

The Effect of Capital Structure, Dividend Policy, and Foreign Ownership on Firm Value



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ABSTRACT: The value of the company is very useful for external and internal parties of the company because it is a reflection of the company's condition and public trust. This study aims to analyze the effect of capital structure, foreign ownership, and dividend policy on firm value by involving four control variables, namely company growth, company size, DAR and ROE. This research was conducted on real estate and property sector companies listed on the Indonesia Stock Exchange in 2015-2018 with a sample of 140 companies. Data were collected from the Company's Financial Statements document, then analyzed using panel data regression using the Chow Test until the Fixed Common Effect model was selected. The results showed that foreign ownership and ROE had a significant positive effect on firm value. DAR has a negative effect, while capital structure, dividend policy, company size, and company growth have no effect on firm value.

KEYWORDS: Capital Structure, Dividend Policy, Foreign Ownership, Firm Value, Panel Data

I. INTRODUCTION

The welfare of shareholders can be indicated by maximizing the value of the company, which is equivalent to maximizing the company's share price, and of course this is desired by shareholders (Gultom & Wijaya, 2014). The company value refers to the share price, and the increase in company value depends on the increase in share price. Company value is a reflection of the condition of the company and the principle of public trust in the company (Hadian & Adaoglu, 2020). In order to realize the main objectives of the company, there is some important information that can be utilized, such as reviewing company performance and maximizing company value (MacDiarmid et al., 2018); (Tarczyński et al., 2020). Firm value is also referred to as investor income for the company as the basis for determining the share price. Firm value is influenced by high or low stock prices, and stock prices are influenced by many factors (Susanti & Restiana, 2018). The company will drive to provide an increase in the value of the company, which, when the company's value increases, will be followed by a maximum share value. The increasing share value indicates that the company has bright prospects and also indicates that the management is running the company well (Bernandhi, 2014).

The assessment of firm value is very useful for both external and internal parties to the company. Without knowing how the company is valued, it is quite difficult to assess the value of the company through its stock price. The value of the company has a relationship with the value of its shares, which fluctuates greatly as a result of the company's internal or external influences. This research is considered important because the value of the company has a direct impact on the company and shareholders; namely, the state of the company will be influenced by the value of the company, and there is also an impact on shareholders regarding the return on their investment. Tobin's Q ratio is used to measure the value of a company by combining its book value and market value. This ratio includes all elements of share capital and debt as a whole, not just equity; therefore, Tobin's Q is able to share very good information. The Tobin's Q ratio utilizes market expectations with financial indicators, which leads to freedom from corporate manipulation (Hasibuan & NP, 2016).

The company's capital structure can come from within the company, in the form of capital owner ownership and retained earnings, or outside the company, in the form of loans or debt. Determining the optimal capital structure target proportion between foreign capital, debt, and own capital is the main task of company management (Subing & Susiani, 2019). Foreign investors are increasingly investing their money in Indonesian companies due to the increasing opportunities for Indonesia's economic growth rate and support from free trade. Foreign ownership spread in many property, real estate, and construction industries in Indonesia is categorized into two categories: foreign ownership from the establishment of subsidiaries (ownership)

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and from investing in shares (trade). Firm value is considered to be enhanced through foreign ownership of companies in Indonesia. According to (Barkemeyer, 2007), the legitimacy advantage is seen from the origin, namely stakeholders based on the operating market that is able to provide high existence in the long term by multinational companies or foreign ownership (Novita & Djakman, 2008).

The survival of the company will be influenced by an increase in its value in the eyes of the public in relation to its ongoing existence. A company with good corporate performance is a positive signal for investors, so it can increase investor confidence. (Banamtuan & Zuhroh, 2020). Dividends, as an indicator of corporate performance measures, play an important role for Indonesian companies. Indonesian managers believe that dividends have a significant effect on firm value (Setiawan & Phua, 2013). An increase in firm value will increase the likelihood of higher dividend payments. It is expected that the alignment effect of ownership control will have a positive impact on dividend payments (Setiawan et al., 2022). Companies need to maintain their dividend policy on an ongoing basis so that investors can interpret the situation as a signal of the company's performance (Chosiah et al., 2019). Dividend policy, if the value is high, pays stock dividends, causing an increase in the value of the company that will increase share ownership (Resti et al., 2019).

Previous research on the effect of capital structure, foreign ownership, and dividend policy on firm value still produces different results (Setyabudi, 2018). Setyabudi provides an explanation where the firm value is positively and significantly influenced by the capital structure, while Jonardi (Jonardi, 2021) explains that the capital structure has a positive effect on the firm value (Shrivastav & Kalsie, 2017) provides a statement that firm value is not influenced by capital structure. Shrivastav & Kalsie's research found that foreign ownership affects firm value. Meanwhile, Sissandhy and Sudarno stated that foreign ownership has a negative effect on firm value (Sissandhy & Sudarno, 2014). Research on dividend policy by Wibowo revealed that firm value is influenced by dividend policy (Wibowo, 2016). Meanwhile, Pamungkas & Puspaningsih state that firm value is not influenced by dividend policy (Pamungkas & Puspaningsih, 2013).

Based on the theoretical studies and research results revealed earlier, it can be said that firm value still has to be studied further because the factors of capital structure, foreign ownership, and dividend policy do not fully provide confidence in their influence. Therefore, it is necessary to involve other variables as a control for their influence on firm value. Other variables under control are company growth, company size, debt-to-asset ratio (DAR), and return on capital (ROE). Company growth illustrates the sustainability of company performance, which will affect dividend policy and stock prices, so that it will affect company value. Company size describes the value of the company's assets, which will be influenced by the capital structure and foreign ownership so that it will ultimately affect the company's value. The ratio of debt to assets (DAR) will affect the capital structure and the cost of debt, which will affect the amount of corporate dividends, so that it will ultimately affect the value of the company. Likewise, the rate of return on capital (ROE) will affect foreign ownership and also the share price, so it will affect the value of the company. For this reason, the research question to be answered in this study is whether capital structure, foreign ownership, and dividend policy affect firm value by involving control variables in the form of firm growth, firm size, debt-to-asset ratio (DAR), and return on capital (ROE). The existence of control variables is expected to provide more clarity about the variables that affect firm value. The purpose of this study is to get a clear picture of how firm value is influenced by variables that contribute to or contribute to its increase.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The Effect of Capital Structure on Firm Value Information on a company's ability to fund and invest is provided through its capital structure. Debt, common stock, and preferred stock constitute a company's capital structure. The amount of debt tends to reduce the company's cost of capital, so that the optimal capital structure will be achieved. An increase in capital is expected to have a positive impact on firm value; all debt costs and bankruptcy costs are lower than the rate of return on investment (Yuliani, 2012). Putri et al. explained that the signal will be given by the company to investors through an increase in debt. It is hoped that investors will understand the signal because the company is confident in its future prospects (Putri et al., 2018). The right capital structure will affect the company's ability to create profits. If the company is able to use the optimal capital structure, then this will allow it to maximize profits. Empirical evidence shows that firm value is positively influenced by capital structure (Fama & French, 1998). However, there are different research results where the firm value is not influenced by the capital structure (Sujono et al., 2011). According to Sujono et al., debt financing conducted by companies in the Indonesian Capital Market has exceeded the optimal capital structure (Sujono et al., 2011). That is, bankruptcy costs and agency costs are greater than the benefits of tax savings. This explanation illustrates that firm value is influenced by the optimal capital structure. Based on the theoretical basis and previous research, a hypothesis formulation can be taken:

H1: Capital structure effect on firm value.

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The Effect of Foreign Ownership on Firm Value Foreign Direct Investment has a significant impact on Indonesia's economic growth and also contributes to companies in Indonesia. Companies with foreign ownership mostly carry out practices that are not specifically regulated in domestic regulations to make them more attractive to more people who invest (DiMaggio & Powell, 1983). Haniffa & Cooke revealed that foreign ownership means that there are foreign investors who enter, and their experience and influence will improve company performance (Haniffa & Cooke, 2005). Incoming investors will also have easy access to bank loans. In maximizing firm performance, an important theory has been taken into account: the allocation of productive assets, namely foreign capital ownership. This is because investor incentives have been influenced by foreign capital ownership in order to apply corporate resources. Capital ownership influences the profit sharing of foreign investment, the level of technology transfer, the level of investment, and the cost of capital (Priyanto & Qibthiyah, 2020). Sissandhy & Sudarno provide an explanation that, compared to portfolios with domestic stocks only, low-risk portfolios contain more domestic and foreign stocks (Sissandhy & Sudarno, 2014). Shareholders can consider this, which has a positive impact on company performance and company value. Therefore, it can be concluded that firm value is influenced by foreign ownership. Based on the theoretical basis and previous research, a hypothesis formulation can be drawn:

H2: Foreign Ownership Effects Firm Value.

The Effect of Dividend Policy on Firm Value The value of the company can be measured by the stock price. Hung et al. provide an explanation that there is an equation between maximizing stock prices and company value that is aligned with shareholder assets; therefore, the stock price is the benchmark for company value to improve the welfare of company owners (Hung et al., 2018). One of the most important ways for companies to increase share prices is through their dividend policy. This is because the decision to distribute dividends will be income for investors, while the decision to withhold dividends will be funding for the company (Jahfer & Mulafara, 2016). Since it is directly related to stakeholders and investors, dividend policy is considered an important policy that has a significant impact on stock prices in the capital market (Bilal & Jamil, 2015). Bilal & Jamil's research, utilizing a sample of Muscat Securities Market (MSM) industrial companies in Oman, successfully revealed that stock prices are positively influenced by dividend policy (Bilal & Jamil, 2015). In line with that, Farooq & Chetioui provide an explanation that firm value is influenced by the dividend payout ratio by utilizing the MENA research sample (Morocco, Egypt, Saudi Arabia, the United Arab Emirates, Jordan, Kuwait, and Bahrain) (Farooq & Chetioui, 2012). This is in line with the analysis of Hussainey et al. Dividend distribution is referred to as the company's effort to signal to investors that the company is in good condition and profitable. This illustrates that firm value is given a significant positive influence by dividend policy. Based on the theoretical basis and previous research, a hypothesis formulation can be taken:

H3: Dividend Policy Effects Firm Value.

III. RESEARCH METHODS

This study uses the panel data regression method by utilizing the Chow Test. Panel data regression is used because this research combines cross-sectional data and time series data. cross-sectional data in the form of data on the type of company group, namely property, developer, and construction. Time series data is in the form of continuous annual data, namely data from 2015–2018. The Chow test is used to determine the best model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM) in estimating panel data. This panel data regression adds four control variables, namely company growth, company size, DAR, and ROE. The regression equation is written as follows:

$$DPR_{i,t} = c + \beta 1 DER_{i,t} + \beta 2 FOREIGN_{i,t} + \beta 3 DPR_{i,t} + \beta 4 GROWTH_{i,t} + \beta 5 SIZE_{i,t} + \beta 6 DAR_{i,t} + \beta 7 ROE_{i,t}$$

The population in this study are companies engaged in property, developers, and construction listed on the Indonesia Stock Exchange in 2015–2018. The unit of analysis used is the type of company and the year of the financial statements. The sample was taken purposefully with the criteria of being active and having published its financial statements for the year. Based on these criteria, a sample of 140 was obtained. The data was collected from the company's financial report documents for 2015–2018. Data analysis uses panel data regression and the Chow test. Panel data regression is used to test the research hypothesis involving cross-sectional and time series data, while the Chow test is used to determine the right model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The panel data regression analysis and Chow test will produce a complete and clear analysis of the influence of the variables of Firm Value, Capital Structure, Foreign Ownership, Dividend Policy, Company Size, and Company Growth and their estimation.

IV. RESULTS AND DISCUSSION VARIABLE DESCRIPTION

The description of this research variable can be explained through the maximum value, standard deviation, and average. The results of the descriptive analysis of the variables in question can be presented in the following table: From the descriptive

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analysis results in Table 1, it can be explained that the company value as the dependent variable has an average value of 1.169679, meaning that the average value of property, real estate, and construction companies in Indonesia is quite good because it has an average value greater than 1. However, there are still some that are not good because there are those that have a value below 1, namely 0.118848. Capital structure as an independent variable using the DER measure shows an average of 3.441015. This indicates that the average debt owned by the company is greater than the equity owned by the company. This shows a bad situation because the debt exceeds the equity. The next variable, namely foreign ownership, has an average of 0.130658, meaning that real estate and property sector companies have a relatively small proportion of foreign shareholders in the company. The dividend policy variable has an average of 0.336997, indicating that dividend payments on Indonesian property and real estate companies are only 0.3% of the profits owned by the company. The control variable company growth in this study has a maximum value of 12.90825 and an average of 0.298267; the next control variable size has a maximum value of 34.79875 and an average of 28.62098. Then the DAR variable has a maximum value of 0.94000 and an average of 0.654, and the last control variable, ROE, has a maximum value of 73,100 and an average of 12,546. The existence of a negative minimum ROE value of -0.700 indicates that there are still companies that lose money. This is in line with the growth of the company, which also has a negative minimum value (-0.998).

Table 1. Results of Descriptive Analysis of Research Variables

	VALUE	DER	FOREIGN	DPR	GROWTH	SIZE	DAR	ROE
Mean	1.169679	3.441015	0.130658	0.336997	0.298267	28.62098	0.654000	12.54691
Median	1.062318	2.696211	0.097328	0.281944	0.108534	28.33736	0.700000	10.65500
Maximum	3.404679	14.91590	0.799320	1.206468	12.90825	34.79875	0.940000	73.10000
Minimum	0.118848	0.081047	0.003215	0.031881	-0.998735	23.65232	0.040000	-0.700000
Std. Dev.	0.523240	2.914723	0.116128	0.218160	1.506616	2.251502	0.197527	9.781161
Skewness	1.575496	1.639448	2.308798	1.281016	6.697873	0.354173	-1.009506	2.709203
Kurtosis	6.896690	6.323773	10.81220	4.354681	50.75847	3.429428	3.563876	14.42882

a) Panel Data Regression Model Determination

Test For the purpose of optimal hypothesis testing, a panel data regression model analysis was first conducted using three approaches: common effect (CE), fixed effect (FE), and random effect (RE). In choosing the most appropriate model, the Chow Test and Hausman Test were conducted. The Chow test is a test to compare which model is better between common effects and fixed effects. Hausman Test to test which model is better between fixed effect and random effect. The following are the comparison results of determining the panel data regression model, the results of which show that the best model is the Fixed effect.

Table 2. Comparison of Panel Data Regression Model Determination Test Results

Test Type	Decision Criteria	Test Result	Decision
Chow Test	If (Prob.) Cross-section $F > 0,05$, chosen CE. If (Prob.) Cross-section $F < 0,05$, Chosen FE.	(Prob.) Cross-section $F = 0.0000 < \alpha 0,05$	Chosen FE
Hausman Test	If (Prob.) Cross-section random $> 0,05$, Chosen RE. If (Prob.) Cross-section random $< 0,05$, Chosen FE.	(Prob.) Cross-section random = $0.0342 < \alpha 0,05$	Chosen FE

b) Analysis of Regression Results of the Fixed Effect Model

The results of panel data regression test analysis of independent variables (Capital Structure, Foreign Ownership, Dividend Policy, Company Growth, Company Size, Debt Ratio, and Return on Capital) on the dependent variable (Company Value) can be presented in the following table:

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Table 3. Results of Regression Analysis of Fixed Effect Panel Data Model (FEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.936150	0.635316	4.621560	0.0000
DER	-0.030819	0.051257	-0.601257	0.5491
FOREIGN	0.499668	0.400652	1.247136	0.2153
DPR	-0.109835	0.210529	-0.521710	0.6030
GROWTH	-0.000178	0.021666	-0.008222	0.9935
SIZE	-0.023398	0.017129	-1.366048	0.1751
DAR	-1.757188	0.813742	-2.159392	0.0333
ROE	0.010380	0.004511	2.301043	0.0235
R-squared	0.693935			
Adjusted R-squared	0.565888			
F-statistic	5.419362			
Prob(F-statistic)	0.000000			

From Table 3, it can be seen that the variables DER (Capital Structure), FOREIGN (Foreign Ownership), DPR (Dividend Policy), GROWTH (Company Growth), and SIZE (Company Size) have a probability coefficient > 0.05. This means that these variables do not have a significant effect on firm value. Different for other independent variables, namely DAR (Debt Ratio) and ROE (Return on Capital), which have a probability coefficient of 0.05, namely 0.033 and 0.023. This means that the variables of foreign ownership and capital structure (DAR) have a significant effect on firm value. However, the influence of the two variables is different; the Debt Ratio variable has a negative effect, while the Return on Capital variable has a positive effect. The initial variables, in the form of Capital Structure, Foreign Ownership, and Dividend policy, before being controlled with other variables, have different effects on Firm Value. The Capital Structure and Foreign Ownership variables have a significant effect, while the Dividend Policy variable does not have a significant effect. This is shown from the regression test results as follows:

Table 4. Results of Regression Analysis of the variables Capital Structure, Foreign Ownership, and Dividend Policy before Controlling Other Variables

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.116577	0.099988	11.16716	0.0000
DER	-0.044266	0.014448	-3.063898	0.0026
FOREIGN	1.047266	0.362395	2.889842	0.0045
DPR	0.203525	0.193160	1.053663	0.2939
R-squared	0.128379			
Adjusted R-squared	0.109152			
F-statistic	6.677054			
Prob(F-statistic)	0.000307			

c) F statistic test:

a test to show whether all the independent variables referred to in the model have a joint influence on the dependent variable (firm value). Based on the test results on the model before and after being controlled, it turns out that the F-statistic profitability is 0.000, which means it is smaller than the 5% significance level. This shows that the independent variables together have a significant effect on firm value, and the model is declared correct.

d) Adjusted R2 (R-squared) value:

The Adjusted R-squared value shows the ability of the independent variable to explain fluctuations in the dependent variable. The Adjusted R2 value of 0.565888, or 56.5888%, means that 56.5888% of the company value can be explained by variations in all independent variables, namely Capital Structure, Foreign Ownership, Dividend Policy, Company Growth, Company Size, Debt Ratio, and Return on Capital. While the remaining 100% (56.588% = 43.4112%) is explained by other factors outside the model. R-squared on three variables before controlling for other variables can only explain 10.9152%.

Hypothesis Test

Hypothesis testing is analyzed using the t statistical test or its probability, which will show how much influence one independent variable has, partially or individually, on the dependent variable (firm value). The magnitude of the influence of the independent variable on the dependent variable is indicated by the magnitude of the regression coefficient. The positive coefficient shows

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the influence in a straight line, while the negative coefficient shows the opposite influence. In the initial regression test, the Capital Structure and Foreign Ownership variables have a significant influence on firm value because the probability is <0.05 . It means that Hypothesis 1 (Capital Structure has a significant influence on Firm Value) is accepted. The amount of influence of the capital structure variable is -0.044266 , which means that one point increase in the debt-to-equity ratio will decrease the Firm Value by 0.044266 points or vice versa. For the Foreign Ownership variable, the probability is also <0.05 , meaning that Hypothesis 2 (Foreign Ownership has a significant effect on Firm Value) is accepted. The regression coefficient of the foreign ownership variable is 1.047266 , meaning that every one point increase in foreign ownership will increase the company value by 1.047266 points or vice versa. For the Dividend Policy variable, because the probability is >0.05 , it is stated that it has no significant effect on Firm Value, which means that hypothesis 3 (Dividend policy has a significant effect on Firm Value) is rejected.

V. DISCUSSION

The Effect of Capital Structure on Firm Value The capital structure variable measured by DER has a probability coefficient of 0.05 in the regression that does not involve a control variable, but after being controlled by other variables, the probability coefficient is >0.05 , which is 0.5491 . This shows that, in the presence of control variables, firm value is not given significant influence by capital structure. This is because funding is not the main concern of investors, but they are more interested in the company's ability to manage these funds and how they will add value to the company. Therefore, using funding sources, whether debt or capital, will not have an influence on changes in the value of the company (Pakekong et al., 2019). The results of this study are in line with Jonardi's analysis, which provides the statement that capital structure has no effect on firm value (Jonardi, 2021). Besides, capital structure is influenced by profitability (Triyono et al., 2019). Therefore, what influences Firm Value is Profitability (ROE) as the result of regression analysis of the fixed affect model, as stated by Firmansyah and Purnama, which proves that Profitability is proven to be able to moderate the influence of capital structure on firm value.

The Effect of Foreign Ownership on Firm Value Before being controlled by other variables, Foreign Ownership has a probability value of 0.0045 smaller than 0.05 , which means that foreign ownership has a positive influence on firm value. In maximizing company performance, asset allocation to foreign capital ownership has become an important theory. This is because the application of the company's input resources has been influenced by foreign capital ownership. Capital ownership influences the profit sharing of foreign investment, the level of technology transfer, the level of investment, and the cost of capital (Priyanto & Qibthiyah, 2020). The results of this study are in line with the analysis of Shrivastav & Kalsie, where the value of the company is influenced by foreign ownership (Shrivastav & Kalsie, 2017). However, after including the control variable, it turns out that foreign ownership does not significantly affect the value of the company because the probability is $0.2153 > 0.05$. This insignificant result is in accordance with the results of Firmansyah and Purnama's research, which concluded that derivative instruments do not affect firm value (Firmansyah & Purnama, 2020). This means that foreigners who have ownership through derivative instruments of a company will not affect the value of the company.

The Effect of Dividend Policy on Firm Value The dividend policy variable measured through the Dividend Payout Ratio has a probability value of 0.2939 before controlling for other variables and 0.6030 after controlling for other variables. Both are greater than 0.05 , which means that it shows that dividend policy does not have a significant effect on firm value. Such results are in line with Ghosh et al.'s explanation that firm value is not influenced by dividend payment policy (Ghosh et al., n.d.). This is because, when compared to the dividend payment policy, the company's future performance is quite varied. This fact reinforces the fact that dividend policy has no influence on firm value in the IDX. In our assessment, firm value is no longer contributed by dividend policy. The results of this study are in line with the analysis of Pamungkas and Puspaningsih, where the company value is not influenced by dividend policy (Pamungkas & Puspaningsih, 2013).

VI. CONCLUSION

Based on the research results and discussion, it can be concluded that before involving control variables consisting of Company Growth, Company Size, Debt Ratio, and Return on Capital, the Capital Structure and Foreign Ownership variables have a significant effect on firm value because the probability is <0.05 , while the dividend policy variable, because the probability is >0.05 , is stated to have no significant effect on Firm Value. After involving control variables in the regression analysis of the Fixed Effect model, all initial variables have no significant effect. The variables that have a significant effect are precisely the control variables, namely the Debt Ratio variable and the Return on capital, which have probability coefficients <0.05 , namely 0.033 and 0.023 . However, the effect of the two variables is different; the Debt Ratio variable has a negative effect, while the Return on Capital variable has a positive effect. This study has limitations in the number of variables used to measure firm value and the IDX company sector. The observation time span used is also still short, at only 4 years. Suggestions for future researchers include

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adding management factors in the company, such as Enterprise risk Management variables, and also adding a longer research time and adding to the observation of the company sector on the IDX.

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