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Analysis Of The Influence Of Dividend Payout Ratio, Investment Opportunity Set And Return On Asset On The Value Of Manufacturing Companies

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Abstract:

The purpose of this study is to ascertain how a company's value is affected by factors such as leverage, return on assets, investment opportunity set, and dividend payout ratio. Associative research is what this study is. This study employed secondary data for its data collection. Annual financial reports and corporate annual reports that are released annually serve as secondary data for this study. Purposive sampling is the sample research technique employed. All manufacturing firms that are listed on the Indonesia Stock Exchange (BEI) serve as the research sample. Purposive sampling was used to choose the research sample. A literature review was the method of data collecting employed in this investigation. A multiple regression equation model is used in this study's hypothesis testing. The following conclusions can be made in light of the data that has been gathered and the outcomes of tests that have been conducted using the regression model: The value of a corporation is impacted by leverage. The value of the corporation is unaffected by ROA. IOS affects the value of a company. The dividend payout ratio affects the worth of the business.

Keywords: leverage, return on assets, investment opportunity set, dividend payout ratio, company value, indonesia stock exchange.

Introduction

Establishing a corporation requires having specific objectives. The goal of forming a corporation is expressed in a number of ways. Making the most money is the primary objective. Prosperity for the business owner or shareowner is the second objective. Maximizing the company's worth as shown by its share price is the third corporate objective, in the meantime. The goals of these three companies are actually not that dissimilar. It's just that every organization has a distinct emphasis that it wants to achieve. If share prices rise, company value can maximize shareholder prosperity. The prosperity of a company's shareholders is positively correlated with its share price. A company's ability to pay dividends indicates its value. Sometimes, in order to reinvest its revenues, the corporation chooses not to distribute the dividend. Share prices may be influenced by the dividend's magnitude. In general, a high dividend yield translates into a high share price, which in turn increases the firm's worth. Conversely, a low dividend yield likewise translates into a low share price for the company that pays it out. The capacity of a business to generate profits is directly correlated with its ability to pay dividends. The ability of the business to pay dividends will also be high if it makes large earnings. The value of the company will rise with a high dividend. Both investors and the company that will pay dividends are greatly impacted by dividend policies and payments in publicly traded companies. Generally speaking, investors want to increase their standard of living, primarily through capital gains or dividends. However, in order to continue existing, businesses also need to continue growing and, concurrently, increase shareholder welfare (Christiawan & Tarigan, 2017).

Naturally, this is special since it addresses two key issues: how to implement the dividend policy without impeding the company's ability to grow, and how crucial it is to meet shareholders' expectations regarding dividends. Generally speaking, investors that exhibit risk aversion to taking risks believe that a company's level of risk translates into a higher expected level of benefit for taking that risk. Additionally, dividends received now will be worth more than capital gains obtained later. Therefore, dividends will be preferred over capital gains by investors who are unwilling to speculate. Two competing and interested parties will be involved in the implementation of a company's dividend policy: the interests of the company with its retained earnings and the interests of shareholders with their dividends. In addition, the amount of cash dividends paid might also be influenced by bondholders' interests. Dividends to shareholders are subject to each company's policies, thus management of the business must give them more careful thought. The process of deciding how much of profits will be given to shareholders and how much will be kept as retained earnings is known as dividend policy or dividend determination. The sum of a firm's debt and equity represents the value of the company. corporate value is influenced by a number of factors, including capital structure, investment decisions, dividend policy, funding decisions, corporate growth, and company size. A number of these variables are related to and have an uneven impact on the value of the company. The worth of future profits based on projections adjusted at the proper interest rate is the company's value (Hendayani et al., 2022).

Literature Review

The price of shares traded on the stock exchange serves as a gauge of a company's worth for those that issue shares on the capital market. A company's high and low stock prices are mostly determined by its financial performance, which is documented in its financial reports. Potential investors will be willing to pay more for the company's shares if it does well financially since they will view it as more profitable. Return on assets, or ROA, is one ratio used to assess financial performance (Zahra & Kusuma, 2022). In order to measure a company's ability to cover the entire amount of cash invested in activities employed for the company's operational activities with the goal of creating profits by using the assets it possesses, return on assets is one type of profitability ratio. Net income is compared to total assets to get ROA. The use of return on assets (ROA) in this study is justified by its several benefits, one of which is its ability to gauge the total effectiveness of capital use, which is sensitive to all factors influencing the company's financial health. Because it has an impact on the firm's chances of survival and growth, the maximization of shareholder wealth, which is represented in financial decisions and manifested through financing, funding, and investment decisions made by the company, is seen as crucial (Syamsulaiman et al., 2023).

Because using debt offers two significant benefits, the company's decision to employ leverage (debt) to finance investments is anticipated to raise the company's worth and enable it to succeed for its owners. First, the effective cost of the debt can be further reduced by the interest paid being tax deductible. Secondly, if the business performs exceptionally well, shareholders won't have to split the earnings because creditors will receive a certain amount back. Consequently, it is anticipated that the company's decision to employ debt as a funding source will raise its worth. Describe a group of investment options (the Investment Opportunity Set) in terms of accomplishing organizational objectives. The investment opportunity set offers more comprehensive recommendations in cases when the company's future expenses will determine the value of its primary goal. A combination of held assets (assets in place) and future investment possibilities with a positive net present value is known as an investment opportunity set (IOS). Investment policy deals with choosing how to allocate money coming from outside the organization for different kinds of investments (Ningsih, 2021). The use of funds acquired by the business via banks, the capital market, or other sources is decided upon by financial management and is allocated to current and fixed assets. As long as the project is ongoing, investing is the act of devoting money now with the expectation of receiving further funding later. If a corporation pays attention to its stakeholders, it can maximize its value. In order for investors to evaluate the company's performance favorably, it must strike a balance between meeting the needs of its stakeholders and generating maximum profits. The company's growth or investment choices are displayed in the Investment Opportunity Set. The growth option's value is determined by the manager's discretionary spending. Because managing investment opportunities necessitates making decisions in an unpredictable environment, managerial actions become increasingly opaque. The principle may not be able to determine whether the management has acted in accordance with their wishes if activities made by the manager are not viewable (Mamase et al., 2019).

Leverage is a ratio that compares a company's total debt to its total assets and determines the amount of funding offered by creditors. Investors will be wary of investing in a company with large assets if there is a high risk of leverage. This is because they fear that the company will acquire its assets through debt, which will raise investment risk should it fail to make its debt payments on schedule. Because of this, investors will be cautious when making investments in businesses with high leverage ratios because doing so entails greater investment risk. The value of the company is not significantly impacted by leverage (Suhadak, 2014). Financial ratios are a useful tool for investors to evaluate potential investments since they show the company's high and low values. This allows investors to get an overview of a company. First and foremost, investors look at a company's profitability ratio to determine how much it will yield on their investment. The ROA variable significantly and favorably affects the value of the company. The worth of a business as a mix of its current assets and its potential future investments is known as its Investment Opportunity Set. IOS offers more comprehensive recommendations in cases where the company's future expenses will determine its worth. The investment opportunity set (IOS), which is characterized as a combination of held assets (assets in place) and future investment alternatives with a positive net present value, can therefore be used to estimate the company's prospects. The value per company variable is positively impacted by the Investment Opportunity Set variable (Mursalin et al., 2020).

A company's ability to pay dividends indicates its value. Sometimes, in order to reinvest its revenues, the corporation chooses not to distribute the dividend. Share prices may be influenced by the dividend's magnitude. In general, a high dividend yield translates into a high share price, which in turn increases the firm's worth (Tannady & Purnamaningsih, 2023). Conversely, a low dividend yield likewise translates into a low share price for the company that pays it out. The capacity of a business to generate profits is directly correlated with its ability to pay dividends. The ability of the business to pay dividends will also be high if it makes large earnings. The value of the company will rise with a high dividend. In assessing or knowing the worth of a firm, investors might look at different elements, both from the managerial and financial sides of the company. If third parties or investors decide to fund or invest in the company, then the investor will, of course, take out a more in-depth research or observation regarding all activities in the company (Tannady et al., 2023). To analyze the good and poor worth of a firm, normally third parties or investors would carry out calculations using financial ratios to acquire a greater understanding of the rewards and dangers they will face while investing their assets in the company. The ratios that are commonly utilized by third parties to assess a corporation are the profitability ratio, current debt ratio, and so on. Investors can also see how big the opportunity is to get a big return from the funds they invest now in the future, and on the other hand, investors or third parties will decide to invest when they know that the dividends received from the company are of high value. For this reason, the simultaneous use of profitability ratios, current debt ratios, calculations of investment opportunities and calculations of return dividend payments is very influential in determining the value of the company (Weston & Brigham, 2020).

Methodology

This research is associative research, namely research that seeks to determine the relationship and influence between two or more factors. This study employed secondary data for its data collection. Secondary data is a source of data collected indirectly through intermediary media. The secondary data in this research include the company's annual financial reports and annual reports, which are issued every year. Purposive sampling is the sample research technique employed. All manufacturing firms that are listed on the Indonesia Stock Exchange (BEI) serve as the research sample. Purposive sampling was used to choose the research sample. The data gathering approach employed in this research is a literature study, specifically data acquired from many pieces of literature relating to the subject being examined. The use of descriptive statistics for study variables is meant to provide explanations that make it easier for researchers to interpret the outcomes of data analysis and discussion. Descriptive statistics pertain to the collecting and summarization of data and its presentation, which is usually provided in tabulated form either graphically or quantitatively. Descriptive statistics provide a summary of data viewed from the average value (mean), standard deviation, maximum, and minimum values. In this research, the standard assumption tests used are data normality, multicollinearity, autocorrelation, and heteroscedasticity tests. A multiple regression equation model is used in this study's hypothesis testing.

Case studies

Based on the research results, it is known that the corrected R square value is 0.8. This suggests that 80% of the dependent variable or firm value is impacted by the independent variables, namely leverage, return on assets (ROA), investment opportunity set (IOS), and dividend payout ratio. Meanwhile, the remaining 20% is explained by other criteria not included in this research, such as institutional ownership, effective corporate governance, and others. The R value is 0.9, which shows that there is a strong association between leverage, return on assets (ROA), investment opportunity set (IOS), and dividend payout ratio on firm value because it has a R value > 0.5 and the computed F value is 80.5 with a sig value of 0.000. This illustrates that the regression model may be used to predict company value. So, it may be concluded that H5 is accepted, which shows that there is a strong simultaneous influence between leverage, return on assets, investment opportunity set, and dividend payout ratio. Based on the research results, it shows that the regression model coefficient has a constant value of 0.5, a calculated t value of 4.9 and a sig value of 0.000. A constant of 0.5 suggests that if the independent variable is constant, then the average firm value is 0.5.

Leverage has a t-count of -1.3 and a significance probability of 0.192 based on study findings. This demonstrates that the likelihood of significance is greater than 0.05. It is evident that the value of a company is not significantly harmed by leverage. This indicates that H1 is disapproved. The findings of this study are consistent with those of other studies, yet they differ from those of earlier studies. This demonstrates that the value of a company is not significantly negatively impacted by leverage. Therefore, large leverage has little effect on investors' decision to back the company. The t-count for return on assets is 1.1, and the significance probability is 0.3. This demonstrates that the return on asset significance is more than 0.05. It is evident that return on assets does not significantly increase a company's value. This indicates that H2 is disapproved. The findings of this study are consistent with those of earlier studies. As a result, neither the high nor low value of the company is reflected in the return on assets. The t-count for the set of investment opportunities is 15.9, and the significance probability is 0.000. This demonstrates that the likelihood of significance is lower than 0.05. It is evident that the investment opportunity set significantly enhances the worth of the organization. It follows that H3 is approved. The findings of this study corroborate those of earlier studies. This demonstrates that making investments boosts a company's worth and sends a favorable message about potential future growth. The t-count for the dividend payout ratio is 1.7, and the significance level is

0.096. The likelihood value is above 0.05, demonstrating that the dividend payment ratio does not significantly increase firm value. The findings of this study are consistent with earlier studies. As a result, businesses with significant profits might not always be able to pay out high dividends. The dividend payout ratio will, nevertheless, have a significant positive impact on company value if it is computed with a probability value over 0.10 and has a t-calculation of 1.7 with a significance level of 0.096. And this study's findings will be in line with those of earlier ones. Therefore, businesses with big earnings will also be thought to be able to pay out high dividends.

Conclusion

The following inferences can be made in light of the data gathered and the outcomes of tests performed using the regression model: The value of the company is impacted by leverage. This indicates that investors will be influenced to invest in a firm if they see one with significant assets but a high risk of leverage. The value of the corporation is unaffected by ROA. As a result, when investors undertake an overview of a company, financial measures are no longer used as a tool for investment appraisal. IOS affects a business's worth. As a result, IOS offers more comprehensive advice in situations when a company's value is dependent on its future expenses. The investment opportunity set (IOS) can therefore be used to estimate the company's potential. The dividend payout ratio affects the value of the corporation. The capacity of a firm to distribute dividends depends on the capacity of the company to generate profits. As a result, businesses with significant profits might not always be able to pay out high dividends. It is recommended that further research add variables to be used, such as ownership structure, return on equity, company size, investment decisions, funding decisions, etc. So, the results can enrich the discussion regarding audit quality. Future research suggests extending the period. It is recommended that further research expand the research sample area by adding other companies or industries so that the value of each company can be compared better.

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