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THE IMPACT OF PROFITABILITY, DEBT POLICY, EARNING PER SHARE, AND DIVIDEND POLICY ON THE FIRM VALUE (Empirical Study of Companies Listed In Jakarta Islamic Index 2013-2015)

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ABSTRACT

The objective of this study is to analyze the influence of profitability (ROE), debt policy (DER), earning per share , dividend policy (DPR) to the firm value in companies listed in the Jakarta Islamic Index. This study uses quantitave approach with secondary data over periodof 2013 to 2015. Sample is taken by using purposive sampling. Based on certain criteria, there were 18 companies that matched with the criteria. Data were analyzed by using multiple regression method. The results shows that partially profitability and dividend policy have a positive influence on the firm value while debt policy and earnings per share do not have influence on the firm value.

***Keywords**:* Firm Value, Profitability, Debt Policy, Earning per Share, Dividend Policy.

INTRODUCTION

The establishment of a company aims to maximize shareholder value. The value of shareholders will increase if the value of the firm increases as indicated by the high return on investment to shareholders. Firm value is a certain condition that has been achieved by the company as a reflection of the views of the community against the company after going through a long process. The firm value is the amount of price that the investor is willing to pay if the company is to be sold. Firm value can reflect the value of the assets owned by the company and the higher the value of the company, the better the company image. The value of the firm is generally related to the stock price, the higher the stock price, the higher the value of the company and vice versa. The price of the stock is the price when the stock is traded on the market (Ela et al, 2016)

There are many factors that can affect the firm value such as profitability, debt policy, EPS, dividend policy. Ela et al (2016) argues that the higher the profitability of the company, the higher the efficiency of the company in utilizing the company's facilities to generate revenue and will create higher firm value as well as optimize shareholder wealth. In the relation with debt policy, the company is considered risky if it has a large portion of debt in its capital structure but if the debt can generate profits then the debt will increase the value of the company (Hidayat, 2013).

Research on the factors that affect the value of the company has been done many. Martikarini (2012), Nurhayati (2013), Bayu and LB Panji (2015), Umi, Gatot and Ria (2012), Sabrin, Buyung, Dedy, and Sujono (2016) Ela, Iskandar, and Gusnardi (2016) have proved empirically that profitability as measured by ROE had a significant positive effect on firm value as measured by PBV. Meanwhile, Titin (2012) argued that profitability has a negative and significant impact on firm value. Umi, Gatot and Ria (2012), Titin (2012), they prove empirically that debt policy has a positive and insignificant effect on firm value, while Nainggolan and Agung (2014) stated that debt policy has a negative effect on firm value. Martikarini (2012) states that the debt policy has no significant effect on the firm value.

Danies, Prabandaru (2012) stated that earnings per share have a positive effect on stock prices. While Diah (2014) said that earnings per share does not affect the value of the company. The results of Martikarini's research (2012), Bayu and LB Panji (2015), Umi, Gatot and Ria (2012), Titin (2012) prove empirically that dividend policy (DPR) has a positive and significant impact on firm value (PBV). Meanwhile, according to Nainggolan and Agung (2014) said that the dividend policy (DPR) does not affect the firm value .

LITERATURE REVIEW

The underlying assumption of signaling theory is the presence of information asymmetry between managers (agents) and outsiders concerned with information. Lack of outside information about the company causes them to protect themselves by providing a low price for the company, and the possibility of an uninformed external party will perceive similarly about the value of all companies. Such a view will harm companies with better conditions because external parties will judge companies lower than they otherwise should and vice versa.

Gumanti (2009) suggests that in signaling theory, managers (agents) or firms qualitatively have information advantages over outsiders and they use certain measures or facilities to imply the quality of the company. According Jogiyanto (2014), information published as an announcement will provide a signal for investors in making investment decisions. At the time the information is announced, market participants first interpret and analyze the information as a good signal (bad news) or bad signal (bad news). If the announcement of the information is considered a good signal, then the investor will be interested in trading stocks, thus the market will react as reflected through changes in stock trading volume (Suwardjono, 2010). One type of information issued by a company that can be a signal for parties outside the company is the annual report. The information disclosed in the annual report may be accounting information, ie information relating to financial statements and information not related to financial statements.

Signal is an action taken by the company to provide guidance for investors about how management views the prospects of the company. This signal is information about what has been done by the management to realize the desire of the owner. Information issued by the company is important, because the effect on investment decisions outside the company. Such information is important to investors and business people because information essentially presents information, notes or figures, whether for the past, present or future circumstances for the survival of the company and how it affects the company (Brigham and Houston, 2011).

Firm Value

Purnaya (2016) states that the value of the company is the selling price that is considered appropriate by the prospective investor so he will pay it, if a company will be sold. For companies that sell shares to the public. The company's value indicator is the stock price traded on the stock exchange. This opinion is based on the idea that the increase in stock prices is identical with the increase of shareholders' prosperity, and the increase in stock prices is identical with the increase in firm value.

Profitability and Firm Value

Rizqia, et al (2013) states that companies that can maintain stability and increase earnings can be seen as a positive signal by investors related to company performance. According Martikarini (2012) the higher the profitability then the higher the company's ability to generate profits. High profitability will provide a positive signal for investors that the company is in a favorable condition. This is the attraction of investors to own shares of the company. High demand for shares will make investors appreciate the value of shares greater than the value recorded on the balance sheet company, so that the value of the company was high. Thus, profitability has a positive influence on firm value. This generates the first hypothesis in this study :

There is a positive effect of profitability on firm value

Debt Policy and Firm Value

Nainggolan and Agung (2014) argue that firms with higher debt usage will increase their earnings per share which will eventually increase the company's stock price, which means increasing the value of the company. On the other hand, the excessive use of debt will also increase the risk of the firm, where the cost of equity will increase which will further lower the stock price, thus lowering the value of the firm, thus increasing the debt will increase the value of the company, but at some point will decrease the value of the company. According to Umi, Gatot, & Ria. (2012) there is a theory of debt financing with a relationship to the value of the company that is trade off theory, in this theory explains that the higher the company to finance the use of debt the greater the risk of financial difficulties due to paying fixed interest is too large for the debtholders each year with an uncertain state of net profit (bancruptcy cost of debt). This generates the second hypothesis in this study :

There is a negative influence of debt policy on firm value

Earning per Share and Firm Value

According to Harahap (2007), Earning Per Share is used to show how much profit per share earning profit. Earning Per Share is a comparison between the share earnings concerned or often referred to as net profit after tax with the number of shares issued by the company. Earning per Share is one indicator of success that has been achieved by the company in creating profit for its shareholders. This shows the higher the income the higher the shareholder's wealth. Of course potential investors are interested to own shares of the company. Then demand for shares will rise so that will have an impact on the rise of company value. This generates the third hypothesis in this study :

There is a positive effect of earning per share on firm value

Dividend Policy and Firm Value

The dividend policy can be a signal to investors about future prospects. This means that the size of Dividend Payout Ratio as a signal of projected earnings in the future. According to Theory Bird In The hand, the amount of dividends distributed to shareholders will be an attraction for shareholders as some investors tend to prefer dividends compared to capital gains because dividends are more certain. This generates the fourth hypothesis in this study :

There is a positive influence of dividend policy on firm value

METHODS

Sample, Data Sources, and Data Analysis

The population of this study are companies incorporated in the Jakarta Islamic Index (JII) listed on the Indonesia Stock Exchange 2013-2015. The reason for the selection of companies incorporated in JII is because it has large market capitalization and high. In this study, the sample is determined by using purposive sampling method with predefined criteria, the number of samples in this study are 18 companies. This research uses annual reports on companies incorporated in the Jakarta Islamic Index listed on the Indonesia Stock Exchange (BEI) in 2013-2015. The multiple regression method of data analysis was adopted in this study. Regression is done after the classical assumption test

Operationalization of variables

a. Firm Value

The firm value is proxied with PBV. Toto (2012) states that this high ratio indicates the investor's supervision or expectation of the company. The higher the company's ratio is seen as having better prospects. This means buyers want to spend extra money, because of the hope in the time to come, and vice versa. Here's the company value formula (PBV):

$$Price\ to\ book\ value = \frac{Price\ per\ share}{BV\ of\ equity\ per\ share}$$

b. Profitability

Profitability in this study is measured by ROE which is the result of return on the equity or ability of the company in obtaining net profit after tax by using own capital or equity (Martikarini, 2012). ROE value can be calculated using the following formula (Toto, 2012):

$$Return\ On\ Equity = \frac{Net\ Income}{Stockholder's\ Equity}$$

c. Debt Policy

Debt policy is measured using Debt to Equity Ratio that measures how much debt is used by the company as a source of financing.

$$Debt\ Equity\ Ratio = \frac{Debt\ (Current + Long)}{Equity}$$

d. Dividend Policy

Dividend policy is measured by Dividend Payout Ratio (DPR). Dividend Payout Ratio (DPR) describes the percentage of profit divided into dividends. Thus in the condition the company does not pay dividends, then this ratio becomes zero.

$$Dividend\ Payout\ Ratio = \frac{Dividend\ per\ Share}{Earning\ per\ Share}$$

DATA ANALYSIS AND RESULT

Normality test results show the value of K-S of 0.883 with a significance value of 0.416, a value of significance above 0.05 indicating the residual value is normally distributed or meet the classical normality assumption.

Table 1. Normality test and autocorrelation test

Classical assumption test	Result
Normality test	K-S Z :0.883, Asymp. Sig (2-tailed) : 0.416
DW statistic	1.748

From the results of the autocorrelation test above is known that the DW value of 1.748. Based on the statistical DW results, the DW number lies between -2 to +2 which means no autocorrelation. The test results also prove research data free from multicolonierity and heteroscedasticity problems.

The adjusted coefficient of determination (adjusted R^2) in this study was obtained at 0.891. This shows that about 89 % of systematic variation in the dependent variable (firm value _PBV) is explained by the independent variables namely profitability (ROE), debt policy (DER), earnings per share and dividend policy (DPR), while the rest of 11% is explained by other factors not included in this study.

F test shows that F-calculated value is 108,763 with probability error rate is smaller than expected level of significance (0% <5%). This shows that profitability, debt policy, earnings per share, and dividend policy simultaneously have a significant effect on the value of the company means the research model is good enough to be used to predict the firm value.

Table 2. T test Result

	Constant	ROE	DER	EPS	DPR
B	-9.254	45.705	.958	-.001	10.312
t statistic	-5.539	14.537	1.396	-.727	2.859
Sig.	.000	.000	.169	.471	.005
Conclusion		significant	Not significant	Not significant	significant

Firm Value = - 9,254+ 45,706 ROE + 0,968 DER - 0,001 EPS + 10,312 DPR

Furthermore, the analysis of the parameter estimates and their t-ratios; shows that a significant positive effect exist between Profitability (ROE) and Firm Value given that the t-calculated (14.537) and sig. value is 0.000 smaller than 0.05 levels of significance. Thus, we reject the null hypothesis that Profitability (ROE) is not positively related to Firm Value. The result also shows that a significant positive effect exist between Dividend Policy (DPR) and Firm Value given that the t-calculated (2.859) and sig. value is 0.005 smaller than 0.05 levels of significance .Conversely, the results also reveal that Debt Policy and EPS are statistically insignificant at 5% significance levels. The relationship of EPS is inversely related to Firm Value. Consequently; we accept the null hypothesis that debt policy and EPS have no effect on firm value.

DISCUSSION

1. Effect of Profitability (ROE) to The Firm Value

   Based on the partial test results, the effect of profitability on corporate value obtained regression coefficient t = 14.537 with a significance level of 0.000. So it can be concluded that profitability (ROE) has a positive effect so that the first hypothesis proved. This indicates that as pr increases, the Firm Value also increases. The results of this study are in accordance with the results of research conducted by Nani Martikarini (2012), Nurhayati (2013), Bayu and LB Panji (2015), Umi, Gatot and Ria (2012), Sabrin, Buyung, Dedy, and Sujono (2016) , Iskandar, and Gusnardi (2016). This suggests that high profitability is a reflection of good corporate performance in using company facilities to use into earnings. High profitability will also be an attraction for investors to own shares of the company. High demand for shares will make investors appreciate the value of shares greater than the book value of the company, so the high value of the stock will have an impact on the value of the company.

2. Effect of Debt Policy to the Firm Value.

   The result shows the effect of debt policy on corporate value obtained by regression coefficient t = 1.396 with significance level of 0.169. So it can be concluded that the debt policy (DER) has no effect to the firm value. We can conclude the second hypothesis is not proven. The results of this study in accordance with the results of research conducted by Nani Martikarini (2012). This explains that where high the low debt does not affect the decision of shareholders in increasing the value of the company. So the company should not be fully financed with debt, so the company does not cause the risk of bankruptcy higher.

3. Effect of Earning per share to The Firm Value

The results of the test show that earnings per share (EPS) has no effect on the firm value so that the third hypothesis is not proven. The results of this study in accordance with the results of research conducted by Diah (2014) said that earning per share does not affect the value of the company. This shows that high earning per share does not mean followed by high price to book value, otherwise low earning per share is not followed by low price to book value. Because every profit earned by the company is not necessarily distributed to shareholders.

4. Effect of Dividend Policy to The Firm Value.

The results of the research show that dividend policy (DPR) has no influence on the firm value, this means the fourth hypothesis is proven.The results of this study are in accordance with the results of research conducted by Nani Martikarini (2012), Bayu and LB Panji (2015), Umi, Gatot and Ria (2012), Titin Herawati (2012). This shows that dividend policy can be a signal to investors about future prospects. This means that the size of the House of Representatives as a signal of projected earnings in the future. According to Theory Bird In The hand, the amount of dividends distributed to shareholders will be an attraction for shareholders as some investors tend to prefer dividends compared to Capital Gains because dividends are more certain.

CONCLUSION

Based on research model, it can be delivered the following explanation related to condition of public companies in Jakarta Islamic Index :

1. Profitability measured by ROE has a positive effect on the firm value.
2. Debt policy as measured by DER has no effect on the firm value.
3. Earning per share has not effect on the firm value .
4. The dividend policy (Dividend Pay Out Ratio) has a positive effect on the firm value .

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