

## **The Effect of Capital Structure, Dividend Policy and Cash Holding on Firm Value**

**Diyah Anandita<sup>1</sup>, Dwi Septiani<sup>2</sup>**

Accounting Study Program, Pamulang University

Correspondence email: [dosen01075@unpam.ac.id](mailto:dosen01075@unpam.ac.id)

*Received: 04 02 2023 Reviewed: 12 04 2023 Accepted: 27 04 2023 Published: 30 04 2023*

### **ABSTRACT**

*This study examines the effect of Capital structure, Dividend Policy and Cash Holding on Firm Value in food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. This type of research is quantitative research and sampling methods using purposive sampling. The population in this study was 66 companies from food and beverage sub-sector companies listed on the Indonesia Stock Exchange. The sample of this study was 17 companies with a total of 85 observations. The study's results partially show that the Capital Structure does not affect the Firm Value, the dividend policy does not affect the Firm Value, and the Cash Holding variable positively and significantly affects the Firm Value. The study's results simultaneously showed that the Capital Structure, Dividend Policy and Cash Holding significantly affected the Firm's Value.*

*Keywords: Capital Structure, Dividend Policy, Cash Holding, Firm Value*

### **A. INTRODUCTION**

A picture of the firm performance and future can be seen in the financial statements. Companies that have gone public in the capital market are expected to be more open in conveying information to monitor and analyze the company's management capabilities (Fikarunia & Ferdiansyah, 2022). In today's global competition, companies in the food and beverage sub-sector, especially those listed on the IDX, must be able to distribute their performance as optimally as possible to enter global industrial competition quickly. Many factors, both internal and external factors, can determine firm value. External factors can be the national or international economic situation. Because external factors are difficult to change, companies can put more effort into optimizing the firm's internal factors that affect stock prices and firm value, including capital.

Capital is a very important element for companies in financing operational activities as well as the sustainability and development of the Firm (Abidin & Hidayat, 2019). Capital

structure theory explains that the firm's funding (financial policy) in determining the capital structure (a mixture of debt and equity) aims to optimize the firm's value. According to the trade-off theory, managers can choose the debt ratio to maximize firm value.

Firm value can also be seen from the ability to pay dividends. Dividend policy is a decision whether the profits earned by the firm at the end of the year will be distributed to shareholders in the form of dividends or will be withheld to increase capital to finance future investments. The amount of dividends can affect stock prices.

The problem that often arises in companies in the food and beverage sub-sector that have gone public is the rise and fall of share prices in the capital market related to the issue of fluctuations in the value of the firm itself. For investors who are interested in buying shares of a firm, they can see the value of the firm in terms of cash holdings. Based on the trade-off theory, companies manage cash optimally by considering the marginal costs and benefits of holding cash (cash holding).

The role of the Indonesia Stock Exchange for companies that go public is not only for capital development but also for overseeing the firm performance. Companies must focus on capital management and profitability to maintain healthy capital ratios to support the business and maximize profits for all shareholders. One of the Indonesian Stock Exchange's policies is delisting. Suppose the listed shares on the exchange experience a decrease in the criteria so they do not meet the listing requirements, such as the case in the food and beverage sector company, namely PT Davomas Abadi, Tbk (DAVO). The company's unbalanced capital structure affects business continuity financially and the continuity of the company's status as a public company (antaranews.com). As of January 20, 2015, DAVO shares were suspended due to failure to pay off debts to PT Heradi Utama and PT Aneka Surya Agro, worth IDR 2,93 trillion. DAVO also failed to pay debts to shareholders of IDR 319,11 billion and other debts of IDR 1,26 billion (market.bisnis.com).

The liquidity problems in food and beverage companies can be used as a lesson for other companies in meeting their liquidity needs. The company must be able to estimate the appropriate level of cash holding so that the company's operational funding needs can be met without disrupting the company's liquidity. The company must determine how much cash it must have so there is no shortage or excess of cash. Therefore, determining the company's cash holding level is one of the important financial decisions that a manager must make. Because when there is cash inflow, a manager can decide to distribute it to shareholders as dividends or

---

buy back shares, invest them, or maybe save them from meeting the company's needs in the future (Gunawan, 2016).

## **B. LITERATURE REVIEW**

### **Agency Theory**

Connection agents are a basic perspective that can be used to understand corporate governance. Agency theory is a theory that can explain the relationship between agents and participants that is built so that Firm goals can be achieved optimally. According to (Scott, 2015), the agency theory is a relationship or contract between the principal and the agent. The principal is the party that employs the agent to perform tasks in the principal's interest, while the agent is the party carrying out the principal's interests.

### **Trade Off Theory**

According to (Tijow et al., 2018), this theory explains that the optimal debt ratio is determined by comparing the benefits and costs of using debt. The firm can tolerate additional debt until the benefits of using debt are greater than the costs incurred due to the debt itself. Besides, additional debt can still be made if fixed assets are collateral. Still, if the cost of debt is too high, the firm should not increase debt anymore to avoid unwanted risks (Tijow et al., 2018).

### **Capital Structure, Dividend Policy and Cash Holding on Firm Value**

The trade-off theory provides information regarding firm value information, capital structure, dividend policy and cash availability to external parties regarding conditions that occur in the firm, which will reduce information asymmetry between management as an information provider and investors and creditors as information users. The wider the information the firm provides to investors, will increase investor confidence.

Research by (Sitanggang et al., 2021), the ownership structure, which is proxied by managerial ownership and institutional ownership, dividend policy, and cash holding, simultaneously affects firm value because the wider the information provided by the firm to investors will increase trust investors to the firm.

H<sub>1</sub>: Allegedly, the capital structure, dividend policy and cash holding simultaneously affect the firm value

### **Capital Structure on Firm Value**

The trade-off theory explains that if the position of the capital structure is below the optimal point, then every additional debt will increase the firm's value. When the optimal capital structure target has not been reached, the trade-off theory predicts a positive influence between capital structure and firm value.

Angela (2020) concluded that capital structure positively affects firm value, while cash holding does not affect firm value. Deviani (2018) obtained positive and significant results between the capital structure to firm value.

H<sub>2</sub>: The capital structure affects the firm value

### **Dividend Policy on Firm Value**

A dividend policy is a policy related to dividend payments by companies, determining the amount of dividend payments and the amount of retained earnings for the company's benefit. In Indonesia, there are standard policies or procedures governing the payment of dividends, although paying dividends is not mandatory and is still largely dependent on the General Meeting of Shareholders. Companies in Indonesia are free to decide when and how much to pay dividends for a given financial business year.

Sitanggang et al. (2021) obtained negative results on firm value because high dividends will weaken company funds. After all, the company's retained earnings decrease, so firm performance decreases, resulting in a decrease in firm value.

H<sub>3</sub>: The dividend policy affect the firm value

### **Cash Holding on Firm Value**

Cash holding is cash held by the company for prevention, transaction or speculation motives. The company views cash holdings as assets that can be used to take advantage of future opportunities. Businesses can use cash to pursue physical and financial investment opportunities.

Purnasari et al. (2022) concluded that cash holding based on partial had a positive and insignificant effect on firm value in consumer sector manufacturing companies on the Indonesia Stock Exchange (IDX). Research by (Riyadi et al., 2021) found that cash holding significantly negatively affects firm value.

H<sub>4</sub>: The cash holding affect the firm value

## C. RESEARCH METHODS

### Data Types and Sources

Secondary data is used in this type of research, and the data source comes from the annual reports. Sugiyono (2021) states that "secondary data is a source of data that does not directly provide data to data collectors, for example, through other people or documents." Secondary data in this study were obtained from the Indonesian Stock Exchange's website and references from previous research. This research analyzes the effect of capital structure, dividend policy and cash holding on firm value.

### Population and Sample

Sugiyono (2021) states, "population is a generalization area consisting of objects/subjects that have certain qualities and characteristics set by researchers to be studied and then drawn conclusions." The population is set at 66 companies included in the food and beverage sub-sector listed on the Indonesia Stock Exchange in 2017-2021. The sample is part of the number and characteristics possessed by the population (Sugiyono, 2021). In this study, we determine the sample using a purposive sampling method.

Table 1: Sampling Criteria (Purposive Sampling)

No	Sample Criteria	Accumulation
1.	Food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) in the 2017-2021 period.	46
2.	Companies that do not distribute dividends in a row during 2017-2021.	(29)
Number of Companies		17
Number of Years of Research		5
The total sample used in this study is for the 2017-2021 period		85

Source: Data processed by researchers, 2022

The determination of the sample criteria can be seen in Table 1. The sample was determined as many 17 companies included in the food and beverage sub-sector listed on the Indonesian Stock Exchange. The annual reports used are from 2017 to 2021, with a total of 85 observations.

### Data Retrieval Method

Before making conclusions in a study, data analysis must be carried out so that the research results are appropriate (Septiani, 2020). This research used it as a secondary data source, namely literature study techniques carried out by studying, exploring, and reviewing various literature relevant to the research. Then documentation techniques are carried out by

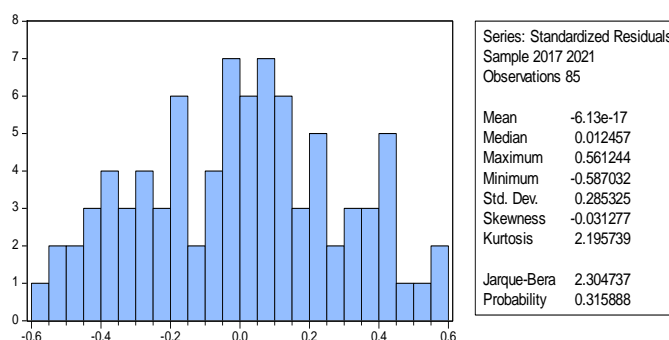
collecting data and information from the company's annual reports taken from the Indonesian Stock Exchange's website, namely [www.idx.co.id](http://www.idx.co.id).

## D. RESULTS AND DISCUSSION

### Normality test

The normality test aims to test whether the dependent and independent variables are normally distributed. There are two ways to test the normality of data using Eviews version 9: a histogram and the Jarque-Bera test. Jarque-Bera is a statistical test to determine whether the data is normally distributed.

Table 2. Normality Test



Source: Data processed with Eviews version 9, 2022

In Table 2, it can be seen that the Jarque-bera value is 2.304737 with a probability value of 0.315888. It can be concluded that the model in this study is normally distributed because the probability value of 0.315888 is greater than 0.05.

### Multicollinearity Test

This test is useful to determine whether the regression model found a correlation between independent variables. A good model is a model that does not correlate with the independent variables. According to Gujarati (2014), if the correlation coefficient between independent variables is  $> 0.8$ , it can be concluded that the model experiences multicollinearity problems.

Table 3. Multicollinearity Test

	BC	KD	CH
BC	1.000000	-0.346595	-0.280613
KD	-0.346595	1.000000	0.168503
CH	-0.280613	0.168503	1.000000

Source: Data processed with Eviews version 9, 2022

Based on the results of the multicollinearity test above, the result shows that the influence factor variance value on the dividend policy variable is -0.346595. Each variable has a VIF value smaller than 0.8. The influence factor variance value on the Firm Value variable is -

0.280613. For each variable, if the VIF value is less than 0.8, it can be concluded that multicollinearity does not occur, meaning that the regression model is good.

### Heteroscedasticity Test

The heteroscedasticity test aims to test whether there are differences in variance in the regression model from one observation to another. This test uses the Glejser test, regressing each independent variable with an absolute residual as the dependent variable. The residual is the difference between the observed and estimated values, while absolute is the absolute value. The Glejser test is used to regress the absolute value of the residuals on the independent variables. If the results of the Glejser Test confidence level  $> 0.05$ , then there is no heteroscedasticity.

Table 4. Heteroscedasticity Test

Variables	coefficient	std. Error	t-Statistics	Prob.
C	0.175679	0.051493	3.411729	0.0010
BC	-0.018868	0.050013	-0.377254	0.7070
KD	-0.142244	0.062196	-2.287039	0.0248
CH	0.010314	0.032688	0.315538	0.7532

Source: Data processed with Eviews version 9, 2022

Table 4 shows the probability value of the capital structure is 0.7070, dividend policy is 0.0248, and cash reserves is 0.7532. Because the probability value is greater than 0.05. From this, it can be concluded that there is no heteroscedasticity in this model.

### Autocorrelation Test

The autocorrelation test is carried out by testing the Durbin-Watson test value to determine whether or not there is autocorrelation in a regression model. The basis for decision-making is that there is no autocorrelation if Durbin Watson is located between DU and 4-DU. Following are the results of the autocorrelation test using Eviews.

Table 5. Autocorrelation Test

Likelihood logs	-13.50607	Hannan-Quinn criteria.	0.458143
F-statistics	6.620454	Durbin-Watson stat	2.452813
Prob(F-statistic)	0.000468		

Source: Data processed with Eviews version 9, 2022

The autocorrelation test uses the Durbin-Watson test. The dl value with  $K=3$  and  $N=85$  is 1,5752. The Durbin-Watson test value is 2.452813, meaning that the Durbin-Watson test value obtained is between 4-dL and 4 or  $2.4248 < 2.452813 < 4$ , so it can be interpreted that in

the established regression model, there is no negative autocorrelation with the decision rejected.

### Panel Data Regression Analysis

The panel data linear regression equation is known as follows:

$$Y_{it} = 0,540531 + (0.021768) + 0.143725 + 0.221436$$

The panel data regression equation can be explained as follows:

1. A constant of 0.540531 states that if the independent variable remains, the dependent variable (Firm Value) is 0.540531.
2. The Capital Structure regression coefficient of -0.021768 states that each additional 1% of the Capital Structure variable will reduce the Firm Value variable by -0.021768, assuming other variables are of constant magnitude.
3. The dividend policy regression coefficient of 0.143725 states that each additional dividend policy variable of 1% will reduce the firm value variable by 0.143725, assuming the other variables are constant.
4. The cash holding regression coefficient of 0.221436 states that each additional 1% of the Cash Holding variable will reduce the Firm Value variable by 0.221436, assuming the other variables are constant.

### Determination Coefficient Test

The Coefficient of Determination test is used to determine the percentage of influence of the independent variables simultaneously on the dependent variable (Sitanggang et al., 2021).

The results of the determination test are as follows:

Table 6. Determination Test

R-squared	0.196917	Mean dependent var	0.232706
Adjusted R-squared	0.167174	SD dependent var	0.318390
SE of regression	0.290561	Akaike info criterion	0.411908

Source: Data processed with Eviews version 9, 2022

The Adjusted R-Squared value is 0.167174, which means that the X variable influences 16.72% of the Y variable, while the remaining 83.28% is influenced by other variables not examined in this study.

### Simultaneous Test (F)

The test is used to jointly test the effect of all independent variables on the dependent variable (Sitanggang et al., 2021). The F test results are as follows:



Table 7. Simultaneous Test (F)

F-statistics	6.620454	Durbin-Watson stat	2.452813
Prob(F-statistic)	0.000468		

Source: Data processed with Eviews version 9, 2022

The F-statistic value shows the simultaneous F test results of 6.620454 with a significance value of 0.000468. These results state that the value of the F-statistic is greater than the F-table 2.7173427 ( $6.620454 > 2.7173427$ ). The significant value is less than 0.05 ( $0.000468 < 0.05$ ), so this regression equation model can be used to predict firm value. In other words, the capital structure, dividend policies and cash holding simultaneously significantly affect the firm value of food and beverage sub-sector companies on the Indonesia Stock Exchange in 2017-2021.

### Partial Test t

A partial t-test is used to test the effect of each independent variable used in this study partially (individually). The t-test will be significant if the value is  $< 0.05$  (Ghozali & Ratmono, 2017). Then  $H_a$  is accepted. Meanwhile, if it is significant  $> 0.05$ , then  $H_a$  is rejected. If  $H_a$  is accepted, it means there is a significant influence between the independent and dependent variables.

Table 8. T-test

Variables	coefficient	std. Error	t-Statistics	Prob.
C	0.540531	0.093209	5.799136	0.0000
BC	-0.021768	0.090531	-0.240454	0.8106
KD	0.143725	0.112583	1.276620	0.2054
CH	0.221436	0.059170	3.742399	0.0003

Source: Data processed with Eviews version 9, 2022

In this test, the data used t-table is 1.989686, and the significant level used is 0.05. Based on Table 8, it is known that the Capital Structure has a t-value of -0.240454. Where the t-count value is smaller than the t-table ( $-0.240454 < 1.989686$ ) and the probability value is greater than the significance level of ( $0.8106 > 0.05$ ) so that  $H_1$  is rejected, which means that Capital Structure has no effect and not significant to Firm Value.

The dividend Policy has a t-count value of 1.276620 where the t-count value is smaller than the t-table ( $1.276620 < 1.989686$ ), and the probability value is greater than the

significance level of ( $0.2054 > 0.05$ ). Hence, H2 is rejected, meanings that the Dividend Policy has no effect and is insignificant on Firm Value.

Cash Holding has a t-count value of 3.742399 where the t-count value is greater than t table ( $3.742399 > 1.989686$ ) and the probability value is smaller than the significance level of ( $0.0003 < 0.05$ ), so H3 is accepted which means that Cash Holding influential and significant to the Firm Value.

## **Discussion of Research Results**

### **The Effect of Capital Structure, Dividend Policy and Cash Holding on Firm Value**

Based on the results of the simultaneous test (F) of capital structure, dividend policy and cash holding positively and significantly affect firm value. This means H1 is accepted. The wider the information the Company can provide investors, the greater the investor's trust in the Company. A high level of investor confidence can provide a positive response to the Company.

#### **The Effect of Capital Structure on Firm Value**

Partial t-test results show that capital structure has a negative and insignificant effect on firm value. This means H2 is accepted. The results of this study support the results of Kadafi (2020), namely, Capital Structure does not affect Firm Value. This is because companies financing their assets tend to use their capital from retained earnings and share capital rather than debt.

#### **The Effect of Dividend Policy on Firm Value**

Partial t-test results show that dividend policy has a negative and insignificant effect on firm value. This means H3 is accepted. The results of this study support Riyadi et al. (2021), who found that dividend policy results do not significantly affect firm value. If the company increases or decreases the percentage of dividend distribution, the company's value will not change.

#### **The Effect of Cash Holding on Firm Value**

The results of the partial t-test show that cash holding has a positive and significant effect on firm value. This means H4 is rejected. The results of this study support Sitanggang et al. (2021), which obtained results that have a positive effect on firm value because high cash holding is required for potential investment opportunities and high external financing from companies which will increase firm value.

## **E. CONCLUSION**

This research examines the capital structure, dividend policy and cash holding to Firm value in food and beverage sub-sector companies listed on the Indonesia Stock Exchange in the 2017-2021 period. Simultaneously, capital structure, dividend policy and cash holding affect firm value because the wider the information a company can provide to investors, the more investor confidence in the company can increase. The capital structure variable does not affect firm value because companies financing their assets tend to use their capital from retained earnings and share capital rather than debt. Dividend policy does not affect firm value because the value of a company depends on the proportion of dividends distributed; shareholders only want to take profits in the short term by obtaining capital gains. The variable cash holding research results affect the company's value because cash holding is a large amount of cash owned by the company, and each cash has an impact on the company, which will also have an impact on the opinion of investors on the value of the company.

Some suggestions for future research include adding or replacing other variables in addition to those included in this study. Future research can also expand the scope of research and increase the research period so that the results obtained are more consistent.

## **REFERENCES**

- Abidin, J., & Hidayat, I. (2019). Pengaruh Stabilitas Penjualan dan Struktur Aktiva Terhadap Struktur Modal. *Owner*, 3(2). <https://doi.org/10.33395/owner.v3i2.130>
- Angela, J. (2020). Analisis Pengaruh Cash Holding, Dividend Payout Ratio, dan Struktur Modal terhadap Nilai Perusahaan pada Perusahaan Sektor Manufaktur di Bursa Efek Indonesia. *Jurnal FinAcc*, 5(8).
- Deviani, H. (2018). *Pengaruh Cash Holding, Struktur Modal, Dan Profitabilitas Terhadap Nilai Perusahaan Pada Perusahaan Sub Sektor Property Dan Real Estate Di Bursa Efek Indonesia*. 3(04), 602–612.
- Fikarunia, F., & Ferdiansyah, F. (2022). Pengaruh Financial Distress , Karakteristik Komite Audit , Dan Reputasi Auditor Terhadap Luas Pengungkapan Sukarela The Effect Of Financial Distress , Characteristics Of The Audit Committee , The Auditor ' s Reputation On The Extensive Of Voluntary Discl. *INVENTORY: JURNAL AKUNTANSI*, 6(1), 27–35. <https://doi.org/10.25273/inventory.v6vi1i.12093>
- Ghozali, I., & Ratmono, D. (2017). Analisis Multivariat dan Ekonometrika dengan Eviews 10.
-

In Semarang: Badan Penerbit Universitas Diponegoro.

- Gujarati, D. (2014). Dasar-dasar Ekonometrika. In *Dasar-dasar Ekonometrika*.
- Gunawan, R. (2016). Pengaruh Growth Opportunity, Net Working Capital Dan Cash Flow Terhadap Cash Holding. *Fakultas Ekonomi Universitas Negeri Padang*, 106(1).
- Kadafi, M. A. (2020). Analisis struktur modal , profitabilitas , dan ukuran perusahaan terhadap nilai perusahaan. 12(1), 133–144.
- Purnasari, N., Jimmy Rinaldo, L., Jessica, & Harianto, C. (2022). The effect of profitability, dividend payout ratio, capital structure and cash holding on company value in manufacturing companies in the consumption sector on the indonesia stock exchange. 6, 810–823.
- Riyadi, F. A., Masripah, & Widyastuti, S. (2021). Pengaruh umur perusahaan, keputusan pendanaan, kebijakan dividen, dan cash holding terhadap nilai perusahaan. *JOEL: Journal of Educational and Language Research*, 1(1).
- Scott, W. R. (2015). Financial Accounting Theory Sevent Edition. United States. In *United States: Canada Cataloguing*.
- Septiani, D. (2020). The Influence of The Inflation Rate and The Interest Rate of Bank Indonesia Certificates on The Composite Stock Price Index With The Us Dollar Exchange Rate As a Moderating Variable on The Indonesia Stock Exchange. *EAJ (Economics And Accounting Journal)*, 3(3). <https://doi.org/10.32493/eaj.v3i3.y2020.p212-220>
- Sitanggang, A. V., Purnomo, L. I., & Agustina, F. (2021). Pengaruh Struktur Kepemilikan, Kebijakan Dividen, Dan Cash Holding Terhadap Nilai Perusahaan. *Proaksi*, 1(1).
- Sugiyono. (2021). Metode Penelitian Pendidikan (Kuantitatif, Kualitatif, Kombinasi, R&D dan Penelitian Tindakan). In *Metode Penelitian Pendidikan*.
- Tijow, A. P., Sabijono, H., & Tirayoh, V. Z. (2018). Pengaruh Struktur Aktiva Dan Profitabilitas Terhadap Struktur Modal Pada Perusahaan Sektor Industri Barang Konsumsi Yang Terdaftar Di Bursa Efek Indonesia. *Going Concern : Jurnal Riset Akuntansi*, 13(04). <https://doi.org/10.32400/gc.13.03.20375.2018>