Chapter I

INTRODUCTION

1.1. Backgorund

Indonesia is a developing country that has growth potential from various sectors, especially the economic sector. The economic growth of a country can be seen from the development of the business world in that country, including Indonesia which has a variety of industries, both small and large. Industries sector that become an indicator to analyze a country's economic growth is the real estate property and building construction sector.

Property, real estate and construction companies are becoming sectors which are growing continously. The need for housing and residential housing increased along with the increase in the population of Indonesia. The tendency of the Indonesian people to have a residence will certainly provide opportunities for property and real estate companies. Therefore many large and small companies in that sector developed.

Throughout Jokowi-Jusuf Kalla's reign of infrastructure development in Indonesia continued to increase, the government believes that even distribution of development by facilitating access for the distribution is the key to improve the economic welfare of the community. The government is collaborating with construction companies to achieve equality and the elimination of inter-regional economic inequality into two fundamental reasons for implementing massive infrastructure development from 2015 to the present. This is evidenced by the development programs of the Indonesian government in building infrastructure in all regions of Indonesia. Indonesian government has constructed of highways, toll roads, railway lines, airports, ship ports, and others. The development is intended to facilitate the distribution channels and population movements for equality and to improve the national economy.

Nowadays, in the competitive era of industrialization, every company must increase competitiveness continuously. It requires competition which requires companies in the real estate, property, and construction sectors to be able to grow and gain profits, by increasing the prosperity of owners or shareholders. This is because shareholder prosperity is achieved by maximizing the present value of all shareholder profits that are expected to be obtained in the future. Therefore, the higher the stock price shows the higher the value of the company, so that the prosperity of shareholders is also getting higher.

Firm value is important because it reflects the company's performance which can affect investors' perceptions of the company. The firm value means the value of the buying price that the investor willing to pay, if the company is to be sold. Firm value could reflect the performance of companies. If the higher the value of the company, the company will have a better image. With the good value of the company, investors will believe in good corporate performance and prospect for the company in the future.

Firm value is often associated with stock prices, so the higher the stock price, the higher the value of the company and vice versa. The stock price is the price that occurs when shares are traded on the market. The higher stock price can be used as an indicator of shareholders' prosperity increase. The value of the company is generally measured by the Price to Book Value (PBV).

According to Brigham and Houston (2011), PBV is a comparison between the market price of shares and the book value of a company. Where, the book value of the company (book value share) is a comparison between common stock equity and the number of outstanding shares. Based on the comparison, it can be determined that the stock is overvalued or undervalued from the value of the book. Therefore, PBV is very important for investors to determine investment decisions.

Investors or shareholders who invest in the company expect a return on the funds that have been invested. Return is one of the factors that motivates investors to invest and the courage of investors to bear the risk of their investment. Companies that have good firm value are expected to provide good returns for investors. Therefore, investors need to analyze the company before deciding to invest.

There are 2 approaches carried out by the the investors in conducting stock analysis, namely, technical and fundamental analysis. Technical analysis uses historical data as a determinant of future stock prices. While fundamental analysis focuses on analyzing financial ratios in financial statements that can affect stock prices in the future

Dividends are part of net income that is distributed to shareholders. Dividend policy towards dividend payments is a very important decision in a company. This policy will involve two parties who have different interests, namely the first party shareholders and the second party of the company itself. Dividend payout ratio can be associated with firm value. According to Brigham and Houston (2011) in bird in the hand theory states that, high dividends can increase the value of the company. Bird in the hand theory state, that shareholders prefer high dividends because they have high certainty compared to capital gains.

Paminto et all (2016) said that dividend policy does not have a linear relationship with the firm value. The regression coefficient is 0.073 with significance level 0.402. This means that dividend policy has no significant positive effect on firm value. It means also the DPR does not significantly influence the PBV becasue companies are less responding to the increased of DPR as a positive signal, according to signaling theory. It also supports by (Dzulkirom et all, 2018). However, Gunawan (2018) dividend policy determines how much profit gained by shareholders. The gains of shareholders will determine the welfare of shareholders, who are the main objectives of the company.

Capital structure is part of the financial structure, namely the choice between funding with debt and equity. Companies need to achieve an optimal capital structure so that they can increase the level of success of the company towards policies that have been determined by the company and shareholders. Each company has its own debt policy at different levels. Debt policy is one of the most important funding decisions for the company. The manager as the manager of the company must choose the combination of company funding sources carefully because each source of funds has different financial consequences, including debt that is riskier in threatening liquidity

Debt ratio (leverage) is a financial ratio used to measure how much a company relies on debt to finance its assets (Brigham and Houston, 2010). In this study, the debt ratio (Leverage) is measured by the Debt Equity Ratio (DER). The debt ratio (DER) is a ratio that shows the proportion of a company's debt to the company's total assets. When a company can maximize the use of its debt, it can improve the good image of the company. With a high debt ratio, it has a level of obligation to disclose a company's condition which is more than a company with a low leverage ratio. When a company has higher debt ratio, the greater the risk arising from the company's operations. However, when the debt ratio (leverage) is high, it can increase the good image of the company, and can increase stock prices and attract investors' purchasing power. The debt ratio will increase the value of the company when the company's debt usage reaches an optimal capital structure. Conversely, a low debt ratio, it indicates that financing a conservative company with the opportunity to borrow in the future is without high risk. The low debt ratio also indicates that only a small portion of the company's assets are financed by debt.

Research conducted by Paminto et all (2016) stated that, capital structure has a linear relationship with the firm value. This means that capital structure has negative significant effect on the firm value. This shows that if the capital structure (DER) is increased by one unit, the corporate value (PBV) will be decreased one unit. Contracy with Chen (2002) also found that capital structure has positive and insignificant effect on the firm value. Chen also proved that the firm value will increase if the company chose no debt in the capital structure.

Another research also showed that, leverage (DER) has no significant effect on Firm Value. The zero influence between DER and Firm Value indicates that the increasing debt ratio causes the company to have a big obligation to pay back its debts. As a result, the firm value will decrease. The data was taken from property and real estate company in Indonesia Stock Exchange, (Hidayah, 2014).

Important decisions were made by a financial manager in insider ownership related to the function of obtaining funds by determining how much funds the company will use to increase the value of the company. Stakesholders of the company has different interests, so that decision making will be related with agency conflicts that occur within the company. This relationship is called the agency relationship. Jensen and Meckling (1976) have developed a theory called agency theory said that, anyone who raises the cost of supervision, the costs incurred must be paid by shareholders. This affects the firm value which is a consideration for investors to invest in the company.

Morck et al. (1988) also states that the value of the company increased in line with the increase in insider ownership up to 5%, then declined when insider ownership was 5% -25%, and then increased again along with the increase in insider ownership in a sustainable manner. However, Suastini, N. M. (2016) said that insider ownership has a negative and significant effect on firm value.

This means that high insider ownership will reduce the value of the company.

In conclusion, this research want to investigate the effect of dividend policy that was described by dividend payout ratio (DPR), leverage or debt policy that was described by DER, and ownership structure especially in insider ownership (INSDR) towards firm value (PBV). The uniqueness of this research is comparing the changes of that variables between Jokowi's era (2015-2017) and before Jokowi's era (2012-2014).

1.2. Problems Identification

Based on the background above, the problem identification of the study are:

1. There is difference effect of dividend policy toward firm value before Jokowi;s era and at Jokowi's era
2. There is difference effect of debt policy toward firm value before Jokowi;s era and at Jokowi's era
3. There is difference effect of insider ownership toward firm value before Jokowi;s era and at Jokowi's era

1.3. Problems Formulation

Based on problems identificatiom above, several problems can be formulated in this study, namely:

1. Is there any difference effect of dividend policy towards firm value in property, real estate, and building construction industry at Jokowi era and before?
2. Is there any difference effect of debt policy towards firm value in property, real estate, and building construction industry at Jokowi era and before?
3. Is there any difference effect of insider ownership towards firm value in property, real estate, and building construction industry at Jokowi era and before?

1.4. Problem Limitation

In this study, the researcher limits only in the year of before Jokowi's era (2012-2014) and in Jokowi's era (2015-2017).

1.5. Research Objectives

The expected goals in this research are:

1. analyzing dividend policy factors which affect the firm value in property, real estate, and building construction industry.
2. analyzing debt policy factors which affect the firm value in property, real estate, and building construction industry.

3. analyzing insider ownership factors which affect the firm value of property, real estate, and building construction industry.

1.6. Research Contribution

Based on the explanation of the objectives above, the benefits of this study are as follows.

a. Researcher

The reserch results may provide additional empirical evidence about the effect of Dividend Policy, Debt Policy, and Insider Ownership on firm value.

b. Future Researcher

Future researcher may develop the samples of this study in order to get additional knowledge that are related to this study.

c. Companies

Companies listed in the Indonesia Stock Exchange expected to get an idea about the factor that influenced firm value.

d. Investor

Investor can get an outlook about the influenced factor of firm value

e. Other parties

This study can be used as an additional knowledge and comparison for further research.

1.7. Systematics of Writing

CHAPTER I: INTRODUCTION

This chapter contains the background that will be discussed in the thesis. This includes the problem identification, problem formulation, problem limitation, research contribution and systematics of writing.

CHAPTER II: REVIEW OF RELATED LITERATURE

This chapter shows the foundation of theory and the theoretical basis of this study and finishs with the framework and formation of hypotheses.

CHAPTER III: RESEARCH METHOD

This chapter shows the population and the study sample, the type and sources of data, methods of data collection and the methods of data analysis and research data.

CHAPTER IV: DATA ANALYSIS AND DISCUSSIONS

This chapter analyzes the general description and information from Indonesian Stock Exchange, test data, research results discussion.

CHAPTER V: CONCLUSIONS AND RECOMMENDATIONS

This chapter explains the conclusions that can be drawn based on the results of data processing and suggestions related to similar studies in the future.

REFERENCES

It contains the resources or references for supporting the argument in this study.