firms that are able to survive during a crisis. These characteristics attract investors to buy and own the stocks of the firms in this industry. To keep and increase the wealth of investors, firms are expected to do some efforts to maximize their value or stock price in the secondary market. Based on previous studies, some efforts intended are related to financial policy. The destination of this study is to test and analyze the effect of financial policy on firm value. A financial policy that wants to be investigated in this study consists of dividend and debt policy. The population of this study comes from the firms in the consumer goods industry listed on the Indonesia Stock Exchange. The sample of the firms is taken from the population by applying a simple random sampling method. The method of data analysis used is the regression model with pooled data. The result of this study concludes two things. Firstly, dividend policy has a positive effect on firm value. Secondly, debt policy has no effect on firm value.*

**Keywords:** dividend policy, firm value, signaling theory.

## INTRODUCTION

As one of the sub-sectors of the manufacturing industry in the Indonesia Stock Exchange (IDX Fact Book 2017), the consumer goods industry is able to attract the attention of investors. The attention of investors on the firms in this subsector exists because of several reasons. Firstly, consumer goods are one of the daily basic needs of people (Aprilia & Isbanah, 2019). Secondly, products resulted from this sub-sector has an economical price so that they can be quickly sold (Sundari, 2014). Finally, firms in this sub-sector tend to have strong endurance during a crisis (Tragistina, 2013).

In the capital market, investors always focus on a movement of stock price reflecting firm value (Hanafi, 2017), because an increase in stock prices is directly associated with their wealth creation and vice versa (Keown, Martin, Petty, & Scott, 2008). The movement of stock price can be affected by the firm financial policy (Gitman & Zutter, 2012), such as dividend policy (see the study conducted by Khan, 2012; Istanti, 2013; Sharif, Ali, & Jan, 2015; Anton, 2016; Iqbal, Abbas & Aziz, 2016) and debt policy (see the study done by Arista & Sohar, 2012; Susilawati, 2012; Sondakh, Tommy, & Mangantar, 2015; Anton, 2016; Tumandung, Murni, & Baramuli, 2017; Handriani & Robiyanto, 2018; Sahabuddin & Hadianto, 2019).

Although showing the effect, the results of these studies focusing on the effect of dividend and debt policy on firm value are still inconsistent. Related to the effect of dividend policy on firm value, for example, the study of Istanti (2013), Sharif, et al, (2015); Anton, (2016), Iqbal, et al. (2016) shows that a positive effect happens whereas the study of Khan (2012)

displays a negative correlation occurs between dividend policy and firm value. Related to the effect of debt policy on firm value, the study of Anton (2016), Handriani & Robiyanto (2018) is successful to display a positive effect. Conversely, the study of Arista & Sohar (2012), Susilawati (2012), Sondakh et al. (2015), Tumandung, et al. (2017), Sahabuddin & Hadiananto (2019) shows a negative effect of debt policy on firm value.

Based on these dissimilar results of the previous studies, this study is conducted to test the effect of dividend and debt policy on the value of firms in sub-sector of the consumer goods industry. The next sections of this paper are organized as follows. Firstly, the theoretical framework and hypothesis development are explained in section two. Secondly, the research method aspects are presented in section three. Thirdly, result and discussion are displayed in section four. Finally, conclusion and recommendation are exhibited in section five.

## **THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT**

This section presents two parts. The first part is the logical explanation about how dividend can own the effect on firm value. The second part is the logical explanation about how debt policy can have an effect on firm value.

### **The effect of dividend policy on firm value**

Dividend policy is the determination of earnings that is able to be distributed to investors and retained to be reinvested in the firm (Hanafi, 2017). Dividends paid by a firm can attract investors to buy its stock (Sunariyah, 2004). According to the signaling theory, the action of the firm to pay dividends gets a positive response from the market because this action can be only done by firms with a big amount of money and good prospect (Megginson, 1999). The explanation of signaling theory is also confirmed by the result of the study conducted by Istanti (2013), Sharif et al. (2015), Anton, (2016), Iqbal et al. (2016) documenting dividend policy has a positive effect on firm value reflected by the stock price. Based on this information, the first hypothesis is able to be formulated as follows.

H<sub>1</sub>: Dividend policy has a positive effect on firm value.

### **The effect of debt policy on firm value**

Debt is defined by Hanafi (2017) as an economic sacrifice of a firm that may occur in the future. Debt happens because of deferred payment of goods or services and borrowed money. The debt policy is essential because it manages a portion of the debt used in the firm. According to the partial explanation of static trade-off theory, stated by Sartono (2008), using debt can increase firm value because firms get benefits from the tax deduction. The explanation of this theory is also supported by the result of the study executed by Anton (2016) and Handriani & Robiyanto (2018) confirming that debt policy has a positive effect on firm value. Based on this information, the second hypothesis is able to be formulated as follows.

H<sub>2</sub>: Debt policy has a positive effect on firm value.

## **RESEARCH METHOD**

This section describes the type of the study (see section 3.1), variable definition (see section 3.2), population and sample (see section 3.3), the method to get data (see section 3.4) and method to analyze data (see section 3.5). The explanation of those points is as follows:

## The Type of Study

This study can be classified as a quantitative study. According to Sugiyono (2010), the quantitative study statistically works to test hypotheses that are set in advance.

## Variable Definition

Variable is concept owning variation of value (Sugiyono, 2012). In this study, there are two types of the variable used: an independent and a dependent variable. Debt and dividend policy act as the independent variable whereas firm value acts as the dependent variable is firm value.

- Following Istanti (2013), Sharif *et al.* (2015), Anton (2016), Iqbal *et al.* (2016), dividend policy is measured by dividend payout ratio at the end of the year.
- Following Iqbal *et al.* (2008), Octavia (2012), Susilawati (2012), Sondakh *et al.* (2015), Tumandung, *et al.* (2017), debt policy is measured by debt to equity ratio at the end of the year.
- Following Sahabuddin & Hadiano (2019), firm value is measured by the natural logarithm of the closing price of the stock at the end of the year.

## Population and Sample

The population of this study is the firms in the consumer goods industry listed on the Indonesia Stock Exchange from 2014 to 2018. Based on the observation of available firms, there are 29 firms becoming the population. To know the number of the sample (n) representing the number of the population (N), Slovin formula referring to Suliyanto (2009) is used with the margin of error (e) of 10% Moreover, this formula can be seen in the first equation.

$$n = \frac{N}{1 + Ne^2} \dots\dots\dots (1)$$

Based on this formula, the number of firms as sample (n) is  $\frac{28}{1+28(0,10)(0,10)} = 21,875 \approx 22$  (rounded).

Furthermore, 22 firms as sample are picked up from the population by utilizing a simple random sampling method. After picking up firms as the sample is finished, the names of the obtained firms are as follows.

1. Akasha Wira International Tbk. (ADES)
2. Delta Djakarta Tbk. (DLTA)
3. Darya-Varia Laboratoria Tbk. (DVLA)
4. Gudang Garam Tbk. (GGRM)
5. HM Sampoerna Tbk (HMSP)
6. Indofood CBP Sukses Makmur Tbk. (ICBP)
7. Indofarma (Persero) Tbk. (INAF)
8. Indofood Sukses Makmur Tbk. (INDF)
9. Kimia Farma (Persero) Tbk. (KAEF)
10. Kedaung Indah Can Tbk. (KICI)
11. Langgeng Makmur Industri Tbk. (LMPI)
12. Merck Tbk. (MERK)
13. Multi Bintang Indonesia Tbk. (MLBI)
14. Pyridam Farma Tbk.(PYFA)
15. Bentoel Internasional Investama Tbk. (RMBA)

16. Nippon Indosari Corpindo Tbk. (ROTI)
17. Sekar Laut Tbk.(SKLT)
18. Siantar Top Tbk. (STTP)
19. Tempo Scan Pacific Tbk. (TSPC)
20. Unilever Indonesia Tbk. (UNVR)
21. Tri Banyan Tirta Tbk. (ALTO)
22. Wismilak Inti Makmur Tbk. (WIIM)

### Method to Get Data

To get data, this study uses the archival method. According to Hartono (2012), this method fits to get secondary data. The secondary data used in this study are as follows.

- a. Performance summary of firms. This summary provides the information about closing price as the proxy for firm value, dividend payout ratio as the proxy for dividend policy, debt to equity ratio as a proxy for debt policy.
- b. IDX Fact Book 2015-2019. These book covers all names of the listed firms on the Indonesia Stock Exchange so that the number of firms as the population can be clearly known.

### Method to Analyze Data

To analyze data, this study employs a regression model with pooled data. This model, according to Nachrowi & Usman (2006), combines cross-sectional and time series data. After that, the estimation of regression coefficients is conducted by using the ordinary least square (OLS) method. In addition, the regression model with pooled data can be seen in the second equation as follows.

$$LN(SP)_{it} = \beta_0 + \beta_1.DPR_{it} + \beta_2.DER + \varepsilon_{it} \dots\dots\dots(2)$$

OLS method requires some test related to some classical assumptions. The first assumption entails that the residuals of the regression model are normally distributed. The second assumption obliges homoscedasticity occurs. The third assumption needs the absence of autocorrelation. Final assumption compels the absence of multicollinearity (see Ghozali, 2016).

## RESULTS AND DISCUSSION

This section presents two parts. The first part consists of the result related to classical assumption tests (see section 4.1), estimation of the regression model (see section 4.2), hypothesis test (see section 4.3). The second part consists of the discussion of the hypothesis test (see section 4.4) and managerial implication (see section 4.5).

### The result of the classical assumption test

One-sample Kolmogorov-Smirnov (K-S) test is used to prove that residuals are normally distributed (Ghozali, 2016). The result of this test can be seen in Table 1. In this table, asymptotic significance (2-tailed) value of Z-statistic of K-S on residuals is 0.155. This value, moreover, is compared with 5% significance level value to test null hypothesis stating residuals are normally distributed. Because this asymptotic significance (2-tailed) value is higher than 5% significance level value, the null hypothesis is not rejected. It means residuals are normally distributed.

**Table 1. The Result of One-Sample Kolmogorov-Smirnov Test**

Description		Unstandardized Residual
N		110
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	1.63352860
Most Extreme Differences	Absolute	.108
	Positive	.108
	Negative	-.063
Kolmogorov-Smirnov Z		1.131
Asymp. Sig. (2-tailed)		.155

a. Test distribution is Normal, b. Calculated from data.

**Source: Output of IBM SPSS 19.**

According to Widarjono (2013), homoscedasticity can be proven by using the White test. If homoscedasticity occurs, squared residuals are not affected by squared DER and DPR. The result of the White test can be seen in Table 2. In this table, the probability of t-statistic of squared DER and DPR is 0.5648 and 0.1411, respectively. These value, furthermore, is compared with 5% significance level value to test null hypothesis stating all independent variables, squared DER and DPR, do not have the effect on squared residuals. Because each probability value of t-statistic for the independent variable is higher than the value of the 5% significance level, the null hypothesis is not rejected. It means that homoscedasticity is present.

**Table 2. The Result of White Test**

F-statistic	1.300021	Prob. F(2,107)	0.2768
Obs*R-squared	2.609530	Prob. Chi-Square(2)	0.2712
Scaled explained SS	3.147420	Prob. Chi-Square(2)	0.2073

Test Equation:

Dependent Variable: RESID<sup>2</sup>

Method: Least Squares

Date: 06/01/19 Time: 23:40

Sample: 1 110

Included observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.457826	0.453679	5.417543	0.0000
DPR <sup>2</sup>	0.000123	8.28E-05	1.482706	0.1411
DER <sup>2</sup>	-0.033169	0.057436	-0.577494	0.5648

**Source: Output of E-Views 6.**

By referring to Ghozali (2016), the absence of autocorrelation wants to be proven by using a test of runs based on the mode. If autocorrelation is not present, residuals are random. The test result of runs can be seen in Table 3. In this table, the asymptotic significance (2-tailed) value of Z-statistic is 0.892. This value, moreover, is compared with 5% significance level value to test null hypothesis stating residuals are random. Because this asymptotic

significance (2-tailed) value is higher than the value of the 5% significance level, the null hypothesis is not rejected. It means residuals are random.

**Table 3. The Test Result of Runs**

Description	Unstandardized Residual
Test Value <sup>a</sup>	5.88067 <sup>b</sup>
Cases < Test Value	109
Cases >= Test Value	1
Total Cases	110
Number of Runs	3
Z	0.136
Asymp. Sig. (2-tailed)	0.892

a. Mode

b. There are multiple modes. The mode with the largest data value is used.

**Source: Output of IBM SPSS 19.**

Table 4 displays the result of multicollinearity detection. In this table, the VIF value for DPR and DER is 1.005, respectively. Moreover, this value is compared with 10 as its cut-off value. Referring to Ghazali (2016), it can be concluded that multicollinearity does not exist in this study because VIF value for independent variables is lower than 10.

**Table 4. The Result of Multicollinearity Detection**

Independent variable	Collinearity Statistics	
	Tolerance	VIF
DPR	0.995	1.005
DER	0.995	1.005

**Source: Output of IBM SPSS 19.**

### The result of the estimation of the regression model

After four tests of classical assumption are achieved, making the estimation of the regression model with pooled data is the next step that has to be done. The result of this model estimation can be seen in Table 5.

**Table 5. The Result of Regression Model Estimation**

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1 (Constant)	6.940	.210			33.081	.000
DPR	.025	.004	.498		6.009	.000
DER	.177	.133	.110		1.330	.187

a. Dependent Variable: LN(SP)

**Source: Output of IBM SPSS 19**

### The result of the hypothesis test

The first hypothesis in this study declares that dividend policy has a positive effect on firm value. This hypothesis is tested by comparing probability value (sig.) of t-statistic of DPR with 5% significance value. In Table 5, the intended probability value is 0.000. Because this



probability value is lower than the significance level value used, the first hypothesis is accepted.

The second hypothesis in this study declares that debt policy has a positive effect on firm value. This hypothesis is tested by comparing probability value (sig.) of t-statistic of DER with 5% significance value. In Table 5, the intended probability value is 0.187. Because this probability value is higher than the significance level value used, the second hypothesis is rejected. In other words, debt policy has no effect on firm value.

## **DISCUSSION**

The test result of the first hypothesis shows dividend policy has a positive effect on firm value. It means that the higher the part of the profit that a firm pays in dividend, the higher firm stock price will be. Therefore, this study confirms the signaling theory. Investors appreciate the effort of firms paying dividends to them. Paying dividends in investor perspective is a unique action that can make the difference of firms doing it from firms that do not do it. Only firms with a good prospect are able to do it. This study also confirms the result of the previous study conducted by Istanti (2013), Sharif et al. (2015), Anton (2016) as well as Iqbal et al. (2016).

The test result of the second hypothesis shows debt policy has no effect on firm value. Therefore, this study supports the result of the study conducted by Suwahyono & Oetomo (2006), Octavia (2012), Iqbal et al. (2016) finding no effect of debt policy on firm value and Modigliani-Miller (MM) theorem cited by Sartono (2008). According to this theorem cited by Sartono (2008), the absence of effect of debt policy on firm value is caused by arbitration effect. Investors sell stocks of the firm group having a high amount of debt with a higher price and buy stocks of the firm group having a low amount of debt. This process will stop until two groups of the firm have the same value.

## **MANAGERIAL IMPLICATION**

Based on the result of this study, some managerial implications are addressed to firms and investors.

- a. To get a positive change in the stock price in sub-sector of the consumer good industry, investors can consider buying the stock of firms that pay dividends.
- b. Firms are suggested paying the dividends to deliver signal to the investors in the capital market. It is useful to ensure that firms own good prospect in the future.

## **CONCLUSION AND RECOMMENDATION**

The purpose of this study is to test and analyze the effect of financial policy consisting of dividend and debt policy on the value of the firm in the consumer goods industry. After doing the analysis related to the purpose, this study concludes two things: dividend policy has a positive effect on firm value and debt policy has no effect on firm value.

This study has some limitations such as the use of firms in the consumer goods industry, two independent variables that are expected to own the effect on firm value. Based on this some limitation, some recommendations can be generated to the next researchers having the intention on this topic:

1. Using firms only in the consumer good industry makes generalization of this study able to do in a narrow scope. To make some improvement related to this limitation, the next researchers are suggested: (1) using all manufacturing firms listed on Indonesia Stock Exchange as population and taking firms as samples based on probability sampling

method, (2) using firms in consumer goods industry from the capital markets in Southeast Asia as the population and taking firms as sample based on stratified random sampling by treating countries as strata.

2. To overcome the limitation related to the number of independent variables used, the next researchers are suggested adding other independent variables that are expected to have the effect on firm value, such as profitability, liquidity, activity ratio, and board governance.

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