# THE EFFECT OF DIVIDEND PAYOUT RATIO, LEVERAGE, AND MANAGEMENT OWNERSHIP ON FIRM VALUE

## (Studies on Manufacturing Industry Listed on the Indonesia Stock Exchange)

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**A r t i c l e**

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**A b s t r a c t**

The purpose of this study is to analyze the effect of Dividend Payout Ratio (DPR), leverage, and managerial ownership on firm value in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2020 period. The sample selection in this study used a purposive sampling technique as many as 129 companies that entered the research criteria. The test method uses multiple linear regression analysis which is tested statistically and has met the criteria of classical assumptions such as data normally distributed, does not have multicollinearity and heteroscedasticity problems. The results showed that statistically DPR has an effect on firm value with a confidence level of 1%. However, leverage is not proven to have an effect on firm value. The results of this study also succeeded in proving that managerial ownership has an effect on firm value with a confidence level of 5%.

***Keywords: Dividend Payout Ratio, Leverage, Management Ownership, Firm Value.***

## 1. INTRODUCTION

Firm value is an essential component for assessing the company's overall value (Aggarwal, et al., 2017). Firm value is the strength of the company's capital to generate profits from the operational business being carried out. In this case, agency conflicts usually occur between managerial and insider ownership. Agency conflicts can decrease if the proportion of shareholders' ownership increases and encourages investors to become shareholders (Thomsen, 2015).

A close relationship arises when distributing dividends through the GMS aims to increase prosperity for shareholders. If investors have a high proportion of shares, their dividends will be higher. Dividend distribution is determined by the number of shares owned by shareholders. This situation can foster a harmonious relationship between the Dividend Payout Ratio (DPR) and company value which is strengthened by management ownership (Ghalandari, 2013).

The results of an empirical study by Ghalandari (2013) prove that long-term debt repayments have a positive effect on firm value. The company's value can increase due to the influence of the proportion of shares owned by managers. That can encourage managers to work well in the interests of shareholders (Norhayati et al., 2012).

Another factor that can affect the value of shares is the stock price. The higher stock value can describe an increase in the company's value based on market prices which can affect the increase in the shareholders' welfare. Shareholders usually trust managers to manage the company properly according to their functions. This trust is the difference between ownership and risk-bearing functions (Hermuningsih et al., 2010). In practice, managers should be able to maximize the company's value, including maximizing the shareholders' welfare. However, in practice, managers are more inclined to maximize the welfare of their managers, for example, an increase in salary and benefits. Therefore, the presence of managers who own shares in the company can provide benefits to the company, including increasing the value of the company through managerial decisions taken, such as policies in dividend distribution and policies in seeking new sources of capital through debt. These components are interrelated because both are components of obtaining sources of capital. Managers are expected to be able to control the proportion of equity in making company decisions (Karaca & Savsar, 2017).

Managers who have more considerable shareholdings will act differently from shareholders. They are careful in making business decisions, including investment decisions. High share ownership by managers can increase market confidence (Awan et al., 2018). In this study, the authors researched manufacturing companies listed on the Indonesia Stock Exchange (IDX). Companies that enter this sector dominate all other sectors, so the more companies the research results will be, the better. This research is supported by the results of previous research, which proves that there is a positive influence between profitability and firm value (Sucuahi & Cambarihan, 2016). In addition, other studies also prove that profitability can increase firm value (Chowdhury & Suman, 2010; Hermuningsih et al., 2010).

## 2. LITERARURE REVIEW

### Agency Theory

Agency theory discusses the conflict of interest between shareholders and agents or managers who manage the company directly. Brigham et al. (2004) argue that agency theory is a game theory in designing contracts to encourage rational agents to act rationally. Horne (2005) states that two parties are in agency conflicts: the institutional shareholders and the managers appointed by the shareholders to manage the company. In this theory, shareholders hope to get optimal profits by giving trust to managers. However, on the other hand, managers are more concerned with personal interests in making business decisions. That makes shareholders feel disadvantaged because of differences in interests.

### Hypothesis Development

### The Effect of Dividend Payout Ratio on Firm Value

Companies, when distributing dividends to shareholders, can have the effect of increasing share prices in the market. This increase is a signal for investors because the company can manage its resources to generate profits to have a good impact on shareholders' welfare. This condition will encourage several investors to invest their funds in the company, resulting in increased demand for shares in the market. That can increase the value of the company. Research results by Sari et al. (2018) showed a positive influence of dividend policy on firm value. Based on the description above, the hypothesis is formulated as follows:

H1: Dividend Payout Ratio has a positive effect on firm value.

**The Effect of Leverage on Firm Value**

Debt is a source of external funding in which companies must pay obligations and profits to creditors by paying interest. This source of funding can be used by companies to carry out company operations to obtain optimal profits and will affect the value of the company. If the policy from the funding source can be appropriately managed, it can provide benefits to increase the company's value. Palupi and Hendiarto (2018) argue that high debt can increase company value. Agree with the research results by Hertina et al. (2019), which prove that there is a positive influence between debt and company value. Based on the description above, the hypothesis is formulated as follows.

H2: Leverage has a positive effect on firm value.

**The Effect of Management Ownership on Company Value**

Managers who own several shares in the company can reduce agency conflicts. Managers will act not only for the welfare of personal affairs but also for the welfare of shareholders in business decisions. A higher proportion of shares owned by managers can encourage managers to be more careful in making business decisions and act like general shareholders (Kapoor, 2006; Thomsen, 2015). According to Sulong and Nor (2008) proving that high share ownership by managers can increase strong attachment because they are part of a company that has a positive impact on increasing market trust. That, of course, can increase the value of the company. Based on the description above, the hypothesis is formulated as follows.

H3: Management ownership has a positive effect on firm value.

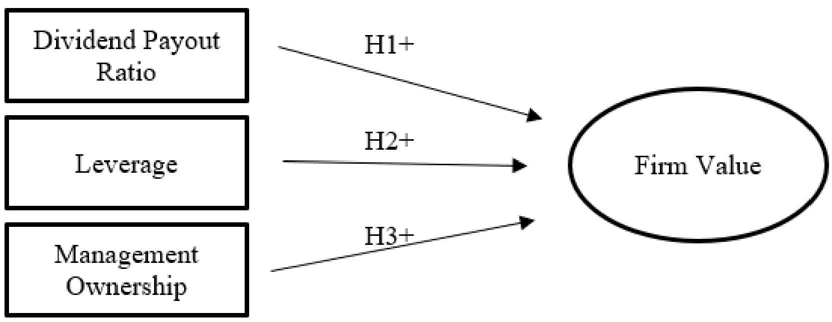


**Figure 1. Framework Model**

## 3. RESEARCH METHODS

This study uses a quantitative approach with an explanatory method to test or explain the relationship between variables through hypothesis testing with SPSS software tools.

### Population dan Sample

The population in this study are companies listed on the IDX. However, the authors took samples using a purposive sampling technique, namely manufacturing sector companies listed on the IDX for the 2017-2020 period. The number of samples included in this study was 129 companies.

**Table 1**

**Sampling Criteria**

| Information | Total |
|---|---|
| Companies listed on the IDX 2017-2020 | 852 |
| Companies listed on the IDX are manufacturing sector companies for the 2017-2020 period. | 129 |
| Number of Research Samples | 129 |

Source: Processed Data, 2021.

### Data and Data Acquisition Methods

The data in this study is secondary data taken from the company's financial reports from the IDX website. The data is panel data, a combination of time series and cross-sectional data.

### Research Variable Measurement

**Table 2**

**Research Variable Measurement**

| No | Variable | Measurement |
|---|---|---|
| 1 | Managerial Ownership | $\text{IO (insider Ownership)} = \frac{\text{Management Share}}{\text{Total Number Of Shares}}$ |

| | | |
|---|---|---|
| 2 | Dividen Payout Ratio | $\text{DPR (Dividend Payout Ratio)} = \frac{\text{DPS (Dividend Per Share)}}{\text{EPS (Earning Per Share)}}$ |
| 3 | Leverage | $\text{Leverage} = \frac{\text{Debt}}{\text{Capital}}$ |
| 4 | Firm Value | $\text{Firm Value} = \frac{\text{Price Per Share}}{\text{Book Value Per Share}}$ |

Source: Processed Data, 2021.

**Data analysis method**

The research was tested statistically with multiple regression through the SPSS program. There are two stages: 1) conducting definitive assumption tests such as normality, multicollinearity, and heteroscedasticity tests, and 2) multiple linear regression analysis to test hypotheses through partial statistical tests, simultaneous tests, and R Square determination tests. The hypothesis criteria can be accepted if the sig value < 0.05. The regression equation model in this study is as follows.

$$\mathbf{Y = \lambda + \mathit{b}_{1.}X_1 + \mathit{b}_2X_2 + \mathit{b}_3X_3 + \mathit{e}}$$

Y = firm value
λ = constant
X1 = managerial ownership
X2 = dividend payout ratio
X3 = leverage
β1 = managerial ownership regression coefficient
β2 = dividend payout ratio regression coefficient
β3 = regression coefficient of leverage policy

## 4. RESULTS AND DISCUSSION

### Classical Assumption Test

### Normality Test

**Table 3**

**Normality Test Result**

| | DPR | LEV | Kep_Manj | *FirmValue* |
|---|---|---|---|---|
| *Asyimp Sig* | 0,051 | 0,061 | 0,109 | 0,055 |

Source: Results of SPSS data processing, 2021.

Table 3, Provides information that the results of the normality test using the one-sample Kolmogorov Smirnov method as a whole have an asymp sig value of more than 0.05. These results conclude that the data in this study are typically distributed.

## Multicollinearity Test

**Table 4**

**Multicollinearity Test Result**

| Variabel | *Tolerance* | *VIF* |
|---|---|---|
| DPR | 0,993 | 1,007 |
| Lev | 0,980 | 1,020 |
| Man_Ownership | 0,983 | 1,018 |

Source: Results of SPSS data processing, 2021.

Table 4 provides information that the results of the multicollinearity test with the VIF method have a Tolerance value of more than 0.10 and a VIF value <10. These results conclude that the data in this study do not have a multicollinearity problem.

## Heteroscedasticity Test

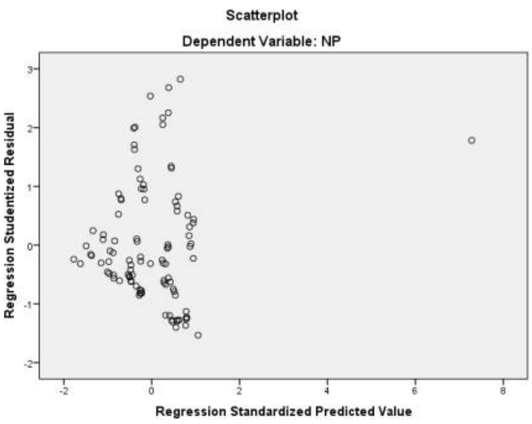


**Figure 2. Result of Heteroscedasticity Test**

Source: Results of SPSS data processing, 2021.

Figure 2 provides information that the results of the heteroscedasticity test using the scatterplot method show that the points have spread randomly. The distribution is above and below the 0 and Y axes. This means that the data in this study do not have a heteroscedasticity problem.

## Results of Multiple Regression Analysis

This study accepts the hypothesis using multiple linear regression analysis to test the hypothesis proposed on the three main variables, namely DPR, leverage, and managerial ownership of firm value, with the criterion of sig value <0.05.

**Table 5**

**Multicollinearity Test Result**

| **Variabel** | **Arah Yang Diharapkan** | ***B*** | ***Sig*** | **Status Data** |
|---|---|---|---|---|
| Konstanta | | 2,981 | 0,000 | |
| DPR | + | 0,292 | 0,002 | H1 accepted |
| Lev | + | -0,146 | 0,123 | H2 rejected |
| Man_Ownership | + | 0,207 | 0,029 | H3 accepted |
| *Adjusted* $R^2$ | 0,131 | | | |
| F *statistic* | 0,001 | | | |

Source: Results of SPSS data processing, 2021.

Table 5 provides information that the value of the beta coefficient on the DPR variable is 0.292 and a sig of 0.002. That means that statistically, the DPR has a significant positive effect on firm value at a confidence level of 1%, so H1 can be accepted. Table 5 provides information that the value of the beta coefficient on the leverage variable is equal to -0.146 and sig of 0.123. That means that statistical leverage has no significant effect on firm value, so H2 is rejected.

Table 5 provides information that the value of the beta coefficient on the managerial ownership variable is 0.207 and a sig of 0.029. That means that statistically, company ownership has a significant positive effect on firm value at a confidence level of 5%, so H3 is acceptable.

Simultaneously it can be seen that the DPR, leverage, and company ownership variables have a sig value of 0.001 which means that together the DPR, leverage, and company ownership variables affect firm value. By determination, R2 shows that the DPR, leverage, and company ownership variables affect firm value by 13.1%, and the remaining 86.9% are influenced by variables not tested in this study. The regression equation model in this study is as follows:

$$Firm\ Value = 2{,}981 + 0{,}292.\ DPR - 0{,}146.\ Lev + 0{,}207.\ Kep\_Manj$$

**The Effect of Dividend Payout Ratio on Firm Value**

Statistically, it shows that the DPR affects firm value with a confidence level of 1%. This means that H1 in this study is accepted. Research proves that manufacturing companies can generate profits from the operational processes that are carried out. Shareholders feel happy because they get dividends from the profits generated. That can increase market confidence, assuming that manufacturing sector companies have good prospects for the future to increase company value. The results of this study are supported by research conducted by Sari et al. (2018) that DPR can increase company value.

**The Effect of Leverage on Firm Value**

Statistically, it shows that leverage does not affect firm value. This means that H2 in this study was rejected. In this research, the debt owned by manufacturing sector companies cannot increase the company's value; in fact, the debt can reduce the company's value. That can be seen from the value of the beta coefficient, which chooses the negative direction (-0.146). However, it is insignificant, which means that the company cannot properly manage its debt to increase its value of the company. The results of this study are in contrast to research conducted by Hertina et al. (2019) which proves that debt can increase company value.

**The Effect of Managerial Ownership on Firm Value**

Statistically, it shows that managerial ownership influences firm value with a confidence level of 5%. That means that in research, H3 is acceptable. Empirically proves that managers who own company shares can take policies that benefit the company, especially for the prosperity of shareholders. Managers not only act as agents, but the role of managers in several manufacturing sector companies also act as shareholders. Hence, the more significant the proportion of shares they own, the more careful they are in making decisions and prioritizing the company's interests rather than personal interests. That can increase the value of the company. The results of this study supported by research conducted by Sulong and Nor (2008) which proves that higher managerial share ownership can increase firm value.

## 5. CONCLUSION

This study examines the effect of DPR, leverage, and managerial ownership on firm value in manufacturing sector companies for 2017-2020. Based on the discussion described earlier, it can be concluded that: (1) Dividend payout ratio has a significant positive effect on firm value; (2) Leverage does not affect firm value; (3) Managerial ownership has a significant positive effect on firm value.

This study suggests that companies encourage managerial parties to own company shares to reduce agency conflicts between shareholders and managers, especially the interest in increasing company value.

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