CHAPTER I

INTRODUCTION

A. Research Background

The establishment of the firm is based on clear objectives, including the achievement of maximum profits, the welfare of owners or shareholders, and the maximization of firm value (Harjito & Martono, 2005) in (Dj, Artini, & Suarjaya, 2012). Some of these objectives are not very different but depend on different emphases of the firm from one another. In a firm, firm value is considered an important factor to build trust and as a benchmark for investors on the performance of a firm that has gone through a long process of the activity.

The increase in firm value is a signal that shows that the firm is experiencing success in running its business. This is because high firm value increases the welfare of shareholders (Rosada & Idayati, 2017). This can motivate each company to try to increase its firm value.

According to Gustian & Dani (2017), one form of firm value can be seen from its ability to distribute dividends to shareholders. Dividends are part of the company's profits given to shareholders in return for approval to invest in the firm (Rudianto, 2009). Dividend policy is an important decision because dividends can affect share prices. The higher the level of dividends paid, the stock price tends to increase so that the firm value will increase (Harjito & Martono, 2005). In terms of investors or shareholders, dividends are a source of income that can be obtained in addition to capital gains.

Dividend policy will involve two parties who have different interests, namely shareholders and the firm's management. Sometimes dividend policies create a management dilemma of whether to pay large, small, or even no sums to save as a future investment. This happens because management needs to meet the needs of shareholders. For example, suppose shareholders want high dividends as a profitable investment opportunity. However, on the other hand, shareholders choose not to receive dividends or as retained earnings to be reinvested in the company for the future. According to Wijaya & Wibawa (2010), investors prefer dividends over capital gains because the dividend value to be received now will have a higher value than the capital gain that will be received later. Based on Indonesian law, a firm may only distribute dividends if it has a positive profit balance following Article 71 paragraphs 2 and 3 of Law Number 40 of 2007 concerning Limited Liability Companies ("UUPT").

Based on this, the firm's management's decision to determine a dividend policy will have a positive or negative impact on its share price. Therefore, the management of a firm that deals with various shareholders cannot predict how the policy will affect the share price of its firm.

Several previous studies on the effect of dividend policy on firm value reveal different opinions. Among them are the theories put forward by Modigliani and Miller (1961), which state that dividend policy is irrelevant in increasing or decreasing firm value. Likewise, research conducted by Husain et al. (2020), Paminto, Setyadi, & Sinaga (2016) state that dividend policy does not affect firm value. This argument contradicts the theory put forward by Lintner, 1962 and Gordon (1963) regarding the bird in the hand theory, which states that dividend policy is related to firm value and is followed by other studies such as Anton SG (2016), Sumiati et al. (2019), and Alenazi & Barbour (2019) state that dividend policy has a significant positive effect on firm value so that this becomes a long puzzle.

Based on the description of the phenomenon and the research gap described, encouraging the author to conduct a study entitled "THE IMPACT OF DIVIDEND POLICY ON FIRM VALUE EVIDENCE FROM INDONESIAN MANUFACTURE COMPANIES 2015-2018". This is a study using manufacturing companies listed on the Indonesia Stock Exchange as a population. Manufacturing companies reflect the national economy's growth and development and business and sectors with high business complexity. The manufacturing companies' population will then be selected using specific criteria or purposive sampling as the research sample. This research replications a study conducted by Anton, S. G. (2016) on "The Impact Of Dividend Policy On Firm Value. A Panel

Data Analysis Of Romanian Listed Firms". This study develops and tests the dividend policy's impact on firm value using Leverage, Firm size, Profitability, Liquidity as control variables on firm value. The study used panel data from 2001-2011.

B. Formulation of Research Problem

From the research background that has been taken, the research problem is:

1. Does the dividend policy affect on the firm value in Indonesian manufacture companies?

C. Research Objectives

Based on the background and the research problem, the research objectives is:

1. To find out the effect of dividend policy on the firm value in Indonesian manufacture companies

D. Research Benefits

The benefits that can be obtained from the results of this study are as follows:

1. Theoretically

It is expected to develop or explain knowledge related to the factors that affect firm value and can also be a reference source for any party who will conduct further research on firm value and can add to the bibliography.

2. Practically
    a. For the writers, it is expected to increase knowledge about dividend policy's effect on firm value.
    b. For the firm’s management, it is likely to contribute to the firm in improving the firm’s performance related to firm value to become information material related to decisions.
    c. For investors, it is expected to contribute to investors by increasing knowledge and references about the factors that affect the firm’s value so that they can be considered before investing.