

**THE EFFECT OF MARKET RISK AND FUNDAMENTAL RISK ON COMPANY VALUE
WITH DIVIDEND EFFECTIVENESS BASED ON OPTIMIZATION OF PROFITS AS
MODERATOR**

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ABSTRACT

This study aims to determine the effect of market risk and fundamental risk on firm value with Dividend Effectiveness based on Profit Optimization as a moderator for Blue Chip companies in Indonesia for the 2014-2019 period. This research used Market Book Ratio explanatory variables to measure the firm value, as well as the main variables consisting of market risk as measured by market ratios consisting of Price Earning Ratio and fundamental risk as measured by fundamental ratios consisting of Debt Equity Ratio and Net Profit Margin, as well as novelty in the form of dividend effectiveness variables based on profit optimization as moderation. Testing data using smart PLS for panel data as much as 90 data obtained during the study period. An increase in debt (DER) will have an impact on the dividend distribution policy so that profits are not optimal, when profits are not optimal, then the company's signal indicates that the company's performance is also not good so that it has an impact on the decline in the value of the company (MBR). Meanwhile, a large Net Profit Margin indicates that the company's operations are running smoothly and have good financial performance but do not affect firm value. The next finding is that the effectiveness of dividends based on earnings optimization can be said to be a variable that has the potential to become a moderating variable in moderating. An increase in profits reflects the company's achievements so that it can improve the company's image and value. The results of this study can contribute to an indicator of investment made by investors. Also, the historical data obtained in this study can be used as an explanation to increase the company's book value in future periods. The main contribution in this research is the new findings of the variable dividend effectiveness resulting in profit optimization which can act as a moderator to increase firm value.

Keywords: Market Book Ratio, Price Earning Ratio, Debt Equity Ratio, Net Profit Margin, Effectiveness of dividends based on profit optimization

INTRODUCTION

Every company needs funding both internally and externally. External funding will be needed if internal funding is not sufficient for financing day-to-day operations. The balance of funding can facilitate the company's operational activities, both those that are carried out routinely or those that are carried out on a rhythmic basis or have a tempo. The smooth operation of the company can make the company financially healthy so that it leads to optimal company value. Optimal company value is needed for the company because it can reflect the level of achievement or financial performance of the company during one period. A good company value can be used as an indicator by investors in carrying out investment activities or reinvesting into the company. One of the company's judgments that are no less important is the book value approach as measured by the Market to Book Ratio (MBR). The value of MBR can be seen in the company's financial statements, therefore companies are required to make financial reports accurately and reliably because the information contained in financial reports is very useful in creating market relations, especially for investors. Fama and French (1992) in Ltaifa (2016) explain that the risk factor approach is multidimensional and financial, meaning that it is financially measurable using a market approach, looking at company size and market to book ratio to assess companies.

Market to Book Ratio (MBR) is a ratio used to see the company value from the relationship between stock value and book value. If the market value is greater than the book value, it shows the company's performance is running smoothly (Astuti, 2018). Brigham and Joela (2011) explain the determining factors for the fluctuation of the Market to Book Ratio, several factors can be seen fundamentally or by calculating the market ratios to be faced. The first thing can be seen from the debt policy which is proxied by the Debt to Equity Ratio (DER). The debt policy relates to insufficient internal funding within the company, so that debt policy can be said to be a process of using at a fixed cost for shares.

The company's hope is to create high corporate value because high company value indicates an increase or increase in the price of shares owned. If the stock price is high, the company can create prosperity for shareholders and it can also be profitable for the company because high share prices signal that the company is in a good financial condition so that it can attract investors to invest by buying these shares. One of the public stocks in Indonesia with the best share price offering is Blue Chip stock.

Blue Chip shares are the leading stocks of companies that have large capitalization with large profit growth rates and have a good reputation. Big profits are of course the hope of investors and a foundation for the company in the welfare of shareholders. Common stocks that are classified as Blue Chip usually have products that have become leaders in their respective industries. This means that these products are well known to the public and of course investors and potential investors. Therefore, in addition to large capitals and good corporate value, stocks that are classified as Blue Chip will of course also produce a large return (Penman, 2008).

Research related to firm value has been carried out by several researchers, including one conducted by Devianasari (2015) which states that PER has an insignificant negative effect on firm value, this means that if PER increases, the company value decreases, which indicates that the company is in a poor financial condition. On the other hand, Nopiyanti (2016) states that PER has a positive effect on firm value. By knowing the PER value, an investor or potential investor can analyse whether the stock price at that time was a reasonable price or vice versa, Azizah (2015) states that NPM has a significant positive effect on firm value. In line with research conducted by Dzulfkar (2018) that NPM has a significant positive effect on firm value. Astuti (2018) states that debt proxied by the Debt-to-Equity Ratio has an effect but is not significant on company value as measured by Market to book Ratio. Baker and Wurgles (2002) besides (Liu, 2009) state that there is a negative relationship between the debt ratio and the market to book ratio. Albanez & de Lima (2014) stated that debt has a significant positive effect on firm value, indicating that the increase in debt is in line with the level of profit received, assuming that there is no bad debt. This is by the theory of Brigham (2010) in Laiho (2011) which states that financing decisions are in line with the risk and rate of return that will be received, if the use of debt is high, the rate of return received will also be high so that it can increase company value.

The purpose of this study was to determine the effect of market risk and fundamental risk on firm value with Dividend Effectiveness based on Profit Optimization as moderation in Blue Chip companies in Indonesia by using Market Book Ratio explanatory variables to measure firm value, as well as the main variables consisting of Market risk is measured by market ratios consisting of Price Earning Ratio and fundamental risk which is measured by fundamental ratios consisting of Debt Equity Ratio and Net Profit Margin.

THEORETICAL FRAMEWORKS

Agency Theory

An agency relationship arises when there is a separation of ownership control and differences in interests between agent and owner as well as related information received by the owner (Shubi in Agarwal, 2014). When the agent as the manager has more and much better information than the owner regarding the conditions that occur within the company. This difference has the potential to cause conflict between the two.

Signalling Theory

The company provides a signal in the form of an annual report which contains the company's financial information for a certain period (Karasek, 2015). The key element of Signalling Theory

is the signalling or management within the company (Taj, 2016). Management has far better information than anyone regarding the company's financial condition. The information contained in the company's financial statements provides a signal to both owners and investors. After obtaining personal information regarding the condition of the company, the management as the decision-maker can announce or not regarding the information it receives. This information contains positive and negative signals depending on the news delivered to the public. The signal can be used as a clue or a signal about the company's current condition.

Pecking Order Theory

Pecking Order Theory explains that company funding is by following with urgency and preference. This means that internal funding is carried out first, if it is not possible then it can take funding from outside the company (Zhao, 2004). Suppose shares and financing from debt. It is almost certain that every company will need funding and use external funding through debt. Funding from high debt can hinder the achievement of company performance, the more debt used in the company's international funding can reduce the value of the company.

Market to Book Ratio (MBR)

Firm value can be interpreted as a market value because it relates to the interests of management as a manager for the welfare of shareholders. The company value can be optimal if operational management is carried out optimally. Firm value can be measured through the Market to Book Ratio (Cordeiro da Cunha Araújo & André Veras Machado, 2018). The risk factor approach assumes that risks can be obtained from systematic management and risks that are not covered by CAPM. Fama and French (1992) in (Cordeiro da Cunha Araújo & André Veras Machado, 2018) develop a three-factor model through market factors, company size, and book to market ratio (Billing, 2001). The perspective developed related to the interpretation of the empirical relationship between market value and average stock returns unidirectional. The greater the market value, the greater the expected rate of return so that the company value will also increase. The MBR ratio has a more persistent rate of return in the future. Unexpected profits are obtained from a book value that is greater than its market value (Beaver, 2000).

Price Earning Ratio (PER)

The company's development and growth indicators can be seen through the PER ratio. Earning earned reflects real profit. Managers are directly involved in earning management (Chang, Liang, & Yu, 2019). Earning management or earnings management capabilities are used by companies in estimating stock price analysis to increase company performance. The higher the PER value indicates that the company's stock price is also increasing so that it provides information that the company's value is in good condition and is maintained, it is not wrong if investors or potential investors invest their funds in the company. So that the hypothesis that can be submitted is:

H₁: PER has a positive effect on firm value (MBR)

Net Profit Margin (NPM)

The company's ability to generate net income can be seen from the balanced composition of the NPM ratio, a high NPM indicates that the company has good achievements in terms of performance and company value. So that the hypothesis that can be submitted is:

H₂: NPM has a positive effect on firm value (MBR)

Debt to Equity Ratio (DER)

It is almost certain that every company will need funding and use external funding through debt. Funding policy through debt must be managed wisely. Funding from debt can add to the burden of obligations that must be borne but can be used as a deduction from the tax burden due to the imposition of interest on the debt. Funding from high debt can reduce the company's financial performance so that it also has an impact on the decline in the value of the company with the conclusion that there is no bad debt. So that the hypothesis that can be submitted is:

H₃: DER has a negative effect on firm value (MBR)

The Effectiveness of Dividends Based on Profit Optimization (EDBOL)

Investors can know in advance whether dividends will be paid for these shares before the ex-dividend date (Koo, 2020). And management ensures the distribution of dividends by following the proportion of ownership of each investor. Effectiveness refers to the ability of management to choose specific goals. Dividend effectiveness is related to management's ability to manage dividend distribution to shareholders by following the proportion of ownership they have. Optimal profit is the level of achievement of the company related to the rate of return of profits, which is limited by the amount of the cost that must be incurred due to the use of limited costs and resources. Meanwhile, the effectiveness of dividends based on profit optimization can be interpreted as the ability of management to manage the distribution of dividends based on the achievement of the level of profit that the company receives by minimizing the costs incurred to obtain these benefits.

METHOD

Data Collection

The object of this research is the companies that are members of Blue Chip shares in Indonesia for the period 2014-2019. The technique in selecting the sample used purposive sampling technique with the criteria of the Blue Chip company that was not delisted during the study period and provided complete financial report data.

Models and variables

$$\text{Market to Book Ratio} = \frac{\text{share price}}{\text{Book value per share}}$$

$$\text{Price Earnings Ratio} = \frac{\text{share price}}{\text{earning per share}}$$

$$\text{Net Profit Margin} = \frac{\text{net profit after tax}}{\text{sales}}$$

$$\text{Debt to Equity Ratio} = \frac{\text{total debt}}{\text{total equity}}$$

Effectiveness of Dividend Based on Profit Optimization (EDBOL)

$$\text{Dividend policy} = \frac{\text{total dividends distributed}}{\text{net income}}$$

$$\text{Profit optimization} = \frac{\text{net income}}{\text{total assets}}$$

$$\begin{aligned} \text{EDBOL} &= \text{dividend policy} \times \text{profit optimization} \\ &= \frac{\text{total dividend distributed}}{\text{net income}} \times \frac{\text{net income}}{\text{total assets}} \\ &= \frac{\text{dividend distributed}}{\text{total assets}} \end{aligned}$$

FINDINGS AND DISCUSSION

Validity Test

The validity test is used to test whether a measured parameter is valid for use in a study. The results of data validity testing, 4 variables that meet the criteria as shown in Figure 2 below:

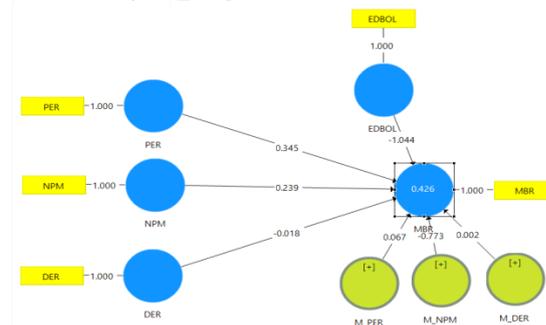


Figure 1. Outer Model
Source: processed secondary data

Reliability Test with Composite Reliability

A reliability test is used to determine the consistency of measuring instruments in a study. The reliability test in this study is by looking at the results of the data processing values contained in the Composite Reliability value are as follows:

Table 1
Composite Variable

Variable	Composite Reliability
PER	1.000
NPM	1.000
DER	1.000
MBR	1.000
EDBOL	1.000

Source: processed secondary data

From the measurement results of table 1 above, all variables have a composite reliability value > 0.8, meaning that all independent variables are eligible to be tested variables to determine their effect on the dependent variable.

Inner Model

Inner model test results in this study use the independent variable R-square benchmark. The inner model measurement results with PLS are as follows:

Table 2. R Square

	R Square	Adjusted R Square
Y	0,426	0,377

Source: processed secondary data

From table 2 above, it can be explained that the influence of the dependent variable PER, NPM, and DER gives a value of 0.426 or 42.6 percent which can be explained by the independent variable. While the remaining 57.4 percent is explained by other variables not included in this study.

Testing with PLS Bootstrapping

Hypothesis testing

In hypothesis testing, the value to be analysed is the value contained in the t-statistic generated from the PLS output from secondary data that has been processed with testing criteria with a significance level (α) of 5 percent, where if the t-statistic value is below the value of the significance level (α) 5 percent then the hypothesis is accepted, on the other hand, if the t-statistical value is above the significance level value (α) 5 percent then the hypothesis is rejected. Testing the hypothesis in this study by looking at the PLS bootstrapping results to test the research hypothesis, as follows:

Table 3
Hypothesis Testing

Variable	T-statistics	Information
PER → MBR	0,874	Rejected
NPM → MBR	0,829	Rejected
DER → MBR	0,04	Accepted

Source: processed secondary data

From the results of the hypothesis test in Table 3 above, it can be seen that the PER variable is 0.874 and has no effect on the MBR (firm value). The higher the PER value indicates that the company's stock price is increasing so that it provides company information that is in good condition and maintained, but does not affect firm value. So the hypothesis which states that PER affects MBR is rejected.

The value of the NPM variable is 0.829 and does not affect the MBR (company value). A high NPM indicates that the company has good achievements in terms of performance. Increasing performance does not increase the firm value or does not affect firm value. So, the hypothesis which states that NPM has an effect on MBR is rejected.

Meanwhile, the DER value is 0.040. The greater the funding from debt used in financing the company's operations, the more it can reduce the company's financial performance which will also have an impact on the decline in company value so the hypothesis that DER affects MBR is accepted.

The following is an image of the results of bootstrapping using PLS to determine the t-statistic value in the hypothesis test, which is as follows:

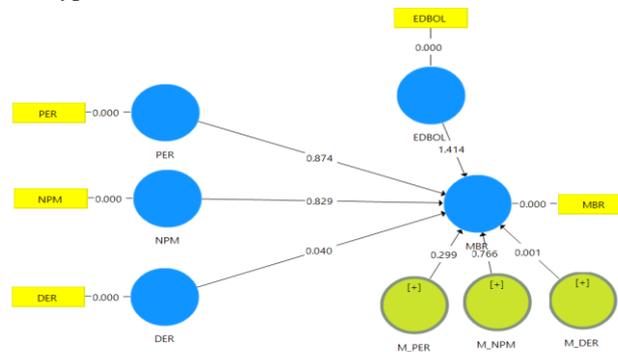


Figure 2. Bootstrapping PLS
Source: processed secondary data

Moderation Test

Table 4
Moderation Test

Variable	Original Sample	T-statistic	P-Value	Information
DER→MBR	-0,018	0,04	0,008	Accepted
EDBOL→MBR	-1,044	1,414	0,158	Rejected
M_DER → MBR	0,002	0,001	0,999	Rejected
M_NPM→ MBR	-0,773	0,766	0,444	Rejected
M_PER→MBR	0,067	0,299	0,765	Rejected
NPM_MBR	0,239	0,288	0,407	Rejected
PER_MBR	0,345	0,395	0,382	Rejected

Source: processed secondary data

The results of the research from table 4 above show that the variables M_PER, M_NPM, and M_DER show O-values that are above 5 percent, so it can be said that the EDBOL variable is partial moderation or it can be said that the variable has the potential to become a moderating variable by following the test criteria.

CONCLUSION

An increase in debt (DER) will have an impact on the dividend distribution policy so that profits will not be optimal, when profits are not optimal, the company signal indicates that the company's performance is also not good so that it has an impact on the decline in the value of the company (MBR). Meanwhile, a large Net Profit Margin indicates that the company's operations are running smoothly and have good financial performance but do not affect firm value. The next finding is that the effectiveness of dividends based on earnings optimization can be said to be a variable that has the potential to become a moderating variable in moderating. An increase in profits reflects the company's achievements so that it can improve the company's image and value.

The results of this study can contribute to an indicator of the investment made by investors. Besides, the historical data obtained in this study can be used as an explanation to increase the company's book value in future periods. This study is limited to companies that have active shares that are members of the Blue Chip stock category in Indonesia for the 2014-2019 period and are limited to shares of companies that are not delisted during the study period. It is hoped that the future research agenda can add to a wider object of observation.

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