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Internal Factors of Company Rating on Food and Beverage Companies listed on the Indonesia Stock Exchange

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Keywords: Profitability, Dividend Policy, Funding, Firm Value.

Abstract: This research aimed to examine the influence of internal factors on firm value. In this study the internal factors that profitability, dividend policy, and funding decisions. This study used six companies as a sample from a population of 14 manufacturing companies listed on Indonesian stock exchange in period of 2011-2015. The sample was determined by using purposive sampling. The results showed that profitability and funding decisions had positive effect on firm value, while dividend policy had a negative effect on firm value. The profitability, dividend policy, and funding decisions simultaneously had a positive effect on firm value. The value of the adjusted R2 of 0,798 indicated that the contribution of all the independent variables to account for the dependent variables was 79,8%.

1 INTRODUCTION

The main purpose of the company is to maximize the value of the company. Maximizing the value of a company has a broader meaning, not just maximizing corporate profits (Weston and Copeland, 1995). The higher the value of the company, then the shareholder's welfare will increase (Wahyudi and Pawestri, 2006). According to Fama (1978) the value of the company can be seen from its stock price. The goal to be achieved by company management is to increase the value of the company through the implementation of financial decisions, namely investment decisions, funding decisions, and dividend policy. The combination of these elements will optimize the company's value. Financial decisions made thoroughly and appropriately will affect other financial decisions and will have an impact on the achievement of corporate objectives.

The value of a firm formed through the value of the stock market is influenced by investment opportunities. The funding decision is a decision on investment financing (Murtini, 2008). The core of this funding decision is how the company establishes the maximum funding source to fund various investment alternatives; It can optimize the value of the company as reflected in its stock price. In the decision of dividend distribution need to consider the survival and growth of the company. The effectiveness of the investment will be seen as profit. The decision whether the profits earned during one period will be all or only partially distributed as dividends and the remainder retained by the company as retained earning. According to Hasnawati (2005) investment decision of funding, and dividend policy partially have positive influence on company value. Research conducted by Wijaya and Wibawa (2010) found that it positively affects the value of the company.

The value of the firm in this study is defined as the market value because the value of the company can provide maximum shareholder wealth if the company's stock price increases. The higher the stock price, the higher the shareholder's wealth. To achieve the value of the company generally the financiers give their management to the professionals. Professionals are positioned as managers or commissioners. Corporate value is an important concept for investors, because it is an indicator for the market to assess the company as a whole. Or it can be said that the value of the company is the price paid by the prospective buyer if the company is sold.

In signaling theory presented by Bringham and Houston (2006) states that profitable companies provide a positive signal for investors that the company is not easy to experience bankruptcy indicated by the increase in stock prices. In addition to the signaling theory also explained that the increase in dividends is often followed by a rise in stock prices and vice versa that affect the high low value of the company. The higher the value of the company the higher the shareholder wealth (Bringham Gapensi, 1996, in Susanti 2010). The higher the stock price then, the higher the value of the company will be. But in reality not all companies want a high stock price for fear of not sold. This is evidenced by the presence of companies listed on the BEI Stock Split (stock split). Therefore stock prices should be optimal, not too high and not too low.

According to pecking order theory, firms with large profit rates larger internal funding sources and need to finance investments through smaller external financing (Schoubben and Van Hulle, 2004; Adrianto and Wibowo, 2007). Thus, this theory predicts profitability negatively affect the capital structure.

Food and beverages industry is now very dynamic; this is related to the development of tastes and lifestyles of consumers. There are so many specialties to choose from this sector, from manufacturing/sales, sales/marketing, marketing / retailing, product development, and more. Food plays a functional role in our lives, but food can also be an important factor in promoting tourism and the shaping of cultural identity. According to Antara News (18/12/2015), the food and beverage industry sector is the mainstay to achieve the 2016 non-oil and gas industry growth target, which is set at 5.7-6.1 percent. "The motor is the food and beverage industry whose growth is projected at 7.4-7.8 percent next year," said Minister of Industry, Saleh Husin. He said the growth of the food and beverage industry is always positive and high demand is the reason the industry is relied upon).

2 LITERATURE REVIEW

2.1 Agency Theory

The agency theory is a theory that explains the relationship between principals (capital owners) and agents (management). Jensen and Meckling (1976) define agency relationships as contracts whereby one or more persons (principals) hire another person (agent) to perform some services for their interests (principal), through the delegation of some decision-making authority to the agent. This theory relates to Good Corporate Governance (GCG) because it highlights the direct relationship between principals and agents.

Agency conflicts arise when in carrying out its duty the agent focused on prospering his interests compared principal welfare interests. Agency conflicts are generally divided into two types. Type 1 agency conflicts generally occur in companies with the largest share ownership structure, i.e., shares of companies owned by the general public. La Porta et al. (1999) argue that generally, the largest shareholding occurs in common law countries, such as the United States, Japan, and Britain. While the type 2 agency conflict generally occurs in companies with a concentrated ownership structure. La Porta et al. (1999) found that public companies in Southeast Asia, including Indonesia, are generally controlled by ultimate shareholders or owned by families.

2.2 Legitimacy Theory

The theory of legitimacy states that the organization continually tries to ensure that its operations are accepted within the limits and norms of society, so they try to ensure that their activities are accepted by outsiders (Deegan and Unerman, 2006). This means that the existence of the organization will continue if the value system used to carry out its operations following the value system owned by the community. The failure of the organization to fulfill the social contract will make a threat to the going concern of the organization Such as a product boycott, resource constraints (labor, raw materials, financial capital), and even revocation of business permits. If the organization can fulfill the social contract, then the existence of the organization will be responded positively by the community. The existence of positive image of the society is expected to increase the profit of the organization, to increase the value of the company.

2.3 Firm Value

According to Brealey et al. (2008: 46), the value of the company is the collective valuation of investors about how good a company, both current and future performance. According to Agus Sartono (2010: 380), the value of the company is the selling value of a company as a business that is operating. According to Keown (2010: 35), the value of the firm is the market value of debt and equity firms.

Based on the above definition can be concluded that the value of the company is the assessment of investors about how the sale of a company as a business that is operating, both current and future performance.

2.4 Dividend Policy

According to Weygandt et al. (2008: 185), Dividend (dividend) is the corporate distribution profits by the company to its shareholders proportionally. Dividends are the share of corporate profits distributed to shareholders (Darmadji and Fakhruddin, 2001) The amount of dividends distributed to shareholders depends on the number of shares owned by the shareholders. Dividends are usually distributed in cash. Besides that, dividends can also be distributed in the form of assets other than cash and new shares. Based on the definitions above, it can be concluded that dividends are due to dividend is the distribution of corporate profits to shareholders as their return or involvement as a supply capital, either in the form of shares or cash.

The dividend policy used by a company depends heavily on various factors that occur in the company's internal and external conditions. According to Agus Sartono (2010: 292), the factors that influence dividend policy are as follows:

1. The company’s funding needs
2. Liquidity
3. Shareholder Status
4. Dividend Stability

For investors, the stability factor of dividends will be more interesting than the high dividend payout ratio. The stability here in a sense remains to show the growth rate of the firm, which is indicated by a positive direction coefficient. If other factors are equal, a stock that provides a stable dividend over a certain period will have a higher price than a stock that pays dividends in a fixed percentage of earnings.

2.5 Hypothesis Development

Profitability is the company's ability to generate profit from its operational activities. The higher the Profit, the higher the return earned investors (Jusriani and Rahardjo, 2013). In the study of Umi Mardiyati, Gatot Nazir Ahmad and Ria Putri (2011) and Sri Hermuningsih (2013) explain the profitability has positive influence on corporate value. The profit shared to shareholders is profit after taxes and interest. Thus, the greater dividend payout will save the cost of capital, on the other hand the manager (insider) to increase his power and even increase his own bias due to dividend income as a result of high profits. So that profitability will be impacted by the increase of corporate value and shareholder wealth (Ikbal et al., 2011). Based on the above description of the first hypothesis to be tested in this study is H1: Profitability has a positive effect on firm value.

The policy on dividend payments is a very important decision in a company. This policy will involve two parties having different interests, namely the first parties of the shareholders and the parties of the two companies themselves. According to Hatta (2002), there is some debate over how dividend policy affects firm value. The first opinion states that the dividend policy does not affect the value of the firm called the dividend irrelevance theory. The second opinion states that a high dividend will increase the value of the company, called Bird in The Hand Theory. The third opinion states that the higher the dividend payout ratio of a company, the value of the company will be lower. Dividend signaling theory was first proposed by Bhattacharya (1979). In the research of Umi Mardiyati et al. (2011) explain dividend policy partially have no significant effect on company value. Tendi Haruman (2008) explain dividend policy has a significant negative effect on company value. Titin Herawati (2013) explains dividend policy has an insignificant and positive effect on company value. Gany Ibrahim Fenandar (2012) explains dividend policy has a positive and significant impact on company value. And Lihan Rini Puspo Wijaya, Bandi Anas Wibawa (2010) explained that dividend policy has a positive effect on company value.

This theory explains that information about the Cash Dividend that investors pay as a sign of the company's prospects. Based on this, the following second hypothesis is prepared: H2: Dividend policy has a positive effect on firm value.

According to Brigham and Houston (2001), the increase in the debt is defined by outsiders about the ability of the company to pay its future obligations or the existence of low business risk; it will be responded positively by the market. There are two views on funding decisions. The first view is known by the traditional view that capital structure affects firm value. The traditional view is represented by two theories: Trade-off Theory and Pecking Order Theory. The second view is proposed by Modigliani and Miller (1958) which states that capital structure does not affect firm value.

Research conducted by Umi mardiyati, Gatot Nazir Ahmad, and Ria Putri (2011) explains the debt policy has a positive but not significant effect on company value. Tendi Haruman (2008) explains the funding decision does not affect the value of the company. WhileTitin Herawati (2013) explain the debt policy affects not significant and positive to the value of the company. Gany Ibrahim Fenandar (2012) explains that the funding decision does not significantly affect the value of the company. Lihan

Rini Puspo Wijaya, Bandi Anas Wibawa (2010), funding decisions have a positive effect on firm value. Masulis (1980) researches the relevance of funding decisions. Finding that there is an abnormal increase in returns a day before and after the announcement of an increase in the proportion of debt, on the contrary there is a decrease in abnormal returns when the firm announces a decrease in the proportion of debt. Thus the next hypothesis is H3: Funding decisions have a positive influence on firm value.

The optimization of company value can be achieved through the implementation of the financial management function (Wijaya Wibawa 2010). According Hasnawati (2005), financial management concerning the settlement of important decisions taken by the company, including investment decisions, funding decisions, and dividend policies. An optimal combination of all three will maximize the value of the firm which will further enhance the wealth of shareholders.
In addition to the optimal financial management function, the value of the company will not be separated from profitability. Assessment of profitability required by the company to generate profits used for corporate activities. With good profitability then the financial management will run optimally and smoothly. This can increase the value of the company in the eyes of investors so that investors are interested in investing in the company that will be the stock's own stock's stock. Thus the next hypothesis is: H4: Profitability, Dividend Policy, Debt Policy simultaneously affect significantly to firm value

3 METHODOLOGY

Based on the research problem and conceptual framework that has been explained before, this research is explanatory research (explanatory research) that is research conducted to test the influence between hypothesized variables.

To test the hypothesis presented earlier, there are several related objects. In this study used three independent variables and one dependent variable. The independent variables consist of profitability, dividend policy, funding decision. The dependent variable in this study is firm value. The operational variable is a description of the structure of research that explains variables or sub-variables to the concept of dimensions, indicators, and measures used to obtain the value of variables.

Table 1. Operational Research Variables

Variable	Description	Indicator	Scale
Profitability (X1)	Profitability is a set of policies and decisions. Profitability can be regarded as the ability of the company in generating net income from activities conducted in the accounting period.	$\mathbf{ROE} = \frac{\mathbf{EAT}}{\mathbf{Total\ Equity}}$	Ratio
Dividend policy (X2)	The dividend policy is a policy that is said by determining whether the profits earned by the company will be distributed to shareholders as dividends or to be held in retained earnings. Hermuningsih	$DPR = \frac{Dividen\ Per\ Share}{Earning\ Per\ Share}$	Ratio
Debt Policy (X3)	Debt Policy can be interpreted as a decision concerning the financial structure which is a composition which includes short-term debt, long-term debt, and own capital	$DER = \frac{Total\ Liability}{Total\ Equity}$	Ratio
Firm Value (Y)	Firm value is the company's selling value, or the value of growth for shareholders, the value of the company will be reflected from the market value of its shares. Tobin's Q (EMV + D) (EBV + D)	Tobin's Q $\frac{(EMV + D)}{(EBV + D)}$	Ratio

The population of this study is food and beverages companies listed on the BEI as many as 16 companies, while in determining the sample company, the method used using purposive sampling is the technique of determining the sample with certain considerations tailored to the objectives and problems associated with the research. (Sugiyono, 2009: 122).

Some of the criteria set for determining the sample are as follows:

a) Food and beverage companies that publish financial statements containing all data required in the measurement of variables during the period 2011-2015.
b) Food and beverage companies whose financial statements from 2011-2015 have never experienced loss.
c) Food and beverage companies that pay dividends from 2011-2015.
d) Food and beverage companies registered during the observation period and using rupiah. Following the above criteria, eligible for 6 (six) companies.

The collection technique used in the study is document review. Document review is a technique of data collection conducted by reviewing and citing data relevant to the research topic. Documents reviewed in the form of company profiles, financial statements, and so forth for food and beverage companies listed on the Indonesia Stock Exchange in 2011-2015.

Data processing is done by presenting data on profitability (X1), dividend policy (X2), debt policy (X3), company value (Y). The company being sampled is a food and beverage company for the period 2011-2015. Then the data is processed by using multiple regression analysis. Multiple regression analysis is used in every sample of the company to know the effect and relation between independent variable with dependent variable. And to analyze, researchers use data processing techniques through the program SPSS 21.0 (Software Program Service Solution).

Statistical analysis in this study are as follows:

a) Descriptive Statistics
b) Multiple Linear Regression Analysis Multiple linear regression analysis was used to predict the effect of more than one independent variable on one dependent variable, either partially or simultaneously. This study uses five independent variables,

4 FINDINGS AND DISCUSSION

Descriptive statistics can provide descriptive data from the mean, standard deviation, variant, maximum, minimum, sum, range, kurtosis, and skewness (Ghozali, 2013). The results of descriptive statistical processing for each research variable are shown in table 2:

Table 2 Descriptive Statistics

Variable	Mean	Std. Deviation	N
Firm Value	2,1057	1,44881	30
ROE	,1907	,08582	30
DPR	,3480	,26149	30
DER	,9087	,46947	30

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Table 3 shows the results of the determinant coefficient test. The determinant coefficient (adjusted R square) of 0.819. This shows that the contribution of all independent variables in explaining the dependent variable is 81,9%, while the rest of 18,1% is explained by other variables outside the model

Table 3: Model Summary

Model	R	R Square	Adjusted R Square
1	,905[a]	,819	,798

Testing the first hypothesis, the result of data analysis processed by SPSS shows that profitability (ROE) has t 8,093 and probability value of 0.000 less than 0,05, so it can be concluded that profitability variable has significant effect to firm value. The value of Regression coefficient of 13,058 shows that profitability has positive effect on company value so that Ho rejected and Ha accepted.

Testing the second hypothesis,the result of data analysis processed by SPSS shows that dividend policy (DPR) has t of -1,036 and probability value of 0,310 more than 0,05 so it can be concluded that dividend policy variable does not affect firm value. The value of Regression coefficient of -0,671 shows that dividend policy has negative effect on company value, so Ha rejected, and Ho accepted.

Testing the third hypothesis, The result shows that debt policy (DER) has t of -3,163 and probability value of 0,04 less r than 0,05 so it can be concluded that the variable of debt policy has significant effect on company value. The value of regression coefficient of -1.102 shows debt policy has a negative effect on the value of the company, so Ho is rejected and Ha accepted.

F Test (Fourth Hypothesis Test), Based on table obtained F of 39,243 with a probability of 0.000 less than 0,05 hence it can be concluded all independent variable together have significant effect on dependent variable. Variables of profitability, dividend policy, and debt policy together affect the value of the firm

5 CONCLUSION

This study used several companies as a sample from a population of manufacturing companies listed on Indonesian stock exchange in period of 2011-2015. The sample was determined by using purposive sampling. The results showed that profitability and funding decisions had positive effect on firm value, while dividend policy had a negative effect on firm value. The profitability, dividend policy, and funding decisions simultaneously had a positive effect on firm.

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