

Financial Policy and Firm's Value: Pancasila Corporate Governance Disclosure as Moderating Variable

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Abstract: The impression of a company's performance by an investor is known as firm value. The growth in the stock price of a corporation indicates good performance. The company's ability to prosper its shareholders is demonstrated by the increase in its share price. Many factors influence the company's worth, including both internal and external issues. The objectives of this study are to investigate 1) the impact of financial policy on firm value (FV) and 2) the moderated impact of Pancasila Corporate Governance Disclosure (PCGD) on the relationship between financial policy to FV. The dividend payout ratio (DPR), investment opportunity set (IOS), and debt-to-equity ratio (DER) are all indicators of financial policy. The sample size is 66 companies listed on the Indonesia Stock Exchange (IDX) over a 10-year period. Moderating Regression Analysis is used in this study. The results revealed that DPR and DER have a significant effect on FV; however, IOS has no such effect. PCGD has the ability to control the relationship between DPR and DER to FV, but not the relationship between IOS and FV.

Keywords: firm's value, dividend policy, investment policy, financing policy, Pancasila corporate governance disclosure.

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INTRODUCTION

Firm value (FV) depicts how the company is viewed by investors. For investors, the concept of FV is crucial. It is a metric used by the market to evaluate the company (Nurlela & Islahuddin, 2008). Investors perceive a firm to be good if it has promising prospects, making it profitable to invest in its stock. As a result, it is projected that the company's shares will be appealing to investors, resulting in vigorous trading. The market valuation of the corporation rises as the number of active shares rises.

The following are the factors that have influenced FV: 1) market factors which include economic conditions, government regulations, and competitive situations (Arifianto & Chabachid, 2016; Utomo, 2016), 2) operations, funding policy, investment policy, and dividend policy. These operating factors provide net cash flow for the



company (Wijoyo, 2018; Kholis et al., 2018), and 3) investor factors (Wijoyo, 2018; Gultom et al., 2013). Income, age, interest rate, and preferences risk are all factors to consider. The projected rate of return is determined by this element (Devi et al., 2017).

Internal factors have influence on FV. It is relating to company financial policies, such investment, dividend, and finance policy. Investment decisions are linked to the process of selecting advantageous investment possibilities (Sudana, 2011). Alternative sources of funding utilized by businesses to support operations and developments are referred to as funding decisions. Internal and external sources of alternative funding are available (Keown et al., 2011). A company's dividend policy is related to the company's decision to distribute dividends to shareholders. The policy of distributing dividends illustrates the improvement in the company's financial condition and increase in the wealth of the shareholders.

The relationship between financial policy and FV is explained by signal theory. This theory explains why companies have the urge to provide information to stakeholders. This signaling is an action by the management to provide instructions to investors about how management views the company's prospects (Brigham & Houston, 2016). This theory explains why, despite the lack of legal requirements, firm executives voluntarily report information about the company to the capital market.

Previous research relates to the information content of financial policy yielded mixed results. Investment policy has a considerable impact on FV (Frederica, 2019; Dogru & Sirakaya-Turk, 2017). The investment decision is a plan to boost corporate profitability while lowering risk and increasing FV. Other research, on the other hand, has discovered that investment policy has no impact on FV (Endri & Fathony, 2020; Soebyakto et al., 2017).

Several researchers found that DER has affected FV (Hirdinis, 2019; Alza & Utama, 2018). The capital structure of a corporation will be influenced by the financing sources used. DPR results in cash outflows from the company, reducing the amount of free cash available to fund the company's activities. It causes the market to have a negative reaction to the company, resulting in a fall in FV. DPR did not have influence on FV (Anggraeni & Sulhan, 2020; and Yuliani et al., 2013). However, some studies found that the dividend policy has a positive impact on FV (Budagaga, 2017; Kusiya & Arief, 2017).

The problem of information asymmetry exists in signal theory. Information asymmetry occurs when information about a company is not widely disseminated. Some parties have a lot of information, while others have very little knowledge (Hartono, 2010). This circumstance allows parties with a lot of information to conduct fraud. To resolve the conflict of interest, a Good corporate governance (GCG) mechanism is required. GCG is a business principle that aims to improve the company's efficiency and economic growth while also boosting investor confidence (Shleifer & Vishny, 1997). The relationship between financial policy and FV is influenced by GCG (Noviani et al., 2019).

Previous research has investigated the impact of GCG on the relationship between financial policy and FV, with a wide range of outcomes. GCG has not been able to control the relationship between financial policies and FV (Hermawan & Ajimat, 2020; Noviani et al., 2019). The others study found that GCG decreased the relationship between financial policy and FV (Ashary & Kasim, 2019). GCG has not been able to strengthen the relationship between financial policy and FV.

Due to internal and external constraints, the implementation of GCG in Indonesia has stalled (Wibowo, 2010). Commitment of leaders and employees, lack of awareness of GCG concepts, lack of role models offered by leaders, lack of corporate culture to support the fulfillment of GCG principles, and an inadequate internal control system are all examples of internal issues (Djarmiko, 2004). Legal tools, rules, and law enforcement are

examples of external forces. As a result, the implementation of GCG should be designed to foster a company-wide ethos and values based on social culture. The community's social culture is concerned with social values such as knowledge, social structure, living equipment and technology, economy, religion, and the arts (Lararengana, 2020).

Pancasila develops the social culture into five elements: divinity, humanity, unity, leadership and mutual collaboration, and mutual welfare. The concepts of GCG, including transparency, accountability, responsibility, independence, and justice, can be adequately fulfilled through internalizing these values, with high support and commitment from all levels of management. In a developing society, socio-cultural values serve as a medium for fostering good accountability, information disclosure for all members of society, independence from outside influences in determining attitudes, togetherness, and deliberation for consensus, proper taste, mutual respect, cooperation, and mutual welfare (Griffin et al., 2018).

As a result, the internalization of the nation's noble values in the execution of GCG will be examined and analyzed in this study (Armia, 2002). The order of the nation's noble principles and community culture becomes the standard by which people's lives are regulated (Sibarani, 2012). The company's culture, which is based on the ideals of the nation's culture, has a significant impact on the success of GCG implementation. This is also in line with Groysberg et al. (2018) and Ntongho (2016), who state that when building socio-culture within a corporation, model stakeholders and shareholder interests should be considered. The implementation of GCG is influenced by the evolution of this socio-cultural model.

METHODS

All companies listed on the IDX from 2009 to 2018 were included in this study's population. Purposive random sampling with particular criteria was employed to pick the sample. For a 10-year observation period, 66 companies were selected based on these criteria. Specific variable selection and definition are shown in Table 1.

Table 1 Variable Definition and Measurement

Variable	Definition	Measurement
Pancasila Corporate Governance Disclosure	Corporate governance mechanisms were developed by the Indonesia culture. PCGD contains 5 principles with 44 disclosure items	PCGD = Amount of disclosure items/total disclosure item
Investment policy	The breadth of investment opportunities and dependent on the company's spending choices in the future (Hikmah et al., 2019; Skinner, 1993)	IOS = $(\text{Total assett} - \text{Total assett-1} / \text{Total assett-1}) \times 100\%$
Dividend Policy	Part of the company's profits that are distributed to shareholders (Gusni, 2017)	DPR = $(\text{Dividend payment} / \text{Net income}) \times 100\%$
Funding Policy	The company's financial structure that can come from within the company or outside (Ahmadimoussabad et al., 2013)	DER = $(\text{Total Liabilitie} / \text{Total Equitiy}) \times 100\%$
Firm's value	The market price of the company's shares and bonds in the capital market. It is measured by Tobin's Q (Singh et al, 2017)	Tobin's Q = $((\text{Market value equity} + \text{Debt}) / \text{Total Assets}) \times 100\%$

In this study, there are two models. Moderated Regression Analysis (MRA) is used to process the study model, because the study model involves an interaction between the independent and moderating variables (Ghozali, 2018). The following is the research model:

$$FV = \alpha + \beta_1 DPR + \beta_2 IOS + \beta_3 DER \dots\dots\dots (1)$$

$$FV = \alpha + \beta_4 DPR*PCGD + \beta_5 IOS*PCGD + \beta_6 DER*PCGD \dots\dots\dots (2)$$

RESULTS AND DISCUSSION

The test was conducted to determine the effect of DPR, IOS and DER on FV. The results of the data processing can be seen in the Table 2, namely:

Table 2 Result of model testing

Variable	Coefficient	Std. Error	t-value	prob-value	Significance
DPR	2,585	0,377	6,861	0,000	Significant
IOS	0,240	0,572	0,420	0,675	Insignificant
DER	-0,117	0,0054	-2,158	0,031	Significan
Const	1,468				
R Square	0,082				

Source: Data processing result

Based on Table 2, the regreesion equal is:

$$FV = 1,468 + 2,585DPR + 0,240IOS - 0,117DER$$

The coefficient determination is 0.082. DPR, IOS, and DER have affected an 8.2% on FV, with the remaining 91.8 percent influenced by other variables. This implies that DPR, IOS, and DER have limited ability to explain FV variation. Table 2 reveals that H1 was approved, H2 was rejected, and H3 was accepted.

Data processing and testing by including PCGD as a moderating variable obtained the following results:

Table 3 Result of model testing

Variable	Coefficeint	SE	t	Prob-value	Significance
DPR*PCGD	7.068	0.847	8.349	0.000*	Significant
IOS*PCGD	0.181	1.534	0.118	0.906	Insignificant
DER*PCGD	-0.322	0.107	-3.019	0.003*	Significant
Constant	1.497				
R square	0.105				

Source: Data process result

Based on Table 3, the regression equation is:

$$FV = 1,5497 + 7,068DPR*PCGD + 0,181IOS*PCGD - 0,322DER*PCGD$$

DPR, IOS, and DER, which are interacted by PCGD as a moderating variable, have a coefficient of determination (R square) of 10.5 percent. This demonstrates that DPR*PCGD, IOS*PCGD, and DER*PCGD have an overall effect of 10.5 percent on FV, with the remaining 89.5 percent influenced by other variables. Table 3 reveals that H4 is accepted, H5 is rejected, and H6 is accepted.

DPR has an effect on FV, according to the test results. The findings of this investigation are consistent with signal theory. The publishing of information in the capital market can influence the investor's behavior, according to this signaling theory. This means that dividend payments contain information that has an impact on FV (Taneem & Yuce, 2011). The significance of the information released is understood as the content of the material. This study's findings are consistent with Harjanti et al. (2019), Maulina et al. (2018), and Budagaga (2017). By providing dividends to shareholders, the company sends good signals to investors, indicating that it is profitable (Haider et al., 2012; Shah et al., 2010).

This result is supported by Bird in the Hand theory (Ozuomba et al., 2016; Lintner, 1956). According to this theory, shareholders prefer dividends because (1) dividends are more predictable based on the company's fundamentals, (2) dividends have a high level of profit, (3) dividends have a lower risk, and (4) dividends can be controlled by the company.

However, the findings of this study differ with Anggraeni & Sulhan (2020), Alza & Utama (2018). The discrepancy of the findings of this study with those of other earlier studies suggests that the dissemination of information has a mixed effect on investor behavior. Investors' investment decisions are not always based on basic analysis, one of which is dividend payments, because DPR is inconsistent with information content.

IOS had no influence on FV, according to the findings of this investigation. The signal theory does not support this outcome. Investors are not enthusiastic about information on investment policies for business development. This is because the investment strategy is long-term. This is bad news for investors because IOS requires a lot of money and comes with a lot of risk. Furthermore, the company's ability to pay dividends is harmed by this investing strategy. Investors put their money into stocks in the hopes of making quick money. It will improve their well-being and raise their investment in stock.

Endri & Fathony (2020), as well as Fajaria et al. (2017) support the findings of the study. However, this finding contradicts Frederica (2019) and Putri & Setiawan (2019), who found that IOS has an impact on FV. Due to numerous factors, including investor perception, firm size, and industry type, this study differs from several earlier studies.

According to the findings of this study, DER has an effect on FV. The choice to choose the source of financing for the company's operations and business development is referred to as DER. The findings of this investigation are consistent with signal theory. Shareholders receive a signal from DER. It shows that DER information influences shareholders' decisions to trade stocks and has an impact on FV. This finding is consistent with Hirdinis (2019) and Alza & Utama (2019). Shareholders are extremely sensitive to information on corporate debt, which influences their reactions since the company's obligations to third parties influence their judgments.

However, the findings of this study differ with Endri & Fathony (2020) and Aggarwal & Padhan (2017). The discrepancy of the study's findings suggests that the importance of information provided in the capital market varies. Several factors, including the amount of DER and the company size, contribute to the disparity in the outcomes of this study.

According to the findings of this study, PCGD can help to control the relationship between DPR and FV. This demonstrates that PCGD can act as a buffer between DPR and FV. The GCG mechanism was created by incorporating components of divinity, justice, and civilisation, nationalism, leadership, social welfare, and

equality into the GCG mechanism. It is a positive signal for the market, and it has the potential to impact the relationship between DPR and FV.

This result was supported by Mubaraq et al. (2021) and Sari & Wahidahwati (2018) found that GCG mechanism influences the relationship between DPR and FV. This demonstrates that PCG has an impact on the relationship DPR to FV. With the deployment of the GCG mechanism, the strength of the relationship between DPR and FV is improving.

However, the findings of this study differ with those of Nasution et al. (2019) and Nurdin & Kasim (2017). Economic conditions, the assessment of GCG mechanism, company size, and amount of dividends given are some of the reasons for the contradiction of study's conclusions

PCGD was found to be unable to control the link between IOS and FV in this investigation. This suggests that the PCG mechanism has no bearing on the IOS-FV relationship. Information about the PCG mechanism is useless and has no bearing on the link between IOS and FV. This means that disclosing information about the PCG method will not send a signal to the market that will influence the relationship between IOS and FV.

Gustiandika & Hadiprajitno (2014) supported the result of this research. This suggests that the PCG mechanism has no effect on the strength of the relationship between IOS and FV. Short-term and long-term investments are included in IOS. The inclination of shareholders to place a greater emphasis on the near term has little bearing on FV. PCG mechanism has no bearing on the relationship between IOS and FV.

The findings of this study, however, contradict those of Sulhan & Purnamasari (2010) and Sari & Wahidahwati (2018), who found that the GCG mechanism has an impact on the relationship between IOS and FV. The inconsistency of the results of this study is caused by several factors, namely risk perception, firm size, and type of investment.

PCGD was discovered to be able to mitigate the relationship between DER and FV. These findings suggest that disclosing the PCG in the annual report can have a considerable impact on the link between DER and FV. This outcome is consistent with signal theory. Information content exists in the disclosure of PCG mechanism information. The information's substance serves as the foundation for shareholders to transaction of company stock.

This finding is consistent with Aduroh et al. (2020). The company's finance policy is determined by a third party/external party or by the company's internal resources. The corporation is burdened by the cost of capital for the fundraising as a result of this funding policy. However, the findings of this study differ to Tumanggor et al. (2019). The study's findings differ due to a number of circumstances, including simple access to finances and the utilization of funds from third parties.

CONCLUSION

Several implications can be derived, including 1) the company's public disclosure of information on DPR and DER policy should be a top priority. This information publication contains useful information and positive investor reactions, and 2) PCGD provides good information content to control the interaction between DPR and DER on FV. PCGD has the ability to improve or decrease this relationship. Some limitations exist in this research, such as 1) the GCG mechanism, which is based on Pancasila, can only be viewed from the company's disclosures that are given and published in the annual report, and 2) the PCG mechanism's disclosure is measured by the disclosure sentences carried out and released by the corporation in its annual report. Further, because the GCG mechanism is more obvious, researchers are recommended to look directly at its implementation by incorporating the socio-cultural characteristics of the Indonesian as portrayed in Pancasila. Completion of elements for PCG mechanism

disclosure, considering input from diverse parties such as academics, capital market actors, publicly traded firms, and the Financial Services Authority. The next step is to categorize the findings depending on company size, industry, and age. This must be done to improve research outcomes.

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