
The Effect of Financial Leverage, Profitability and Dividend Policy on Firm Value

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KEYWORDS

Intellectual Capital, VACA, VAHU, STVA, Return on Asset

ABSTRACT

This research provides valuable insights into the factors influencing company value within the manufacturing sector, specifically the cement subsector in Indonesia. Financial leverage, profitability, and dividend policy are key variables examined, as they significantly impact a company's financial health and market perception. Financial leverage reflects a company's reliance on debt financing relative to equity, and the study shows that higher leverage can positively affect company value if managed effectively, thereby increasing returns for shareholders. Profitability, often measured through indicators such as Return on Assets (ROA) or Return on Equity (ROE), also plays a significant role in enhancing company value, as it reflects efficient resource management and attracts investor interest. Additionally, a consistent dividend policy reinforces the company's reputation and draws investors, contributing positively to company value in the stock market. The findings emphasize that cement subsector companies with balanced leverage, solid profitability, and a consistent dividend policy tend to perform better in terms of company value, providing essential insights for stakeholders in optimizing strategies to maximize company value.

INTRODUCTION

The manufacturing industry is an industry that dominates companies listed on the Indonesia Stock Exchange (IDX). The number of companies in the industry, as well as the current economic conditions have created a fierce competition between manufacturing companies. Competition in the manufacturing industry makes every company improve its performance so that its goals can still be achieved. Manufacturing companies are companies that process raw materials into finished goods or process finished goods which then have added value. Manufacturing companies also have an important role in international trade, this is inseparable from the improvement of quality and output produced by companies so that they are able to compete in the global market. Good management of industrial companies is very helpful for companies to further maximize the achievement of optimal production results by achieving the company's goals, namely increasing good company value.

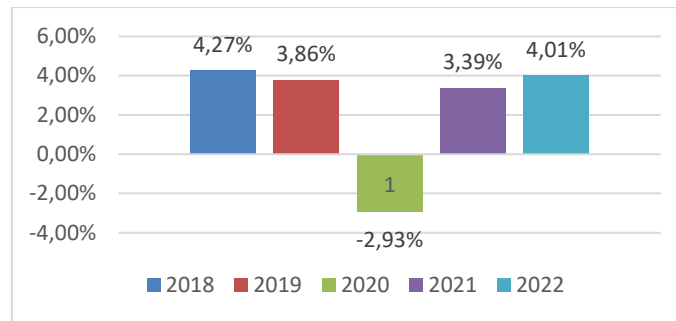


Figure 1. Growth of the Manufacturing Industry in Indonesia in 2018-2022

Source: Central Statistics Agency, 2023

Based on the data in Figure 1, the growth of the manufacturing industry in 2020 had declined at -2.93% due to the pandemic that hit the world. However, this industry shows that they can recover faster, proving that in 2021 the industry's growth reached 3.39%. Based on data from the Central Statistics Agency, for the time being, in the second quarter of 2022, the growth of the manufacturing industry was 4.01% smaller when compared to the previous quarter, which was 5.07%. In addition to the positive growth rate, the manufacturing industry is one of the industries that contributes to economic growth in Indonesia, where in the second quarter of 2022, the manufacturing industry contributed 17.33%.

Indonesia's manufacturing industry is considered expansive or continues to grow this year. The industry is considered expansive if the index is above 50% based on the Bank Indonesia Prompt Manufacturing Index (PMI-BI), where the Indonesian manufacturing industry managed to reach 53.71% in the third quarter of 2022. The Indonesian government also targets manufacturing industry growth in the range of 4.5% - 5%, higher than the previous year, which was 4% - 4.5%. This target is driven by the increase in the PMI-BI index, the increase in labor absorption, the increase in investment relations and the contribution to national GDP. With these indicators, the government is optimistic that this industry will achieve the set target, especially consumer demand that recovers after the pandemic.

The subsectors that support the growth of the manufacturing industry's performance as seen from the Prompt Manufacturing Index (PMI) in the third quarter of 2022 include the cement and mineral goods industry (58.91%), the iron and steel base metal industry (56.62%), and the paper and printed goods industry (55.63%). In fact, the base metal industry received investment realization in January-March 2022 of IDR 40.18 trillion. In the fourth quarter of 2022, it is estimated that most of the manufacturing industry subsectors are still in the expansion phase despite slowing down. With support from the government regarding the development of industry 4.0 and investment from abroad and domestically, it is hoped that the growth of the manufacturing industry in the fourth quarter of 2022 will continue to increase positively. Despite the forecast of a global recession next year, opportunities for the manufacturing industry are expected to continue to grow and be able to prepare themselves in various ways to survive the recession. One solution is to build a manufacturing data platform with data consolidation in one place to provide business insights and strategies.

Literature Review

Financial leverage is a measure that indicates the extent to which fixed-income securities (debt and preferred stocks) are used in a company's capital structure. *Return on Asset* (ROA) is a ratio that shows the results of the number of assets used in the company. Dividend policy is one of the policies that must be taken by management to decide whether the profits earned by the company during a period will be divided in all or partially divided and partly not divided in the form of retained earnings (Brealey & Richard A., 2015). Company value is a key

objective of managerial decisions by considering the risks and timing associated with the estimated earnings per share to maximize the company's common stock price.

RESEARCH METHOD

The type of data used in this study is secondary data, namely data and information used by researchers through various sources of information such as annual reports, financial statement information, performance assessment information from the 2018-2023 period in manufacturing companies listed on the Indonesia Stock Exchange. The population in this study is all manufacturing companies listed on the Indonesia Stock Exchange during 2018-2023 with several subsectors. So the sample used in this study is manufacturing companies listed on the Indonesia Stock Exchange in the cement sub-sector using financial statements for the period 2018-2023 as many as 7 companies.

RESULTS AND DISCUSSION

- 1) The variable financial leverage, has a beta value of 0.109 with a significant value of 0.032 which is smaller than 0.05. This means that individually the variable financial leverage has a positive and significant influence on the value of the company.
- 2) The profitability variable has a beta value of 0.156 with a significant value of 0.000 which is smaller than 0.05. This means that individually the profitability variable has a positive and significant influence on the company's value.
- 3) The dividend policy variable has a beta value of 0.103 with a significant value of 0.048 which is greater than 0.05. This means that individually the dividend policy variable has a significant positive influence on the company's value.

Discussion

The Effect of Financial Leverage on Company Value in Manufacturing Companies Listed on the Indonesia Stock Exchange

Financial leverage has a positive and significant effect on the value of a company. Based on the results of the descriptive analysis, the average financial leverage is 35.8207 while the result is that the coefficient value for the financial leverage variable is 0.109 with a significant value of 0.032 where this value is significant at the level of significance because it is less than 0.05. The results of the autocorrelation analysis showed that the result of the determination coefficient (R^2) was 0.457 or 45.7% and the rest was 54.03%. Thus, financial leverage has a positive and significant effect on the value of companies in manufacturing companies listed on the Indonesia Stock Exchange.

The results of this study are in line with the results of the research from (Mustadirham, 2023); (Marus, 2023); (Nursahraini, 2023); (Ambarsari, 2023); (Piningrum & Siahaan, 2021); (Chandra, 2020); (Sitorus, 2020); (Widyaningtyas, 2019); (Sutarno, 2019); (Wahab, 2019); (Rahmazaniati, 2019); (Kevin, 2018); (Ratih & Subardjo, 2019); (Oktaviasari & Amanah, 2019) and (Marlina & Friska, 2015) which shows the results that financial leverage has a positive and significant effect on the company's value.

The Effect of Profitability on Company Value in Manufacturing Companies Listed on the Indonesia Stock Exchange

Profitability has a positive and significant effect on the company's value. Based on the results of the descriptive analysis, the average profitability is 5.0800 while the results in the coefficient value for the profitability variable are 0.156 with a significant value of 0.000 where this value is significant at the level of significance because it is less than 0.05. The results of the autocorrelation analysis showed that the result of the determination coefficient (R^2) was 0.457 or 45.7% and the rest was 54.03%. Thus, profitability has a positive and significant effect on the value of companies in manufacturing companies listed on the Indonesia Stock Exchange.

The results of this study are in line with the results of previous research that has been carried out by (Ambarsari, 2023); (Pioh, 2023); (Atrianingsih & Nyale, 2022); (Halim & Rini, 2022); (Setiorini et al., 2022); (Piningrum & Siahaan, 2021); (Islamie & Mildawati, 2021); (Chandra, 2020); (Zulaika & Sihombing, 2020); (Alfika & Azizah, 2020); (Salainti, 2019); (Febriana, 2019) which shows the results that return on assets has a positive and significant effect on the company's value.

The Effect of Dividend Policy on Company Value in Manufacturing Companies Listed on the Indonesia Stock Exchange

The dividend policy has a positive and significant effect on the company's value. Based on the results of the descriptive analysis, the average dividend policy is 43.0288 while the result on the coefficient value for the dividend policy variable is 0.103 with a significant value of 0.048 where this value is significant at the significance level because it is less than 0.05. The results of the autocorrelation analysis showed that the result of the determination coefficient (R²) was 0.457 or 45.7% and the rest was 54.03%. Thus, the dividend policy has a positive and significant effect on the value of companies in manufacturing companies listed on the Indonesia Stock Exchange.

The results of this study are in line with the results of previous research that has been carried out by (Nwamaka, 2022); (Banerjee, 2022); (Gathuma, 2022); (Rehman, 2021); (Oliver, 2021); (Published, 2020); (Gunaratne, 2020); (Siboni, 2020); (Khan, 2019); (Shahbaz, 2018) shows that the dividend policy has a positive and significant effect on the company's value.

CONCLUSION

Financial leverage has a positive and significant effect on the value of companies in manufacturing companies listed on the Indonesia Stock Exchange. Profitability has a positive and significant effect on the value of companies in manufacturing companies listed on the Indonesia Stock Exchange. The dividend policy has a positive and significant effect on the value of companies in manufacturing companies listed on the Indonesia Stock Exchange.

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