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Analysis of Factors Affecting Shareholder Value Creation Case Study of Soe in Indonesia

Farah Margaretha Leon and Almira
Faculty of Economics and Business, Universitas Trisakti Jakarta, Indonesia
Jl. Kyai Tapa Grogol Jakarta 1140 Indonesia

Abstract: The problem in this research is the effect of debt to equity ratio, dividend payout ratio and return on equity to the creation of shareholder value. This research purposes was to determine the factors that affect the creation of shareholder value of SOE (State-Owned Companies) / BUMN go public. The methodology used in this study is a panel regression with classical assumptions. The samples used were 12 state-owned companies go public during the period 2010-2016. This study result is the debt to equity, the dividend payout ratio and return on equity affect to the creation of shareholder value. The implication of this research is the management company should make efforts in the company's policy is capable of leading to an increase in EVA (Economic Value Added) as well as considering the calculation of debt to equity ratio, dividend payout ratio and return on equity is owned company in order to improve the performance of the company itself and for investors should use the EVA value and see the benchmark of debt to equity ratio at a low value, and the value of dividend payout ratio and a high return on equity in a company as a reference in the selection of the company's shares.

Key words: *debt to equity, dividend payout ratio, EVA, returns on equity, shareholder value creation.*

INTRODUCTION

The development of capital market in Indonesia has made the capital market as an alternative funding of many companies in order to acquire an additional capital. In line with the economy development, many companies are doing business expansion for that purpose, the company requires a relatively large funds. In the financial literature, the main purpose of a company is to increase the company's value through increasing prosperity of the owners or shareholders. Good performance will be able to assist management in achieving corporate goals. The higher the performance of the company, then it will be better the company's value in the eyes of investors. If the performance is increased, then the value of the company will increase and the shareholders' prosperity will also increase [1].

The existence of a company starts from the investment of the investors. Investment in individual companies comes from individual owners, while investment in limited liability company (PT) is derived from the shareholders. Therefore, the company is necessary to always consider the welfare of the capital owners by maximizing the company value since the company value is a success measurement of the financial functions implementation. In the capital market, the competitive and global business challenges sue the company to always evolving and dynamic, so that it is necessary to increase the productivity and efficiency of the entire power of the national economy [2].

A company should be able to compete to survive in the market and continues to grow in the long period of time. In order to enhance the company value, the shareholder welfare is a top priority of a company that *goes public*. One way that can be done in an effort to involve private capital is by selling company shares through the capital market (go public). This is done so that the company gets a positive response from prospective investors; so many investors are interested in buying the company's shares. The existence of state-owned enterprises (SOE) as the public sector has a vital role

Corresponding Author: Farah Margaretha Leon, Faculty of Economics and Business, Universitas Trisakti Jakarta, Indonesia, Jl. Kyai Tapa Grogol Jakarta 1140 Indonesia. E-mail: farahmargaretha@trisakti.ac.id, Tel: +62 021 5663232

in the growth of the national economy, because the SOEs not only master a strategic importance lines but also contribute as a source of revenue for the state in the form of dividends from the state income tax sector In general, the intent and purpose of establishment of state-owned enterprises is divided into two, which is economic and social. In the economic sphere, the SOEs is intended to contribute to the national economy in general and the state revenue in particular the pursuit of profits, as well as being a pioneer of economic activities that cannot be implemented private sector and cooperatives. Meanwhile, in the social sphere, the SOEs intended to organize public in the form of provision of goods and / or services that are high quality and adequate for fulfillment of the lives of many people and contribute actively provide guidance and assistance to employers of economically weak groups, cooperatives and community [2, 3] ,

The existence of state-owned enterprises is expected to increase the prosperity of people as mandated in Article 33 UUD 1945, and according to the Law Number 19 Year 2003 on State-Owned Enterprises, the definition of SOEs/ Badan Usaha Milik Negara (BUMN) is a business entity of all or most of its capital owned by the State through direct investments originating of State assets were separated. Definition of the *go public* company is the company that sells shares to the public and listed on the Stock Exchange. The benefits obtained by the company go public is to obtain a competitive advantage for business development, upgrading *going concern*, enhance corporate image and enhance corporate value, while the consequences of acquired companies go public, namely the various ownership and comply with capital market regulations applicable [3].

The participation of some state-owned companies to go public, to enliven the Indonesian stock exchange provides a great opportunity for investors to own a majority of shares of the state-owned company. Implications state-owned companies to go public should improve its performance so that investors want to invest, not least state-owned enterprises concerned must provide a promising stock returns to investors and shareholders.

Certainly not all the listed issuers on the Stock Exchange recorded a brilliant performance. Therefore it takes foresight investors in the selection of stocks that will be used as a portfolio to get the optimum return. Investor least have good analytical skills in selecting stocks in order not to incur losses both technical and fundamental analysis. Investment is a commitment to the funds establishment on one or several objects in the hope of investment will have benefit in the future. Two elements inherent in any capital or funds invested are the results and risks. These two elements always have a comparable reciprocal relationship. Generally, the higher the risk the greater the results obtained, and the smaller the risk the smaller results will be obtained. In order to attract investment from various investors, the management company in terms of trying to provide a greater return from the capital invested by the shareholders [4].

In order to maintain the company's existence in the business environment, managers as a driving force in the company to its position as a manager can be maintained, are fully responsible for the management of the company, retain the property (assets) of the company from year to year in order to grow, and corporate profits from year to year increases. It later became the company's main objective benchmark of how to create value for the company in order to maximize the welfare of shareholders [4].

The existence of state-owned enterprises as a business entity basically has a huge opportunity to grow as it has a variety of potential supporters among them the existence of SOEs in virtually all sectors of business, ownership of assets is large, business experience and brand image of SOE. The participation of some state-owned companies to go public in Indonesia Stock Exchange provided a great opportunity for investors to own the majority shares of the state-owned company. The implications is *go public* state-owned companies should increase the company's performance that investors want to invest, not least state-owned enterprises concerned must provide a promising stock return to investors. Chosen SOEs as research objects due to state-owned enterprises listed on the Indonesia Stock Exchange consists of several sectors so as to reflect the overall capital market reaction. SOE has a great contribution in the year, according to IDX data in 2012 there were 20 state-owned enterprises listed on the Stock Exchange including SOE managers [2,3].

The main objective of the company is to maximize shareholder wealth, in addition of the shareholders' benefit, this goal also ensures the company's resources are allocated efficiently and provide economic benefits. A company creates value for shareholders when the return of shareholders exceeds investment. In other words, a company creates value in a year when the return of shareholders exceeded expectations and the value of the company, was later named as the creation of value for shareholders. For investors the creation of value for the company is considered important as an evaluation to take economic decisions related to management performance. [4]

The concept of *economic value added* is considered to declare the amount that directly measures the value creation for shareholders. Experts developed the EVA (Economic Value Added) as an alternative in order to show all the components of gain measured in the cost of capital. EVA is able to cover the weaknesses of financial ratio analysis so that both gauge financial performance can help and complement each other in measuring the financial performance of the company.[5]

In contrast to the traditional accounting performance measurement, performance measurement with EVA considers the shareholders' interests (which is to increase shareholder prosperity). EVA explicitly take into account the capital cost on equity and recognizes that, because of the higher risk faced by the equity owners, the level of capital cost on equity is higher. The presumption of the equity fund is cheap funds due to not accounting of the capital cost on equity in the profit and loss statements as if it was free. The use of EVA explicitly include the capital cost on equity would change this view and will cause companies to be more careful in determining the capital structure policy. So, it can conclude that EVA takes into account the capital cost on company investment [6].

Therefore, this study was conducted to analyze the factors that influence the shareholder value creation by seeing the impact of the debt to equity ratio (DER), dividend payout ratio (DPR) and the return on equity (ROE) by using the research object on go public state-owned enterprises.

LITERATURE REVIEW

Research on shareholder value with the object of manufacturing company and use to see one of the factors that influence the creation of shareholder value. The results of the research stated that DER effects positive and significant on the creation of shareholder value, which means that higher the DER, the greater the creation of shareholder value. Research on shareholder value creation is to see factors that affect shareholder value by using cash flow variables, DER and market-to-book value of equity. The results of the study stated that the DER has no effect on the creation of shareholder value.

While research by uses variable of DER, DPR, ROE and CSR to see the performance of the company's shareholders and the results of the research that DER effects significant negative on shareholder value, which means the higher the DER, the smaller the creation shareholder value. [5,7,8]

Research with the object of manufacturing and use to see one of the factors that influence the creation of shareholder value. The results of the study stated that DPR effects positive significant on the creation of shareholder value, which means that the higher the DPR, the greater the creation of shareholder value.

Research conducted by [8] to see one of the factors that affect shareholder value by using the DPR. The results of the study stated that the DPR, which means the DPR effects significantly means the higher the DPR, the greater the creation of shareholder value.

Research by which also uses DPR variable proves that the variable is positive significant effect, which means the higher the DPR, the greater the creation of shareholder value. [5,8,9]

Research by[10] which uses the dependent variable PBV and see factors shareholder value by using variable of DER, growth, company size and ROE. The research result states that return on equity variable affects the shareholders; it proves that the return on equity effects positively; means the higher the ROE, the greater the creation of shareholder value.

The study by [8] conducted to see the effect of ROE to shareholders. The study result proves that the ROE effects significant positive on shareholder value means the higher the DER, the greater the shareholder value creation.

Similarly, in the study [9] which is in the study using ROI and ROE profitability variables showed that there is a positive significant effect between ROE and shareholder value, which means the higher the DER, the greater the creation of shareholder value.

The main objective of the company is to maximize shareholder wealth, in addition to the benefit of shareholders, this goal also ensures the company's resources are allocated efficiently and provide economic benefits. A company creates value for shareholders when the return of shareholders exceeds investment. [6]

In order to evaluate the optimal performance of the different business units criteria have been used, which is a variable value-based performance assessment. The creation of shareholders value means residual income for shareholders. It is the excess return on capital costs can be measured by the method of EVA. For investors the creation of value for the company is considered important as an object of economical evaluation to take decisions related to management performance. Some researchers are analyzing the factors that can influence the creation of shareholder value held in a company.

EVA describes the rest of the company's revenue after deducting the cost of capital as a whole. In other words, EVA measures the extent to which the company has increased shareholder value. Therefore, if managers are focused on EVA, this will help to ensure that managers operate consistently in maximizing shareholder value, so that there is a positive relationship between EVA with shareholder value. From previous studies suggests that there are several factors that influence the creation of shareholder value, so in this study will analyze the main factors that affect the creation of value for shareholders and elected three main variable

In the study by [8] states that the debt to equity ratio (DER) effects significant negative on shareholder value but on research by [6] states stated that DER effects positive significant on shareholder value.

Based on the above opinion, made several hypotheses as follows:
H_1: There is an influence of the debt to equity ratio (DER) to the creation of shareholder value.

The higher the dividend payout ratio (DPR), the higher the shareholder value creation. Its mean state that there is a positive significant effect between dividend payout ratio (DPR) and the creation of shareholder value. [6,8,9]

Based on the above opinion made several hypotheses as follows:
H_2 : There is an effect of the dividend payout ratio (DPR) to the creation of shareholder value.

The higher the return on equity (ROE), the higher the shareholder value creation. Its mean state that there is a positive significant effect between the return on equity (ROE) and the creation of shareholder value. [8,10,12]

Based on the above opinion made several hypotheses as follows:

H_3 : There is an influence of Return on Equity to value creation for the shareholders of the company.

RESEARCH METHODOLOGY

This research population is all state-owned sector companies listed on the Indonesian Stock Exchange in the study period of 7 years (2010-2016). Up to December 31, 2016 there were 20 state-owned sector companies listed in the Indonesian Stock Exchange, but researcher has chosen the companies that has the financial statements in Rupiah form and complete its financial statements.

The data used in this research is secondary data, namely the data already available or provided by another party. The data used came from some websites such as a website from related company, the Indonesian Stock Exchange, and the website of the state-owned company.

Panel data analysis method:

$$EVA_{it} = \alpha + \beta_1 DER_{it} + \beta_2 DPR_{it} + \beta_3 ROE_{it} + \varepsilon_{it}$$

Equation description:
DER = *Debt to equity*
DPR = *Dividend Payout Ratio*
ROE = *Return On Equity*
ε = *error*
i = 1-12 SOE
t = year 2010-2016

Table 1
Measurement of Research Variables

Variable	Proxi	Measurement	Refference
Shareholder Value Creation	EVA (Y)	EVA= NOPAT – (WACC x Invested Capital) NOPAT= Net Income After Tax + interest expense WACC= [(Wd x Kd) (1-tax) + (We x Ke)] Invested capital= Short Term Liabilities +interest bearing liabilities+ shareholder equity	[6]
Capital Structure	DER (β_1)	$DER = \frac{Total\ liabilities\ (\text{Total kewajiban})}{Total\ Equity\ (\text{Modal Sendiri})} \text{x}100\%$	[8]
Dividend	DPR (β_2)	$\text{DPR} = \frac{Dividen\ Per\ Share}{Earning\ Per\ Share} \text{x } 100\%$	[9,13]
Return on Equity	ROE (β_3)	$\text{ROE} = \frac{Laba\ bersih}{Equitas} x100\%$	[8,10]

RESULT AND DISCUSSION
Research Object Description

This research is a quantitative research which conducted secondary data test statistic obtained from the Indonesia Stock Exchange (BEI). Table 2 shows that there are 12 *go public* state-owned companies are selected in the study from 2010 to 2016. Companies that do not meet the criteria sample consists of companies that do not have a complete financial statement, bringing the total enterprise as research data as many as 12 companies with a total sample of 84. The sample selection procedure can be seen in Table 2.

Table 2
Sample Selection Procedures of State-Owned Company (BUMN)

Sample Criteria	Total Company	Total Observation
Go public state owned companies	20	140
Financial report in US $	3	21
Not complete financial report	5	35
Total sampel	**12**	**84**

Selection of the sample in this study was conducted using *purposive sampling* method based on predetermined criteria. The samples selected were 12 state-owned companies that have gone public or listed on the Stock Exchange. Those companies have represented some of the corporate sector in Indonesia, namely pharmaceutical, mining, banking, energy and others. After the data the company collected, then calculate the number of data samples to be analyzed. The selection process of used data sample is presented in Table as follows:

Table 3
State Owned Companies by Sector

No	Sector	Total	Percentage
1.	Pharmaceuticals	2	16.67
2.	Energy	1	8.33
3.	Construction	2	16.67
4.	Banking	3	25.00
5.	Mining	2	16.67
7.	Infrastructure, Utilities &Transportation	1	8.33
8.	Telecomunication	1	8.33
Total		12	100.00

Hypothesis testing is done to determine the significant influence of the independent variable on the dependent variable. Hypothesis testing is done by testing a panel regression with *fixed effect* model at the 95% confidence level and 5% error in the analysis.

Table 4
Hypothesis Testing Results

Hypothesis	Description	B	Significant Value	Result
H_1	DER has influence to EVA	-0.3408	0.0013	Negative significant
H_2	DPR has influence EVA.	0.9543	0.0003	Positive significant
H_3	ROE has influence EVA	0.5365	0.0138	Positive significant

Based on the table above which is produced from *eviews* models, it can be concluded a hypothesis test from the significance results or influence of independent variables on the dependent variable as follows:

Hypothesis 1

The test results shows the DER significant value is equal to 0.0013 which is less than alpha ($\alpha = 0.05$) so that the H_1 can be accepted. This suggests that the debt equity ratio (DER) has a negative significant effect on the dependent variable; namely the creation of shareholder value which means the higher the DER the lower the shareholder value creation. [14]

Hypothesis 2

The *t* test results show that significant value of dividend payout ratio (DPR) is equal to 0.0003 which is less than alpha ($\alpha = 0.05$) so that the H_2 can be accepted. This indicates that the dividend payout ratio (DPR) gives positive significant effect on the dependent variable, namely the creation of shareholder value, which means the higher the DER the higher the shareholder value creation. This is accordance with research from [6,8,9]

Hypothesis 3

The *t* test results show the significant value in return on equity (ROE) amounted to 0.0003 which smaller than alpha ($\alpha = 0.05$) so that the H_3 is acceptable. This shows that the return on equity (ROE) has a positive significant effect on the dependent variable, namely the creation of shareholder value, which means the higher the return on equity (ROE) the higher shareholder value creation. This is according to research from [8,9]

CONCLUSION & IMPLICATION

Based on the results of data analysis that has been done *Debt to equity ratio* (DER) has a negative significant effect on the creation of shareholder value, while *Dividend payout ratio* (DPR) and Return on equity has a positive significant effect on shareholder value creation.

The result of this research is giving a benefit to the management of company should make efforts in the company's policy is capable of leading to an increase in EVA as well as considering the calculation of debt to equity ratio (DER), dividend payout ratio (DPR) and the return on equity (ROE) of the company in order to improve company performance itself. One way is to reduce the number of loans that do not exceed the amount of equity held, trying to increase net income and also enhance the company's efficiency in managing asset.

This study suggest to the investors to use EVA value of the company as a reference in the selection of the company's shares. In addition, if the investor wants to invest should look at the benchmark value of the debt to equity ratio (DER) with a low value and the value of dividend payout ratio (DPR) and the return on equity (ROE) is high in a company as a reference in the selection of the company's shares. Because by looking at the value of DER can describe the company's ability to repay existing debt by using capital / equity owned, the higher the value of DER certainly more risky finance companies, then see the DPR value as it can provide information to investors that the company has a good prospects in the future by looking at the net profit achieved, and the latter saw the value of ROE for the ROE is not only able to determine the amount of income earned from the investment of capital committed by investors but by analyzing the ROE the shareholders can gauge the extent to which the company can manage own capital effectively.

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