

The Impact of Firm Size, Capital Structure, And Dividend Policy On Enterprise Value

by Dian Indri

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⁴ The Impact of Firm Size, Capital Structure, And Dividend Policy On Enterprise Value

(A Case Study of Companies in Hotel, Restaurant and Tourism Business listed on the Indonesia Stock Exchange during the Covid-19 Pandemic)

Dian Indri Purnamasari, Muthia Riza Fauziah

Universitas Pembangunan Nasional "Veteran" Yogyakarta

E-mail: dian_indri@upnyk.ac.id

ABSTRACT

² The present study aims to obtain empirical evidence for the impact of firm size, capital structure and dividend policy on the enterprise value of hotel, restaurant, and tourism companies listed on the Indonesia Stock Exchange (ISE) for the years 2019-2020. The data used in this research are ¹ secondary data obtained from companies' annual reports. The study population comprised of hotel, restaurant, and tourism companies listed on ISE for the years 2019-2020. The sample consists of 24 hotel, restaurant, and tourism companies listed on BEI for the years 2019-2020 and selected using a purposive sampling technique. The study used a multiple linear regression analysis. The results suggested that firm size, capital structure, and dividend policy have no impact on the enterprise value of hotel, restaurant, and tourism companies listed on BEI for the years 2019-2020.

Keywords: Firm size, capital structure, dividend policy, enterprise value, hotel, restaurant, tourism.

1. INTRODUCTION

Indonesia's economic growth rate is affected by several factors, one of which is the country's natural resources. Abundant natural resources can support economic growth and development in Indonesia and there will be many parties who can benefit from it. Natural resources utilization can take the form of land management for the purpose of starting a business in tourism sector. Several companies that manage tourism destinations in Indonesia are listed on the Indonesia Stock Exchange in order to get capital from investors. Not a few investors are interested in investing their money in this sector. Based on the Ministry of Tourism Performance Report for 2018, tourism sector contributed 5.25 percent to Gross Domestic Product and has been increasing annually. This has been possible because of other supporting sectors such as hotels and restaurants. In addition, tourism also provides jobs for many people and therefore reduces poverty and crime rates. However, tourism is one of the sectors affected by the Covid-19

pandemic so badly that all tourism related activities have been suspended to prevent the spread of Covid-19.

This study refers to earlier work by Rachmawati & Pinem (2015) assessing the Impact of Profitability, Leverage and Firm Size on Enterprise Value. This study differs from previous studies in that the former combined the variables used in the latter, such as firm size, capital structure, and dividend policy for the independent variables, and enterprise value for the dependent variable. Also, the scope of this study is focused more on hotel, restaurant and tourism companies listed on ISE for the years of 2019-2020. Over these years, Covid-19 pandemic has caused some companies to suspend their operation, especially hotel, restaurant, and tourism. For the previously mentioned reasons, this study aims to determine whether company size, capital structure and dividend policy have an impact on the enterprise value of hotel, restaurant, and tourism companies listed on the Indonesia Stock Exchange (ISE) for the period of 2019-2020.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Enterprise Value

Enterprise value illustrates the condition of a company toward which potential investors can make assessment based on the company's financial performance (Mardiyati, 2015). Enterprise value is frequently related to a company's stock price and this can serve as the indicator of the company's success (Sujoko, 2018). To obtain a maximum profit or revenue is one of the main goals of a company. Larger amount of profit yields higher dividend paid regularly by a company to its shareholders. This will convince many potential investors to invest their money in the company. If the number of investors who bought a company share continues to increase, the enterprise value of that company will increase accordingly. Cooperation between company management and other parties such as shareholders and stakeholders is needed to increase enterprise value by making financial decisions that optimize working capital (Sukirni, 2012).

Firm Size

The size of a company represents its proportion as seen from the total asset, amount of sales, total sales, and average total asset (Nuraina, 2012). Firm size is the average net sales of a company for a certain period (Brigham et al., 2006). The present study

adopted total asset as the indicator of firm size (Angraini & MY, 2019). The performance of a company is measured using several indicators, one of which is firm size. A large firm size indicates a company's performance in achieving a high volume of sales (Sitanggang, 2013). This has also been made possible by highly committed management of the company. The company, therefore, will attract potential investors to invest their money and convince them that they will get a substantial return on investment. This statement confirms previous works by Rachmawati and Pinem (2015) and Rahmawati (2015) stating that firm size has an impact on enterprise value. Based on the above descriptions, the research hypothesis can be formulated as follows:

H₁: Firm size has an impact on enterprise value

Capital Structure

Capital structure is represented by a comparison between a company's long-term funding or long-term debt and its own capital (Harjito & Martono, 2013). The company's funding needs are met from its own capital sources such as share capital, retained earnings, and reserves (Meidiawati & Mildawati, 2016). Most companies with development boards require a large scale cash injection from external parties to increase the capacity of their business operation (Dhani & Utama, 2017). With a large scale cash at their disposal, it will be easier for a company to improve its performance and to make more profit. This in turn will increase the company's stock price and enterprise value. The statements mentioned above confirm previous works by Mirad & Budi (2020) and Meidiawati & Mildawati (2016). All these prove that capital structure has an impact on enterprise value. Thus, the research hypothesis can be formulated as follows:

H₂: Capital structure has an impact on enterprise value

Dividend Policy

Dividend policy serves a critical role in explaining enterprise value. Dividend policy is concerned with the decision of whether the year-end company profit will be paid out to shareholder in cash dividend in the present or retained for later payment in order to increase the capital for future investment (Martono & Harjito, 2002: 253). Share price can be affected by information on the dividend paid out by a company

to shareholders. For prospective investors, the amount of dividend paid to shareholders can serve as an indicator of company performance (Mardiyati, 2015). A well-planned dividend policy can create a balance between the amount of present dividend and a company's future growth and is expected to improve the company's stock price and enterprise value (Brigham et al., 2006). This is in line with a previous study by Triani & Tarmidi (2019) stating that dividend policy has an impact on enterprise value. Thus, the research hypothesis can be formulated as follows:

H₃: Dividend policy has an impact on enterprise value

Conceptual Framework

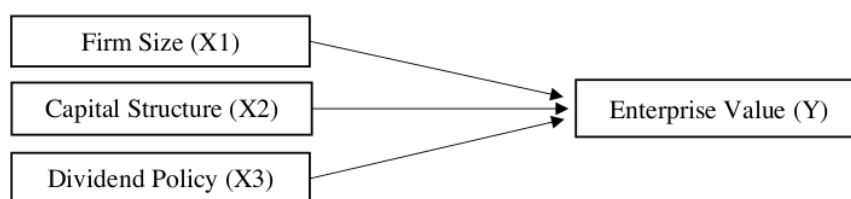


Figure 2.1 Conceptual Framework

As the Figure 2.1 suggests, the dependent variable in this study is enterprise value (Y), while the independent variables are firm size (X1), capital structure (X2), and dividend policy (X3).

3. METHODS

The study population consists of hotel, restaurant, and tourism companies listed on the Indonesia Stock Exchange (ISE) for the years 2019-2020. The sample comprised of 24 companies that operate in hotel, restaurant and tourism business listed on the Indonesia Stock Exchange (ISE) for the years 2019-2020. To select sample we used a purposive sampling technique, which is a sampling technique based on certain consideration and criteria. The criteria include companies operate in hotel, restaurant, and tourism business listed on the Indonesia Stock Exchange for the years 2019-2020, companies operate in hotel, restaurant, and tourism business that publish their annual financial reports from 2019 to 2020 consecutively, and companies in hotel, restaurant, and tourism business that provide complete data necessary for this study.

Variables and Indicators of Variable Measurement

1) Firm Size (X₁)

According to Riyanto (1994), firm size is represented in the total asset, amount of sales, average sales, and average total assets. We used a ratio scale of the natural log of total assets as firm size measure.

2) Capital Structure (X₂)

The ratio of a company's loan capital (debt) to the value of its common stock (equity) represents the company's capital structure (Apriada & Suardikha, 2016). In this study the capital structure is measured using Debt to Equity Ratio (DER), i.e a financial ratio indicating the relative proportion of a company's total debt and total capital.

3) Dividend Policy (X₃)

Dividend policy is concerned with the decision of whether the company profit will be paid to shareholder in cash dividend in the present or retained for the interest of the company (Brigham et al., 2005). In this study, the dividend policy is proxied using dummy.

4) Enterprise Value (Y)

Investors view a company's success based on the firm value it gets from managing its resources optimally. Maximizing a company's asset value is the main purpose of establishing a company (Salvatore, 2005). The enterprise value in this study is measured using the price-to-book value (PBV) ratio.

4. RESULTS AND DISCUSSION

Population in this study use annual financial report of companies operating in hotel, restaurant, and tourism business listed on the official site of Indonesia Stock Exchange (www.idx.co.id) for the years 2019-2020. The number of companies operating in hotel, restaurant, and tourism business listed on the Indonesia Stock Exchange during the research period is 35. The sample selection was conducted using a purposive sampling technique, i.e. a subjective sampling based on certain criteria and the researchers judgment. Based on the criteria used for this research, 24 companies were considered eligible with 45 financial reports in total.

4.1 Multiple Linear Regression Analysis

Table 4.1

The Results of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	12.840	7.253		1.770	.084
1 Firm Size	-.391	.260	-.227	-1.502	.141
Capital Structure	.005	.006	.125	.824	.415
Dummy Dividend Policy	-.922	1.185	-.117	-.778	.441

Source: Processed data, 2021.

Based on the results presented in Table 4.1, the equation for multiple linear regression can be written as follows:

$$\text{Firm Value} = 12,840 - 0,391UP + 0,005SM - 0,922KD$$

From the results of the t-test presented above, it can be stated that firm size has a significance value of $0.141 \geq 0.05$, capital structure has a significance value of $0.415 \geq 0.05$, and dividend policy has a significance value of $0.441 \geq 0.05$. This indicates that firm size, capital structure, and dividend policy have no impact on enterprise value.

4.2 The Impact of Firm Size on Enterprise Value

The partial test (t-test) of the impact of firm size on enterprise value indicates a significance value of $0.141 \geq 0.05$. From this, it can be stated that firm size has no impact on enterprise value. This means that firm size cannot serve as a reference for investors to make their investment decision in a company. In large companies, the manager will try to optimize its managing capacity in order to increase the enterprise value. In small companies with a relatively inconsiderable amount of invested money, however, the profit can be optimized. Companies with large total asset do not necessarily deliver a high return to investors because their current assets mostly consist of receivables and inventories.

The results of this study confirmed those of Meidiawati and Mildawati (2016) that studied manufacturing companies listed on the ISE for the years 2012-2014 and

Anggraini and Siska (2019) that studied companies in hotel, restaurant, and tourism business listed on the ISE for the years 2015-2017, stating that firm size has no impact on enterprise value. However, the results run counter to those of Rachmawati & Pinem (2015) stating that firm size has an impact on enterprise value.

4.3 The Impact of Capital Structure on Enterprise Value

The partial test (t-test) of the impact of capital structure on enterprise value resulted in a significance value of $0,415 \geq 0,05$. From this it can be stated that capital structure has no impact on enterprise value. This means that potential investors will not give much consideration to capital structure in their investment decision. A company with a large capital structure bears a great responsibility for the payment of the return of capital to debtholders. This is because the capital obtained from loan is the funding that must be repaid with interest to the debtholders. The debt burden will have the impact of declining the company profit and, therefore, the investor perception of the company. The decline in investor perception of the company will also affect the enterprise value (Fauzi & Aji, 2018).

The results of this study confirmed the those in previous study by Dhani and Utama (2017) of manufacturing companies listed on the ISE for the years 2013-2015 and Anggraini and Siska (2019) of companies operating in hotel, restaurant, and tourism business listed on the ISE for the years 2015-2017, stating that capital structure has no impact on enterprise value. However, the results run contrary to those of previous study by Meidiawati and Mildawati (2016) stating that capital structure has an impact on enterprise value.

4.4 The Impact of Dividend Policy on Enterprise Value

The results of partial test (t-test) revealed that the impact of dividend policy on enterprise value has a significance value of $0.441 \geq 0.05$ which indicates that dividend policy has no impact on enterprise value. This is in line with Modigliani and Miller who proposed that enterprise value is not defined by the amount of dividend, but rather by net profit before tax and company risk. Thus, both the increase and decrease in dividend per share will have no impact on enterprise value. Dividend is considered only as complementary and does not affect the welfare of shareholders.

Also, dividend policy does not affect enterprise value because shareholders focus more on short term profit and capital gain. Investors considered stock dividend as being small and less profitable than the capital gain in future years (Kusumastuti & Dyah, 2013).

The results confirmed those of earlier studies by Meidiawati and Mildawati (2016) of manufacturing companies listed on ISE for the years 2012-2014 and by Anita and Yulianto (2016) of manufacturing companies listed on ISE for the years 2010-2013, stating that dividend policy has no impact on enterprise value. However, the findings run contrary to previous study by Triani and Tarmidi (2019) of property and real estate companies listed on the ISE for the years 2013-2016, stating that dividend policy has a significant impact on enterprise value.

The findings might have been affected by the fact that the period was too short to determine the impact of Covid-19 pandemic on companies operating in hotel, restaurant, and tourism business. It is highly likely that this impact will be reflected in the financial statements published after 2020 in case the pandemic will last for a longer time.

5. CONCLUSION

The results and discussion presented in earlier section lead us to the conclusion that firm size, capital structure, and dividend policy have no impact on the enterprise value of companies in hotel, restaurant, and tourism business listed on the Indonesia Stock Exchange for the years 2019-2020.

We have found in this study some limitations such as the existence of outlier in the data and some extreme data must, therefore, be removed. Thus, the amount of data used in this study is very limited. However, this problem can be solved by changing the formula for the variables and sorting out every single outlier, starting from the most extreme data in order to avoid removing too much data. In addition, the study has Adjusted R-Square value of 0.035 or 3.5% which means that the independent variables have only 3.5% impact on enterprise value and the rest 96.5% came from other factors not included in the study. Thus, it can be concluded that the independent variables in this study have a quite limited capability to explain the dependent variable. We recommend that future researches explore more

information concerning related factors not included in this study yet potentially affecting the enterprise value.

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