

CHAPTER I

PRELIMINARY

1.1 Background

The formation of different enterprises, regardless of size, is a growing feature of business development and can have both beneficial and bad consequences on the organization. Organizations can continuously enhance the quality of their manufactured goods due to increased rivalry amongst them. To thrive in the modern and emerging business world, organizations must possess strong technological and communication skills. As 2024 approaches, Indonesia's economy will be dealing with intricate dynamics that are shaped by a number of national and international variables. Global uncertainties that could impede economic growth persist, including geopolitical threats and the normalization of interest rates in industrialized nations. According to IMF projections, economic growth in 2024 will likely stay muted and tend to go down from 3% in 2023 to 2.9% in 2024. As a result, in order to raise their company worth, businesses must constantly enhance their business performance. A company's stock market price indicates its worth, particularly if it is listed on a stock exchange. The worth of the company increases with the stock price. This motivates businesses across all industries to concentrate entirely on their operations and financial activities in order to preserve or grow a competitive advantage. The efficient and effective accomplishment of companies objectives is greatly influenced by the management and planning actions of the organization. A company's growing value is a long-term objective that it seeks to accomplish and is reflected in the price at which it trades on the stock exchange.

Investors can track the evolution of a company's stock price as it is traded, and this is especially true for companies that have already gone public.

An often-employed metric for assessing a company's worth is the price to book value (PBV) ratio. The market price per share divided by the book value per share is known as the PBV ratio. The price of shares on the market as determined by the closing price is known as the market price. According to Prastuti (2016), the book value of a corporation is calculated by dividing its total ordinary share capital by the total number of outstanding shares. If PBV is below one, it reflects the company's low selling price and the components of the company's financial structure are getting worse. So that investors are reluctant to invest in the company and if it continues, the worst possibility is that the company suffers from a lack of funds and can lead to bankruptcy.

There are many factors that affect the value of the company, which one of them is Capital Structure. (Zakiah, 2023) Capital structure is an important part of a company's operations. Building a company's capital structure illustrates the trade-off between risk and return. Thus, determining the capital structure is to find a balance between the level of risk and the level of return, which ultimately maximizes the stock price. In this study, the capital structure is seen through the Debt-to-Equity Ratio (DER) which is usually used to assess the level to which the firm can fulfill its short-term and long-term obligations.

The results studied by (Pasaribu et al., 2016) show that it does not have a big influence but has a significant impact on firm value. The inconsistent results

cause researchers to be interested in conducting research again whether the capital structure has an impact on firm value.

In this rapidly changing global business context, dividend decisions have become an integral part of corporate strategy to maintain and enhance investor confidence, maintain liquidity, and support long-term growth. Companies are likely to encounter a mounting pressure to wisely manage their profit allocation through dividends, while still maintaining flexibility for investment and growth.

Beside capital structure and dividend policy, one of the factors that can affect firm value is firm size. The firm size of a company describes what is seen from total assets, total sales, and average total sales and assets. Natsir & Yusbardini (2020) state that the larger the size or scale of the company, the easier it will be for the company to obtain funding sources, both internal and external. Putri (2016) The large company size shows that the company is experiencing developments that make investors respond positively so that the company value will increase.

This study uses a research sample of companies in the manufacturing sector on the Indonesia Stock Exchange for the period 2021-2023 using differences in the composition variables of capital structure, dividend policy and company size.

Manufacturing companies in the Indonesia Stock Exchange which covers three sectors consisting of: Basic and chemical industry, Miscellaneous industry, and Consumer goods industry. The selection of manufacturing companies because it has a very important role because it produces goods that are widely consumed by the public makes the sector experiencing significant and rapid growth and development

as well as intense competition between companies in marketing their products to consumers characterizes this company. Mostly investors have high attention to manufacturing sector companies because if there are problems such as decreased product quality, decreased sales, and environmental issues, which will affect changes in stock prices.

Based on this condition and the inconsistencies in the results of previous studies, the researcher intends to research on "**The Effect of Capital Structure, Dividend Policy and Firm Size on Firm Value**" with the object of research in manufacturing companies listed on Indonesia Stock Exchange for the period 2021-2023.

1.2 Problem Identification

Based on the discussion in the background, the problems in this study can be identified as follows:

1. The existence of increasingly intense competition between companies allows companies to continue to improve their business performance to increase their company value.
2. How does capital structure influence firm value in manufacturing sector companies listed on the Indonesia Stock Exchange in 2021-2023?
3. How does dividend policy affect firm value in manufacturing sector companies listed on the Indonesia Stock Exchange in 2021-2023?

4. How does the size of a company affect the value of the company in manufacturing sector companies listed on the Indonesia Stock Exchange in 2021-2023?
5. How does capital structure, dividend policy and firm size affect firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2021-2023?

1.3 Research Limitation

Based on the background and identification of the problems above, the researcher limits the research problem, which only focuses on the effect of capital structure, dividend policy and firm size on firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2021-2023.

1.4 Research Question

Based on the identification and problems described above, the research questions are as follows:

1. Does capital structure have a significant effect on firm value?
2. Does dividend policy have a significant effect on firm value?
3. Does firm size have a significant effect on firm value?
4. Does capital structure, dividend policy, and firm size have a significant effect on firm value?

1.5 Research Objectives

Based on the question obtained in the research, the objectives of the reasearch are as follows:

1. To analyze of the effect of capital structure on firm value in manufacturing companies at the period 2021-2023.
2. To analyze of the effect of dividend policy on firm value in manufacturing companies at the period 2021-2023.
3. To analyze of the effect of firm size on firm value in manufacturing companies at the period 2021-2023.
4. To obtain empirical evidence of the effect of capital structure, dividend policy and firm size on firm value in manufacturing companies at the period 2021-2023.

1.6 Benefits of Research

The results of this study are hoped to be beneficial to:

1. Author

This research is dedicated as provions for completing the undergraduate study program at the Faculty of Economis, Accounting Department, Universitas Negeri Medan. The benefits are expected to increase the knowledge and insight of researchers and gain in-depth knowledge about the influence of capital structure, dividend policy and company size on firm value.

2. Practices

The result of this research are expected to provide a positive contribution to the company's management regarding maximizing firm value, as well as related information on the effect of capital structure, dividend policy, and company size on company value which can be used for investors and users of the company's financial statements as a consideration for decision making.

3. Academia

This research is expected to be useful in developing and strengthening the results of prior research that has a relation to the variables being studied.

This research can be used as a source of reference or reference in conducting research on company value in the future.

THE *Character Building*
UNIVERSITY