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Research Paper

# Effect of Debt to Equity Ratio and Profitability on Company Value with Dividend Policy as a Moderating Variable in Consumer Industry Companies Listed on the Indonesia Stock Exchange 2015-2018

**Jesselin Chandra[1], Nagian Toni[2], Galumbang Hutagalung[3], Enda Noviyanti Simorangkir[4]**

[1,2,3,4]Universitas Prima Indonesia, Indonesia

Corresponding Author: Nagian Toni

## ABSTRACT

This study aims to determine the effect of debt to equity ratio and profitability on company value with dividend policy as a moderating variable in Consumer Industry Companies listed on the Indonesia Stock Exchange 2015-2018. The population in this study is a Consumer Industry Companies. The sampling technique used was purposive sampling, in order to obtain 17 companies with 4 years of observation to 68 observations. The data analysis tool uses SmartPLS 3.0. The results of the analysis show that the debt to equity ratio has a positive and significant effect on company value, profitability has no effect on company value, dividend policy is able to moderate the effect of debt to equity ratio and profitability on company value and dividend policy is not able to moderate the effect of profitability on company value. Debt to equity ratio and profitability can explain the value of the company value by 62.7% while the remaining 37.3% is explained by other variables. Suggestions for company value to be able to pay attention and regulate as well as possible the level of utilization of the profits obtained and the determination of dividends to be distributed to investors in making decisions related to increasing company value.

***Keywords:*** Debt to Equity Ratio, Profitability, Company Value, Dividend Policy

## INTRODUCTION

Every company will definitely do various things to maintain its existence and make a profit. One of the things a company can do is to go public. This was done with the aim of obtaining additional funds for expansion purposes as well as to pay off debt as well as improve the company's capital structure. In addition, the purpose of going public is to increase the company's shareholders. The high or low value of the company can be seen from how the company bargains. If the company has great prospects, the stock value will automatically be high and vice versa.

In Indonesia, consumer goods are one of the fastest growing businesses. This can be seen from the level of Indonesia's population which is increasing every year. Along with a large population, the level of public consumption also increases, making Indonesia known to the world as an investment target and able to improve the company's financial condition as well as attract investors.

The capital market is very important for the Indonesian economy, because the consequences of buying and selling shares can increase economic activity in Indonesia. Because, the capital market is an alternative funding for companies so that they can operate on a larger scale so as to increase company income and also open up vast employment opportunities where it can create prosperity for the outside community.

Company value can be influenced by several factors, for example, profitability ratios, dividend payments, solvency ratios, etc. One of the ratios that can describe the value of the company is tobin's q. Tobin's q is a ratio proposed by Tobin (1967) where the tobin ratio is able to describe how effective management is in managing existing resources by comparing the market value of the stock added up by debt and divided by the company's total assets.

The solvency ratio is the ratio used to measure the extent to which the company's assets are financed with debt, meaning how much debt the company bears compared to its assets. If the company has a high solvency ratio, this will result in greater losses, but there is also an opportunity to earn greater profits. The solvency ratio used by researchers in this study is the debt to equity ratio where this ratio can show the company's capital ability to meet its obligations.

Return on assets (ROA) is an indicator to measure the company's financial performance and is a profitability ratio used to measure the company's effectiveness in generating profits by utilizing its total assets. Companies that are able to utilize their assets to the maximum will get maximum profit, so that the dividends distributed to investors have a large amount. High dividends are able to attract investors in the stock market. So with good profitability, the value of the company will also increase.

The third factor that affects the value of the company is the dividend policy, the dividend policy is reflected in the dividend payout ratio, namely the percentage of profit distributed in the form of cash dividends or the ratio between dividends paid by a company divided by the net profit of a company in the financial year. The relationship between the Debt to Equity Ratio and dividends is that the higher the debt owned, the smaller the company's ability to fulfill its obligations to shareholders in the form of dividends and the worse the investor's assessment of the company.

## LITERATURE REVIEW

### 2.1 Company Value

According to Harmono (2009), company value is the company's performance as reflected by the stock price formed by the demand and supply of the capital market which reflects the public's assessment of the company's performance. Company valueis an investor's perception of the company which is often associated with stock prices. The stock price is a reflection of the company's value. Basically the company has a goal, namely maximizing the welfare of the company's shareholders (Sartono, 2010).

Tobin's Q=(Market Value of Equity + Debt)/Total Asset

### 2.2 Debt to Equity Ratio

According to Raharjaputra (2011), debt to equity (DER) measures the amount of debt and funds from outside the company against shareholder equity.

According to Kasmir (2014), the DER is the ratio used to assess debt to equity. This ratio is sought by comparing all debt, including current debt with all equity.

According to Harahap (2013), the formula for calculating the DER ratio is:

DER=Total Debt/Equity

### 2.3 Profitability

According to Sofyan (2010), the profitability ratio is the company's ability to earn profits through all capabilities, and existing sources such as sales, cash, capital, number of employees, number of branches and so on.

According to Weygandt (2010), this ratio measures the income or operating success of a company for a certain period of time. Profit, or lack thereof, affects a company's ability to obtain debt and equity financing.

According to Brigham (2012), the formula for return on total assets (ROA) is:
ROA=Net Profit/Total Assets

**2.4 Dividend Policy**

According to Kamaludin and Indriani (2012), dividend policy includes decisions about whether profits will be distributed to shareholders or will be retained for reinvestment in the company.

According to Tampubolon (2013), dividend policy can reduce the value of corporate share capital, because dividends will be paid from retained earnings, so that it will increase the debt/capital (debt/equity) ratio of the corporation. The formula for calculating the Dividend Payout Ratio is as follows:
Dividend Payout Ratio=Dividend/Earning After Taxes

**2.5 Effect of Debt to Equity Ratio on Company Value**

Ogolmagai (2013), debt to equity ratio (DER) has no relationship to company value. Several things can be explained regarding this research variable. Many companies have a DER of more than 1 (one).

Rahmantio (2018), the DER has no significant effect on the value of the company, which means that the size of the company's debt does not really affect the value of a company.

Wicaksana (2018), DER has an effect on company value, where DER is the ratio used to assess debt to equity.

**2.6 Effect of Profitability on Company Value**

Susilaningrum (2016), return on assets (ROA) has a significant effect on company value. The company's profitability as proxied by ROA describes the company's ability to utilize its assets to earn a profit.

Suwardika (2017), profitability has an effect on company value. Where, the higher the value of profitability will have an impact on increasing the value of the company. If the company is able to generate increased profits, it will have an impact on increasing stock prices.

Siregar (2017), ROA has no significant effect on company value. This indicates that information regarding the rate of return on the use of company assets for investors is very limited because investors also consider other information.

## RESEARCH METHODS

**3.1 Population, Sample and Data Determination Technique**

The population in this study were 42 Consumer Industry Companies listed on the Indonesia Stock Exchange in 2015-2018. The sample obtained is 17 companies multiplied by 4 years to 68 consumption companies.

**3.2 Research Design**

According to Sugiyono (2012:13), quantitative research can be interpreted as a research method used to examine certain populations or samples, sampling techniques are generally carried out randomly, data collection uses research instruments, data analysis is quantitative/ statistical with the aim of to test the established hypothesis.

According to Soewadji (2012:34), explanatory research aims not only to explain a symptom or phenomenon but also to provide an explanation of how the relationship between the variables studied, so that judging from its purpose, explanatory research can be equated with analytical descriptive research.

**3.3 Data Collection Sources and Techniques**

The source of the data used by the researcher is secondary data in the form of financial statements of Consumer Industry Companies listed on the Indonesia Stock exchange in 2015-2018 with the website www.idx.co.id.

**3.4 Analysis Techniques in Partial Least Square Method**

The value of the standardized coefficient path is indicated by the arrow of the latent variable relationship. If the standardized coefficient path value is 0.1, then the effect of exogenous variables on endogenous variables is significant. It can also be assessed through the path coefficient score indicated by the T-statistic value, where the value must be 1.96 for two-tailed tests and 1.64 for one-tailed tests at=5% ( Hair et al., 2010).

### 3.5 Coefficient of Determination

The final result of testing the structural model and the significance of the model is carried out using the bootstrap method (non-parametric method) because PLS does not use the assumption of normally distributed data so that parametric significance testing cannot be carried out (Hair et al., 2014).

### 3.6 Hypothesis Testing

According to Hussein (2015), in general, the explanatory research method is a method approach that uses PLS. Testing the hypothesis can be seen from the value of t-statistics and probability values. For hypothesis testing using statistical values, for alpha 5% the t-statistic value used is 1.96.

## RESULT AND DISCUSSION

### 4.1 Descriptive Analysis

**Table 1: Descriptive Analysis**

| | N | Mean | Median | Min | Max | Std. Dev |
|---|---|---|---|---|---|---|
| $X_1$ (DER) | 68 | 0.759 | 0.560 | 0.170 | 2.650 | 0.593 |
| $X_2$ (ROA) | 68 | 0.474 | 0.110 | 0.030 | 7.700 | 1.328 |
| Y (Tobin's Q) | 68 | 4.558 | 2.930 | 0.790 | 23.290 | 4.880 |
| Z (DPR) | 68 | 1.736 | 0.510 | 0.100 | 28.920 | 5.580 |

Based on Table 1 shows the debt to equity ratio ($X_1$) has an average value of 0.759. The maximum value of 2.65 is found at PT. Unilever Indonesia, Tbk in 2017 and the minimum value of 0.17 is at PT. Delta Djakarta, Tbk in 2017 and a standard deviation of 0.593.

The return on assets ($X_2$) has an average value of 0.474. The maximum value of 7.7 is found at PT. Chitose International, Tbk in 2015 and a minimum value of 0.03 is found at PT. Indofood Sukses Makmur, Tbk in 2015 with a standard deviation of 1,328.

Company value (Y) has an average value of 4,558. The maximum value of 23,290 is found at PT. Unilever Indonesia, Tbk in 2017 and the minimum value of 0.79 is at PT. Chitose International, Tbk in 2017 and the standard deviation of 4.88.

Dividend policy (Z) has an average value of 1,736. The maximum value of 28.92 is found at PT. Chitose International, Tbk in 2017 and a minimum value of 0.1 is found at PT. Nippon Indosari Corporindo, Tbk in 2015 and the standard deviation of 5.58.

### 4.2. Coefficient of Determination

The results of testing the inner model which includes R Square are:

**Table 2: Coefficient of Determination**

| | R Square | R Square Adjusted |
|---|---|---|
| TOBIN'S Q | 0.627 | 0.597 |

Based on Table 2 above, the debt to equity ratio ($X_1$) and profitability ($X_2$) can explain the company value (Y) of 62.7% and the remaining 37.3% is explained by other variables.

## 4.3 DISCUSSION

**Table 3: Hypothesis Test Results of the Effect of Debt to Equity Ratio on Company Value**

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (\|O/STDEV\|) | P Values |
|---|---|---|---|---|---|
| DER->TOBINS'S Q | 1.402 | 1.322 | 0.662 | 2.116 | 0.035 |
| DPR Moderate DER->TOBINS'S Q | 4.855 | 4.202 | 2.075 | 2.340 | 0.020 |
| DPR Moderate ROA->TOBINS'S Q | -0.164 | -0.421 | 0.529 | 0.310 | 0.757 |
| ROA->TOBINS'S Q | 1.179 | 1.955 | 2.092 | 0.564 | 0.573 |

### 4.3.1 Effect of Debt to Equity Ratio on Company Value

Based on the results of the analysis in Table 3, it can be seen that the results of the hypothesis test of the effect of the debt to equity ratio with company value have a parameter coefficient of 1.402 with a t-statistics significance value of 2.116>1.96 and a p-value value of 0.035<0.05. This shows that the debt to equity ratio has a positive and significant effect on company value.

The results of the analysis prove that the debt to equity ratio has a positive effect on the value of Consumer Industry Companies listed on the Indonesia Stock Exchange in 2015-2018. That is, the higher the debt to equity ratio, the higher the company value. The level of debt to equity ratio which reflects that the amount of debt does not rule out the possibility that the value of the company will also increase, this is because the debts borrowed are used properly.

### 4.3.2 Effect of Profitability on Company Value

Based on the results of Table 3 analysis, it can be seen that the results of hypothesis testing the effect of Return on Assets with company value have a parameter coefficient of 1.179 with a significant t-statistics value of 0.564<1.96 and a p-value value of 0.573>0.05. This shows that return on assets has no and significant effect on company value.

This insignificant effect indicates that how much the increase or decrease in profitability does not affect the value of the company and also means that high profitability does not necessarily mean that the value of the company will be higher as well. Because investors do not only look at the level of profit earned by a company but also look at other factors before investing.

### 4.3.3 Dividend Policy Moderates the Effect of Debt to Equity Ratio on Company Value

Based on the results of Table 3 analysis, it can be seen that the results of hypothesis testing the influence of the debt to equity ratio with company value have a parameter coefficient of 4.885 with a significance value of t-statistics 2.34>1.96 and a p-value value of 0.02<0.05. This shows that dividend policy is able to moderate the effect of the debt to equity ratio on company value.

Dividend policy is able to moderate the effect of debt to equity ratio on company value in consumption companies, indicating that information on dividend payment policy can strengthen or weaken the effect of debt on company value.

### 4.3.4 Dividend Policy Moderates the Effect of Profitability on Company Value

Based on the results of Table 3 analysis, it can be seen that the results of hypothesis testing the effect of return on assets with company value have a parameter coefficient of -0.164 with a significant t-statistics value of 0.31<1.96 and a p-value value of 0.757>0.05. This shows that dividend policy is not able to moderate the effect of return on assets on company value.

Dividend policy is not able to moderate the effect of profitability on company value, meaning that information on dividends that will be provided by company management to investors cannot strengthen and weaken company value. The level of profitability can give investors a positive indication of the value of the company, but dividend policy is not able to strengthen investors' assessment of the company's shares when there is an increase in profitability.

## CONCLUSION AND SUGGESTION

The conclusions in this study are:

1. Debt to equity ratio has a positive and significant effect on company value in Consumer Industry Companies listed on the Indonesia Stock Exchange for the 2015-2018 period.

2. Profitability has no effect on company value in Consumer Industry Companies listed on the Indonesia Stock Exchange for the 2015-2018 period.
3. The dividend policy is able to moderate the effect of the debt to equity ratio on company value in Consumer Industry Companies listed on the Indonesia Stock Exchange for the 2015-2018 period.
4. Variables dividend policy is not able to moderate the effect of profitability on company value in Consumer Industry Companies listed on the Indonesia Stock Exchange for the 2015-2018 period.

Based on the results of the research that researchers have put forward, the suggestions that researchers can give are as follows:

1. The researcher hopes that further researchers who use the same discussion topic can increase the scope of the research by increasing the period so that it can be seen more clearly the influence of the independent variable on the company value variable, and replace the moderating variable or replace and add the independent variable to be studied such as the current ratio, company size and other variables that affect the value of the company, as well as using different research objects to get better results for the Indonesian economy, especially for companies listed on the Indonesia Stock Exchange.
2. The researcher hopes that the company value to be able to pay attention and regulate as well as possible the level of utilization of the profits obtained and the determination of dividends to be distributed to investors in making decisions related to increasing company value.
3. The researcher hopes that investors or potential investors who will invest to be able to understand better in investing by considering debt, profitability and dividend policy in a company to give a good picture in the future.

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