DIVIDEND POLICY, AGENCY COSTS IN CORPORATE VALUE PERSPECTIVES

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***Abstract*: The purpose of this study is to examine the problem of dividend policy, agency costs, and company value. The method used in this study is a method of literature study by comparing empirical evidence in several previous journals. The results of this study found that there were still differences in results between several researchers. In general, dividend policy affects the value of the company, because dividends can attract investors to invest their capital which will have a positive impact on increasing stock prices, and agency costs do not directly affect the value of the company.**

***Keywords*: Dividend Policy, Company Value, Agency Cost**

INTRODUCTION

Activities in the capital market are one of the factors that can develop the national economy. The private sector is a dynamic supporter in the national economy. The existence of the capital market is one of the references for investors to invest, which investment can help companies to add funds in order to develop their companies and will prospect because more investors are investing their shares in the company, the company will grow faster and the company will tend to report their finances transparently.

A company is established to increase the shareholders 'prosperity through increasing the value of the company, because the higher the value of the company will be followed by the increase in the value of the company's shares, so that the shareholders' prosperity will be created. Increasing company value can be achieved if company management is able to establish good cooperation with other parties, so there will be no problems between managers and other parties.

A company will always have differences of opinion between company owners or shareholders and company managers, because they will make decisions in accordance with their personal interests, where a shareholder wants an optimal amount of dividends and routine time.

A manager tends to be more willing to invest the profits that the company earns to reinvest, because by reinvesting the profits, the value of the company will be higher and the salary will increase. This difference in objectives is what creates the agency theory.

According to Jensen and Mecling (1976) agency theory or agency theory, one or more shareholders delegate their authority to management to increase the value of the company. If the shareholder and agent have the same goal, it is believed that the agent will do his job in accordance with the shareholder's order. Whereas according to Brigham and Houston (2000) agency theory is that managers have personal goals that are contrary to the objectives of shareholders, but managers are given the power by shareholders or company owners to make decisions and this can create potential conflicts of interest called agency theory.

Some of the previous studies discussing dividend policy and agency costs are as follows, the first research was conducted by Isti Fadah (2010) with confirmatory factor analysis and Structural Equestion Model (SEM) methods conducted before and after the millennium, stating that the results of the tests on two Different times show consistent results although not absolute means that before and after the millennium era the risk has a significant effect on cash dividends, and the risk of a significant effect on agency costs and cash dividends has a significant effect on the value of the company.

Riza and Muid (2014) in their research with multiple regression equation method in testing hypotheses

$$TQ = a + b_1KM + b_2KI + b_3KD + b_4LV + b_5SZ + e$$

Where:

TQ = Tobin's Q (company value)

KM = Managerial ownership

KI = Institutional ownership

KD = Dividend Policy

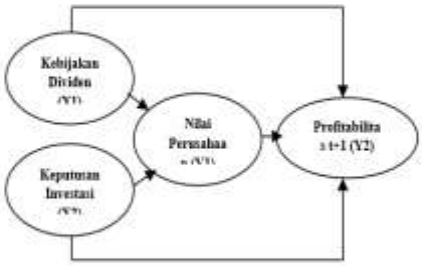
LV = Laverage

SZ = Size (Company Size)

states that the value of the company is not influenced by managerial structure, institutional ownership, and dividend policy. But the value of the company is more influenced by laverage factors and company size.

Kajola, Ajibola, and Tobechi (2015) this research is empirical and the data comes from the secondary, namely annual financial reports issued from 25 non-financial companies listed on the Nigeria and Securities Stock Exchanges and exchange annual reports in the 1997-2011 period. In his research, it was argued that profitability, company size, leverage, and changes in dividend payments were factors that had a significant effect on dividend policy.

Ria and Ari (2017) in their research with the PathAnalysis method with the conceptual framework as below:



The sample in this study is using 23 consumer goods industry sub-sector companies during the period 2006-2016 so that there are 230 samples, while the data analysis techniques used are descriptive statistical analysis, prinscipal component analysis (PCA), classical assumption test, and Path Analysis and testing. hypothesis with the help of statistical package software for social science (SPSS) 21.0 and MINITAB software 14. In this study states that dividends have a significant positive effect on firm value, investment does not affect the value of the company, firm value has a significant positive effect on profitability, dividends have a significant positive effect on profitability, and investment has no significant effect on profitability.

Ong Chun Lin, Hasanudin, Kholiq, and Asmy (2018) used multiple regression analysis methods to examine specific variables and company macroeconomics against dividend payments, the samples used in this study were 30 property companies listed on the Malaysian Exchange obtained from the 2012 annual report. 2016. The results in this study argue that dividend payments have a significant negative effect on ownership structure and have a positive effect on return on equity, quick ratio, and GDP.

Based on the phenomenon and empirical evidence in several journals showing different results, the research conducted by Isti Fadah (2010) states that dividend policy has a significant effect on firm value, while Riza and Muiz (2014) state that dividend policy is not influenced by firm value. Therefore the researcher is interested in reviewing the title "DIVIDEND POLICY, AGENCY COSTS IN THE CORPORATE VALUE PERSPECTIVE".

THEORETICAL FRAMEWORK

Dividend Policy

Dividend is the distribution of cash carried out by shareholders on the company's profits, be it profits derived from the current period or profit from the previous period (Brigham: 2010). An optimal dividend policy seeks to establish a balance between current dividends and future growth that maximizes the company's stock price (Brigham: 2001). Factors influencing dividend policy are grouped into four categories: 1) constraints on dividend distribution which include debt contact, limitation of preferred shares, insufficient profit, availability of cash, and tax penalties on unnatural profit detention, 2) investment opportunities seen of two things, namely the location of the IOS list and the possibility to accelerate or delay the project, 3) Availability and cost of alternative capital sources which include the cost of selling new shares, the ability to substitute equity with debt and control, 4) the influence of dividend policy on Ks can be seen from four factors, namely the desire of shareholders to earn current income compared to future income, the level of risk from dividends rather than capital gains, tax benefits from capital gains rather than dividends, and information contained in dividends.

How to measure dividend policy in this study was measured using:

$$DPR = \frac{Dividend\ \ per\ share}{Earning\ per\ share}$$

$$DY = \frac{Dividend\ per\ share}{market\ price\ per\ share}$$

Source: Brigham (2010)

Theories Related to Dividend Policy:

a. Dividend Irrelevance Theory, explained that dividend policy has no significant effect, so it is not relevant. People who pioneered the theory were Merton Miller and Franco Modigliani. Brigham and Houston (2004: 643) describe the opinions of Miller and Modigrian that the value of the company is only based on its ability to generate income and business risk. The value of the company depends only on income derived from its assets, not on income divided into dividends and retained earnings.
b. Bird in The Hand Theory is a theory put forward by Myron Gordon and John Lintner. Based on the bird in the hand theory explained by Brigham: 2010, firm value will be maximized by a high dividend payout ratio because investors consider that cash dividends are less risky than potential capital gains. Increased dividends reflect dividend-oriented investors. This will cause an increase in stock prices or in other words the amount of dividends can affect the company's stock price which will have an impact on the company's value. Tax Preference Theory based on the results of the illustration of the theory of dividend policy according to Brigham and Houston (2004: 647) in the tax preference theory, investors prefer companies that maintain profits and thus provide returns in the form of lower capital gains than dividends with higher taxes . If the theory of tax preference is correct, then the increase in the ratio of dividend payments from the current zero level will cause the stock price to fall and the cost of equity to rise.

Agency Cost

Agency issues that are caused due to problems of interest and there is assimetry of information this raises agency costs, which according to Jensen and Meckling (1976) consist of: (a) The monitoring expenditures by the principle. Monitoring costs are issued by the principal to monitor agent behavior, including efforts to control agent behavior through a budget restriction, and compensation policies (b) the bonding expenditures by the agent. The bonding cost is issued by the agent to ensure that the agent will not use certain actions that will harm the principal or to guarantee that the principal will be compensated if he does not take many actions. (c) The residual loss which is a decrease in the level of principal and agent welfare after the relationship agency.

The Value of the Company

The value of the company in this study is as a market value, because the value of the company will provide maximum shareholder prosperity when the company's stock price increases. According to Brigham and Erdhadt, Company Value is the present value of future free cash flow at the discount rate according to the weighted average cost of capital. Free cash flow is the cash flow available to investors (creditors and owners) after calculating all expenses for the company's operations and expenditures for investment and net current assets. To be able to determine the value of a company, financial ratios can be used. The ratio of the market value of the company indicates the performance and prospects of the management based on investor judgment. The Tobin Q ratio is chosen as the ratio that will proximate the value of the company. This ratio was chosen because it was able to provide the best information. (Sukamulja, 2004).

RESEARCH METHODS

The method used in this study is a literature study in several journals that discuss conflicts that are almost the same. Literature study method is a method of data collection directed to the search for data and information through journals, research results, and electrical documents that can support the writing process (Sugiono: 2005).

DISCUSSION

Dividend Policy Affects Company Value

Empirical studies and literature reviews conducted showed that the dividend policy had a significant positive effect on the value of the company. The results of this study confirmed the theory of bird in hand theory proposed by Gordon and Lintner. These results indicate the existence of information asymmetry between investors and company managers that have an impact on investor responses related to the company's dividend policy which then affects the value of the company. It can be interpreted that investors interpret changes in the level of dividend in the view of management as a future prospect for the company, but this study does not support the irrelevance theory dividend as proposed by Miller and Modigliani (1961) that dividend policy does not affect firm value and strengthen the signaling theory proposed by Battacharya (1979) then research from Riza and Muid (2014) which states dividend policy does not affect the value of the company.

Agency Costs affect the Company's Value

The empirical studies and literature reviews that we did still have differences in results regarding the influence of agency costs on firm value, research by Riza and Muid (2014) states that agency costs do not affect firm value and research from Isti Fadah (2010) states agency costs affect the value of the company , because agency costs will create a value for the company. The influence of agency costs on company value is still occurring maze and not yet detailed, because the measurement of agency costs of the proxies is still too far so that it still causes limitations in achieving the objectives of the study.

CONCLUSION

Dividend policy affects the value of the company, because dividends can attract investors to invest their capital which will have a positive impact on the increase in stock prices, and agency costs do not directly affect the value of the company because the proxy is used too far to measure agency costs.

IMPLICATION

Future research is expected to add the Theory of Firm by Jensen and Mackling (1976) and use other proxies outside of total asset turn over and administrative costs to measure agency costs.

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