
EFFECT BETWEEN ENTERPRISE VALUE AND DIVIDEN POLICY

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Abstract

In this paper researcher aims to fill gap in the literature about correlation of enterprise value with dividen policy and investment behavior. This paper uses systematic literature review. The literature used by the author comes from books that are appropriate to the topic, international and national journals published. The writing results obtained are topics about enterprise value with dividen policy and investment behavior which have been discussed in many reviews of methods and viewpoints, with mixed results. The results of research using quantitative methods with significant and insignificant results, when using qualitative methods, there are results of implementation that are appropriate and not in accordance with the rules that should be.

Keywords: *Enterprise Value, Dividen Policy, Investment Behavior*

INTRODUCTION

Business competition in various sectors requires companies to further spur and develop the company to achieve the desired goals. According to the theory of the firm (theory of the firm), the normative goal of companies that have gone public is to increase the prosperity of the owners or shareholders through increasing the value of the company (Salvatore, 2005). For every company, choosing alternative funding is important to finance operations and develop the company. The company's financial stability and the company's risk in paying off debt depend on the source, type, and amount of the various assets owned by the company (Wild, 2005).

The value of the company is the price that potential buyers are willing to pay if the company is sold. Company value can describe the state of the company. The better the value of the company, the company will be viewed favorably by potential investors. Companies with good standards will always concentrate on creating added value for the company and stakeholders, even though measuring added value is not an easy thing. The success of a company in maintaining its existence cannot be separated from the role of financial managers who are in charge of making investment decisions and determining economical sources of funding (financing decisions) to maximize the value of the firm (maximization value of the firm) (Brigham & Houston, 2001).

In many companies, stock transactions will increase the value of the company so that investors will be more interested in buying shares in manufacturing companies. Dividends have information as a condition for the company's prospects. The greater the dividends distributed to shareholders, the better the company's performance will be considered, and in the final stage of the company's valuation based on stock prices, the better it will be (Rozeff, 1982). The value of a company that has gone public in the capital market is reflected in the company's stock price, while the value of a company that has not gone public is realized if the company is to be sold (total assets) and the company's prospects, business risks, business environment and others. Dividend policy can be linked to firm value. The definition of optimal dividend policy (optimal dividend policy) is a dividend policy that creates a balance between current dividends and future growth so as to maximize the company's stock price, Fred J Weston & Eugene F Brigham (2005).

METHODS

The writing method uses literature study, Ghazali (2018) literature review is a method of writing scientific articles based on literature studies and secondary data without field observations using systematic literature reviews (systematic literature reviews) by identifying, assessing, and interpreting all findings on a research topic , to answer research questions (Kitchenham & Charters, 2007). The data used in this research is based on literature studies that focus on the relationship between dividend policy and company value and its relationship with investor behavior, with the limitation of journals or scientific articles of international scope with a minimum status of scopus quartile 4. Data collection is carried out by collecting international scientific articles plus articles national scientific sources from Elsevier, Emerald Insight and other sources.

LITERATURE REVIEW

Value of The Firm

A form of company achievement that comes from public trust in the company's performance after going through a long process of activities, since the company was founded. By increasing the value of the company, the welfare of the owners will also increase. The wealth of shareholders and companies is represented by the market price of shares which is a reflection of investment, financing and asset management decisions. The goal of company management is to maximize the value of the company, but conflicts can arise between shareholders and company management. If the company runs smoothly, the value of the company's shares will increase, while the value of the company's debt in the form of bonds will not be affected at all. The level of effectiveness of the company is measured by the value of ownership shares. The success of financial management is expressed in maximizing the value of company ownership shares. However, corporate managers should not seek increases in share value at the expense of bondholders. Indicators that can be used to measure company value are Price earning ratio (PER), Tobin's Q, Price To Book Value (PBV).

Companies with high stock prices indicate good growth prospects for the company. A high stock price will make a company's value also high (Brealeys et al, 2007). This ratio measures the financial market value of the company's management and organization as a company that continues to grow (Brigham, 1999). The existence of PBV is very important for investors to determine investment strategies in the capital market. Based on the PBV value, investors can also predict which stocks are undervalued or overvalued, so that they can determine investment strategies that are in line with investors' expectations of obtaining high dividends and capital gains.

Dividend Policy

There are several opinions and theories that suggest dividends including: Dividend Irrelevance Theory by Eugene F Brigham and Joel F Houston (2007) dividend irrelevance theory is a firm's dividend policy has no effect on either its value or its cost of capital. Miller and Modigliani explained that based on the company's investment decisions, the dividend payout ratio is only a breakdown and does not affect the welfare of shareholders.

The Bird in Hand Theory, by Myron Gordon and John Lintner in Eugene F Brigham & Joel F Houston (2007) says dividends are more certain than capital gains, with the belief that dividend income has a higher value for investors than capital gains, this theory assumes that dividends are more certain than capital gains.

Information Content or Signaling Hypothesis, Signal is an action taken by a firm's management that provides clues to investors about how management views the firm's prospects, Fred J Weston and Eugene F Brigham (2005). That an increase in dividends above the normal increase is usually a signal to investors that the company's management predicts a good income in the future. Conversely, a decrease or increase in dividends that are below the norm increase is believed by investors as a signal that the company is facing difficult times in the future. However, it is difficult to say whether the increase or decrease in prices after an increase or decrease in dividends is solely caused by a signal effect or maybe caused by a signal effect and preference for dividends.

The clientele effect is the company's tendency to attract the type of investor who likes its dividend policy. Miller and Modigliani's argument states that a company establishes a special dividend distribution policy, which in turn attracts a group of enthusiasts or clientele consisting of investors who like the special dividend policy, Fred J Weston and Eugene F Brigham (2005). Stating that different shareholders will have different preferences for the company's dividend policy. The investor group who needs current income prefers a high dividend payout ratio (DPR), whereas the investor group who does not really need money at this time prefers if the company retains a large portion of the company's net profit. (Brigham and Houston, 2004). This dividend policy is measured using the dividend payout ratio indicator. The dividend payout ratio is the percentage of profit paid to shareholders in cash (Brigham and Gapenski, 1996).

Debt Policy

Is a company policy about how far a company uses debt financing. There are several theories about debt financing with a relationship to firm value, namely:

a. The theory of capital structure from Miller and Modigliani (Capital structure theory)

In this theory, they argue that assuming there are no taxes, bankruptcy costs, there is no asymmetric information between management and shareholders, and the market is involved in an efficient condition, the value that can be achieved by a company is not related to how the company carries out its funding strategy.

. After eliminating the assumption of the absence of taxes, debt can save taxes paid (since debt incurs interest payments which reduce the amount of income taxable) thereby increasing the value of the company.

b. Trade off theory

This theory explains that the higher the company's funding using debt, the greater the risk they will experience financial difficulties because they pay fixed interest that is too large for debtholders every year with uncertain net profit conditions (bankruptcy cost of debt).

c. Agency Approach Theory

According to this approach, the capital structure is structured to reduce conflicts between various interest groups. The conflict between shareholders and managers is actually the concept of free cash flow. But there is a tendency that managers want to hold resources (including free cash flow) so that they have control over these resources. Debt can be considered as a way to reduce agency conflicts related to free cash flow. If the company uses debt, the manager will be forced to issue cash from the company (to pay interest).

d. Signaling Theory

If the manager has confidence that the company's prospects are good, and therefore wants the stock price to increase, the manager will want to communicate this to investors. Managers can use more debt, which in turn serves as a more reliable signal. This is because companies that increase debt can be seen as companies that are confident about the company's prospects in the future. Investors are expected to catch these signals, signals indicating that the company has prospective prospects in the future. So, we can conclude from the explanation above that debt is a positive sign or signal from the company.

Profitability

Profitability is the company's ability to generate profits. Myers and Majluf (1984) argue that financial managers who use the pecking order theory with retained earnings as the first choice in meeting funding and debt needs as a second choice and issuing shares as a third option, will always increase profitability to increase profits. The profitability ratio is a measure of a company's ability to earn profits in relation to sales, total assets and equity. Profitability is of great concern

to potential investors and shareholders because it relates to share prices and dividends to be received. If the company earns profits in return, the shareholders will receive dividends. Profitability is a benchmark in determining financing alternatives. There are various ways to assess profitability and depend heavily on profits, assets or capital which will be compared from profits originating from company operations or net profit after tax with own capital. With so many ways of assessing profitability, there are differences from one company to another in determining profitability. There is no obligation to equate the method of calculating profitability because the main objective is to measure the level of efficiency in the use of capital in each company. One measure of the profitability ratio that is often used is Return On Equity (ROE), which is a measure of a company's ability to generate profits with the total capital used. This ratio shows the level of investment efficiency that appears in the effectiveness of own capital management. The way to assess the profitability of a company varies depending on which total assets or capital will be compared with one another. Return On Equity (ROE) is used to measure the level of company profitability, because ROE measures the company's ability to obtain profits available to company shareholders in the form of equity investment invested by shareholders.

RESULTS AND DISCUSSION

RESULT

From a review of previous research related to firm value and dividend policy, there are several opinions from the results of the study which state that there are several variables that can influence or there are conditions that can cause these variables to be influenced by other variables. Taken from various research results that have been carried out with the variable limitations that have been mentioned previously and with the limitations of journals or scientific articles with an international scope with a minimum Scopus status of quartile 4. The discussion that has so far been a lot of debate and differences found from several previous studies the results found diverse and contradictory results due to differences in the observation environment. The hypothesis according to Miller & Modigliani (1961) states that the company's policy of giving dividends to shareholders has no effect on firm value. Firm value in this study is divided into several separate discussions regarding its relationship with dividend policy, each of these discussions is an indicator that forms firm value consisting of liquidity, profitability, debt policy and investor behavior.

In the first discussion, stock liquidity has a strong relationship to dividend policy. This relationship was found in Sterenczak & Kubiak's research (2022). In that study, there was also an inverse causality relationship between the two variables.

Whereas in the relationship between profitability and dividend policy, theoretically better margins allow companies to increase dividend rates from year to year, in a study by Almeida et al, (2015) this theory was found to be in accordance with the facts that occur. Similar to research by Barros et al, (2019) it was found that increased margins make dividend payments and yields more stable. As margins

widen, the outlook for the company becomes positive, and the market reaction accordingly, makes the dividend yield almost unchanged. The pecking order hypothesis and the signaling hypothesis can also provide an explanation of the relationship between profitability and dividends (Fama and French, 2002; Yarram and Dollery, 2015). Kimie and Pascal (2011) and Kuzucu (2015) identified profitability as a determinant that has a negative impact on a company's dividend policy. In contrast, Amidu and Abor (2006), Al-Malkawi (2007), Al-Najjar (2011), Bokpin (2011), Patra et al. (2012) and Botoc and Pirtea (2014) identify profitability as a determinant that has a positive impact on the company's dividend policy

The relationship between corporate debt policy and dividend policy. Several opinions state the relationship between the two variables. Lintner (1956) identified debt as a less influential determinant of a company's dividend policy. Rozeff (1982) shows that companies with high financial leverage tend to have low payout ratios, to reduce transaction costs associated with external financing. In line with this argument, Al-Malkawi (2007) suggests that companies with high debt ratios tend to pay less dividends. In accordance with the findings of Lintner (1956), Abor and Bokpin (2010) argue that leverage, debt and external financing are less important determinants of dividend policy. Bokpin (2011), Patra et al. (2012), Arko et al. (2014) and Dewasiri et al. (2018) identified leverage as the main determinant of a company's dividend policy. Yusof and Ismail (2016) identified debt as a negative determinant of corporate dividend policy in Malaysia. also found the same fact.

The relationship between dividend policy and firm value in terms of investor behavior, Sierpinska (2002) in her research found that the dividend rate is attractive, especially for investors who invest in stocks to receive income from dividends rather than profits from increasing stock value, this is in accordance with the Bird in Hand theory which found by Lintner (1956) and Gordon (1959) this also has more or less influence on firm value due to the behavior of these investors. Baker (2011) also stated that dividends in the eyes of investors are more attractive and are the main attraction that investors refer to before deciding to allocate their funds in the company, similar to research from Dang et al. (2020) in companies listed on the Vietnamese state stock exchange, that dividend policy has a significant effect on company value, for companies that offer higher dividend payouts and vice versa for companies that do not have a dividend payout policy. Apart from being viewed from the Bird in Hand theory, dividend policy can also be viewed from the Agency theory which explains that investors want to increase their cash profits by sharing a larger percentage of profits, while management prefers to increase the portion of retained earnings to ensure the availability of sufficient funds for the purpose of investment or expansion, which may lead to agency conflicts.

CONCLUSION

Based on the results of research studies from several scientific articles with topics discussing the relationship between firm value and dividend policy, it was found that the majority of results indicated that firm value influences dividend policy, in several studies it was also found that dividend policy also affects firm value, this is based on behavior investors. In some studies, several other variables

and indicators are also included which can be part of the company's value which can have a different effect on the results obtained, so that it can provide opportunities for future research to be re-examined in a different environment so that other facts can be found. can be applied effectively to companies that require a dividend policy with the aim of increasing the value of the company. The limitations of this research are the limited journals studied with various variables that may still be included for future research so that research on firm value and dividend policy will be more complete.

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