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The Effect of Profitability and Asset Structure on Capital Structure, Dividend Policy and Corporate Value: Study on Manufacturing Companies Listed in Indonesian Stock Exchange Year 2008-2012

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Abstract

The purpose of this study is to examine and analyze the effect of profitability and asset structure on capital structure, dividend policy and corporate value on manufacturing companies listed in Indonesia Stock Exchange. The sample is 33 companies listed in Indonesia Stock Exchange during the five-year observation period, namely from 2008 to 2012. The data collection technique is using historical data in financial reports officially published on the website of the Indonesian Stock Exchange. The data were analyzed using descriptive statistical analysis and Generalized Structural Component Analysis (GSCA). The result shows that profitability has a significant effect on capital structure, capital structure has a significant effect on profitability, profitability has a significant effect on corporate value, dividend policy has a significant effect on profitability, asset structure has a significant effect on capital structure, capital structure has a significant effect on asset structure, asset structure has a significant effect on corporate value, asset structure has no significant effect on dividend policy, dividend policy has a significant effect on asset structure, profitability has a significant effect on dividend policy, capital structure has no significant effect on dividend policy, dividend policy has a significant effect on capital structure, capital structure has a significant effect on corporate value, and dividend policy has a significant effect on corporate value.

Keywords: *Profitability, Asset Structure, Capital Structure, Dividend Policy and Corporate Value.*

1. INTRODUCTION

Profitability is the company's ability to generate profits and measure the level of operational efficiency and efficiency in the use of property owned by a company (Chen and Steiner, 1999). Aside from being an indicator of a company's ability to meet its obligations to the shareholders, company profit also serves as an element in creating corporate value that demonstrates the company's future prospects. An increase incorporate value along with a rise in share prices of firms is often synonymous with increasing company profit. Therefore, company manager who acts as the company agent will make every effort in order to increase company profit as many as possible. For the company manager, company reputation is reflected in higher company profit which is followed by rising stock price. Such condition will illustrate increase in wealth for the owners of the firms and at the same time it increases the wealth of the shareholders. The company's goal can be achieved through cautious and meticulous financial management functions, given that any financial decisions taken will affect other financial decisions that affect corporate value (Fama and French, 1998). Agency theory suggests that there are two main benefits of maximizing corporate value; the first is for the company owners or shareholders/investors and the second is for the company agent, in this case the board of directors (Grossman and Stiglitz, 1977). The manager works on behalf of the shareholders, which means that they should adhere to the policies that can increase shareholder value (Brigham and Houston, 2004). Therefore, the normative purpose of financial management of a company is to increase the corporate value, which is reflected in its share price (Qureshi, 2006).

Wu and Xu (2005) suggest that funding decisions and dividend policy will affect corporate value in imperfect capital market condition, for example the existence of tax, agency conflict, and asymmetrical information. The statement is based on the opinion of Modigliani and Miller (1963), who indicate that funding from debt will increase corporate value because of the tax savings from interest payments on the debt, and some of the findings of empirical studies conducted by Gordon (1959), Bhattacharya (1979) and Miller and Rock (1985) which state that dividend will affect the stock price (corporate value) because dividend payment is a positive signal about future prospects of the company. Profitability, asset structure, capital structure policy and dividend policy of a company have a very important effect on the increase of corporate value. The growth of manufacturing sector in Indonesia is very important to support the development of National Industry, so we can expect that in 2020 Indonesia will become an industrialized country and develop into a powerful industrial country in 2025.

2. REVIEW OF RELATED LITERATURE

Profitability

Brigham and Houston (2004) define that "profitability is the net result of a series of policies and decisions". Profitability is the return on investment capital and is an important indicator on the strength of a company in the long term, and it is useful for short-term liquidity analysis (Weston and Brigham, 1994). This definition gives more emphasis on a company's ability to make profits based on the amount of capital spent over a certain period, generally for one year. Profit is the goal of every company with the following reasons: 1) by obtaining sufficient profit, it can be distributed to shareholders and based on the approval of shareholders, and some of the profit is set aside as reserves, 2) profit is a measurement of the skills of companyleader, 3) it increases the appeal for owners (investors) to invest by buying shares issued by the company. According to the pecking order theory, companies with high level of profit have larger internal funding sources and a need to finance investment through smaller external funding (Schubben and Van Hulle, 2004). Companies with high profitability have larger internal financial resources, so they do not need to have many debts. In addition, with the increase of retained earnings, the debt ratio would be small. Profitability will measure a company’s ability in its efforts to make profits from all assets used in the operations of the company. Profitability indicates how much is the level of efficiency that has been achieved by a company on the assets it uses. The company's ability to obtain profitability in its operations is a primary focus on the assessment of company achievement. Being an indicator of a company's ability to meet its obligations to the shareholders, company profit also serves as an element in creating corporate value that demonstrates the company's future prospects. If profitability is bigger, the use of assets in company operation is more efficient. Companies that have high profitability tend to use smaller debt than companies with low profitability because companies with high profitability are able to provide internal funding to meet their funding needs through retained profits. Profitability can be used to measure how efficient is the company in using its assets and how efficient is the management of company operations.

Asset Structure

Asset structure is the ratio or the balance between current assets and fixed assets which will determine the structure of wealth (asset structure). Asset structure affects financing sources in several ways. Asset structure is the ratio that describes the proportion of total fixed assets owned by a company with the total assets of the company (tangibility). The purpose of this calculation is to determine how big is the portion of fixed assets that can be used as collateral for the company for its loans. Companies that have high fixed assets will have easier access to external financing and may also have a higher level of debts in their capital structure. If the asset ownership is larger, the company relatively has higher debts on the asset that can be used as collateral (Michaelas, et al, 1999). Company assets show the decision of fund usage or investment decisions in the past. Weston and Brigham (1994) suggest that companies with assets as loan collateral tends to use loans in larger quantities. Assets that can serve as loan collateral are fixed assets. Brigham and Gapenski (1997) express that in general it is easier for companies that have loan collateral to get a loan than companies that do not have any collateral. Companies that have a large number of fixed assets can use a large amount of loan because they have great collateral. One of the factors that affect capital structure is asset structure. Hung (2005) and Delcoure (2006) suggest that there is a positive relationship between asset structure and corporate value. If the company is bigger, it will provide a good signal for investors to invest because of the many assets that can be used as collateral for the company's debts (signaling theory). The results of research conducted by Pandey (2001) and Bathala (1994) show a negative relationship between asset structure and capital structure of the company. Nagano (2003) shows that there is no relationship between asset structure and capital structure of the company. From the explanation above, there are inconsistencies in the results of relationship between asset structure and capital structure of the company.

Capital Structure

Capital structure is basically concerned with the sources of funds, both internal sources of finance and external sources of finance. Internal sources of finance come from funds collected from retained earnings derived from company activities, while external sources of finance are from the owner which is a component of equity, and funds from creditors which is loan capital or debt. Brigham and Houston (2004) suggest that capital structure is a mix of the use of debt, preferred stock and common stock planned by a company to increase its capital. Capital structure used by a company is a combination of source of finance from loans and equity so that it is described by comparing the amount of long-term debt and the amount of its own capital. The results of empirical studies have produced mixed results (Fama and Franch, 1998), Abor (2005). The results show that corporate value is a function of capital structure from constant corporate value in various ratio positions of debt/capital structure. However, in fact any difference in the ratio of debt level also affects the difference in value, and it can bring positive or negative impact on corporate value (Wen-Chien Liu (2008) and Chu-Yang Chien (2010). Pecking Order Theory is a theory that underlies the hierarchical structure of financing. This theory explains why profitable companies generally borrow in small amounts. It is not because those companies have a low debt ratio target, but because they require small external financing. Trade-Off Theory is a model of capital structure which assumes that the company's capital structure is a balance between the advantages in the use of debt and the cost of financial distress and agency cost. From that model it can be stated that it is very risky for companies not to use any loan and to use loans entirely as its financing investments. Therefore, the best decision is to be a moderate company in the sense of considering both financing instruments, either from internal sources or from external sources. Trade off Theory is a model that is based on a tradeoff between advantages and disadvantages of the use of loan. Trade off is generally influenced by several variables, among others tax benefit from the use of loan, the risk of financial distress and the use of agency cost. Based on the reality, the use of financial resources from loans is very big, and the use of capital itself has advantages and disadvantages for the company. Pandey (2001) examines the factors that affect capital structure of a company in Malaysia. The result shows that growth and size have a positive and significant impact on capital structure while profitability, business risk and tangibility have a negative and significant effect on capital structure. Referring to the result of research conducted by Pandey (2001) above, it is implied that there is a negative relationship between asset structure (tangibility) and capital structure. Based on the result of his research, Nagano (2003) suggests that there is no relationship between asset structure and capital structure of a company. Delcoure (2006) examines the factors that affect capital structure in four countries in eastern Europe that undergo economic transition from a centralized economy to market economy, namely the Czech Republic, Poland, Russia, and the Slovak Republic. This study examines the determinants of capital structure that support the traditional capital structure theory developed to underline the western economy. Empirical evidence suggests that some of the traditional capital structure theory is easily transferred to companies in the Eastern Europe. The factors that influence the decision of company leverage is differences and compulsion of financial banking system, the disparity in the legal systems that govern the operations of the company, shareholders, and protection of the rights of the bondholders, and government enterprises. Wolfgang (2006) argues that capital structure can increase corporate value, while in her research Ratnawati (2001) finds a negative relationship between capital structure and corporate value. There is inconsistency in the research results between capital structure and corporate value. According to Trade off Theory, if debt is increasing, it will increase corporate value, but if debt continuously adds up, it can lower the corporate value because the company is unable to pay loan interest and it increases the likelihood of bankruptcy (cost of financial distress).

Dividend Policy

Dividend policy (dividend policy) determines how much profit (dividend) should be paid to shareholders and how much should be replanted in the company (retained earnings). If company profit not distributed as dividends or implanted in retained earnings is greater, it will be able to enlarge the company's capital position. According to Horne (2002) dividend policy is an integral part of the company's funding decisions. Signaling Theory Hypothesis (Bhattacharya, 1979) asserts that dividend payout policy will affect corporate value because dividend payment is a signal or indication about the company's prospects in the future. Meanwhile, Ross (1977) reveals that there are three conditions that need to be considered in optimizing dividend policy as an indication, namely: 1) management should always have appropriate incentives to transmit trust worthy signals despite the bad news; 2) the signal of a successful company is not easily followed by competitors, namely companies that have little or no success; 3) signals being delivered should have a significant relationship with the observed incidence (for example high dividend distribution at the present time will be associated with a high cash flow in the future). Companies tend to pay a dividend whose number is relatively stable or regularly increased. This policy is most likely due to the assumption that: 1) Investors tend to prefer stable dividend, 2) Investors see a dividend increase as a good sign that the company has a prospect, and conversely if the dividend payment is decreasing, it is a sign that the company does not have prospects for the future. This is why companies prefer to choose the safe way by not decreasing dividend payments.

Corporate Value

Corporate value is a value that an investor is willing to pay for a company when the company is sold or liquidated. Corporate value reflects the value of assets owned by the company. If the corporate value is high enough, it is expected that the level of wealth of the shareholders will be fulfilled. To achieve corporate value, investors generally hand over its management to the professionals. Corporate value can be seen through market value or company's book value of equity. The main objective of the company is to increase the corporate value through increased prosperity of the company owners or shareholders (Brigham, 1997). Corporate value is one of the references used by investors to measure the success rate of companies that are often associated with share price because high share price is an indicator of high corporate value. Related to maximizing corporate value, agency theory suggests that there are two main benefits of maximizing corporate value, namely for the company owners or shareholders/investors and for the company agents, in this case the board of directors (Grossman and Stiglitz, 1977). Therefore, the normative purpose of company financial management is to increase the corporate value which is reflected in its share price (Qureshi, 2006). The company's goal can be achieved through cautious and meticulous financial management functions, given that any financial decisions taken will affect other financial decisions that affect corporate value (Fama and French, 1998).

Hypothesis

The formulation of research hypothesis is based on the description of introduction and theoretical overview. Thus, 14 (fourteen) research hypotheses are formulated as follows:
H1: Profitability has a significant effect on company's capital structure.
H2: Capital structure has a significant effect on profitability.
H3: Profitability has a significant effect on corporate value.
H4: Profitability has a significant effect on dividend policy
H5: Dividend policy has a significant effect on profitability.
H6: Asset structure has a significant effect on the capital structure.
H7: Capital structure has a significant effect on asset structure.
H8: Asset structure has a significant effect on corporate value.
H9: Asset structure has a significant effect on dividend policy.
H10: Dividend policy has a significant effect on asset structure.
H11: Capital structure has a significant effect on dividend policy.
H12: Dividend policy has a significant effect on capital structure.
H13: Capital structure has a significant effect on corporate value
H14: Dividend policy has a significant effect on corporate value

3. RESEARCH METHODOLOGY

Research Population

The population in this study is all manufacturing companies which go public and are listed on the Indonesian Stock Exchange (IDX) during the period of 2008-2012 i.e. 135 manufacturing companies. Therefore, the unit of analysis in this study is manufacturing company. The total sample is 33 manufacturing companies for 5 years, namely 165 pooling of data by using purposive sampling method, that is forming sample from the population based on certain criteria.

Research Instruments

The data used in this research are secondary data with the source of data from 1) Indonesian Capital Market Directory (ICMD); 2) Indonesian Stock Exchange (IDX); 3) the financial statements in the annual report of manufacturing companies listed on the Indonesian Stock Exchange (IDX) in the period of 2008 to 2012. Based on dimensions of time and chronology, this study is cross-sectional and time series or panel data, the data are obtained by using the techniques of data collection from www.idx.co.id. This study consists of five studied variables, namely profitability, asset structure, capital structure, dividend policy and corporate value.

4. ANALYSIS AND DISCUSSION

GeSCA Analysis

Based on the output of GeSCA analysis program that is obtained from GSCA software, the results of FIT and Afit values are shown in Table 1.

Table 1. Identification of Goodness of Fit

FIT Model	
FIT	0.673
AFIT	0.665

Measure of Fit Structural Model

The result of analysis provides Fit value of 0.673. This means the overall contribution of profitability, asset structure, capital structure and dividend policy on corporate value amounts to 67.30%, while the remaining 32.70% is the contribution of other variables that are not included in the model.

AFIT (Adjusted FIT) is similar to the R squared adjusted in regression analysis. AFIT can be used to compare the models. Given that the variables affecting corporate value are not only one, it would be better if interpretation about the accuracy of the model is using FIT that has been corrected or AFIT. AFIT model with the greatest value can be selected among the better model. The difference that can be explained by the model is 66.5% and the rest 33.5% can be explained by variables that are not included in the model.

Estimation identification and P-value of each Path Coefficient

The results of path coefficient identification of each variable and the model that has been described previously can be seen in Table 2.

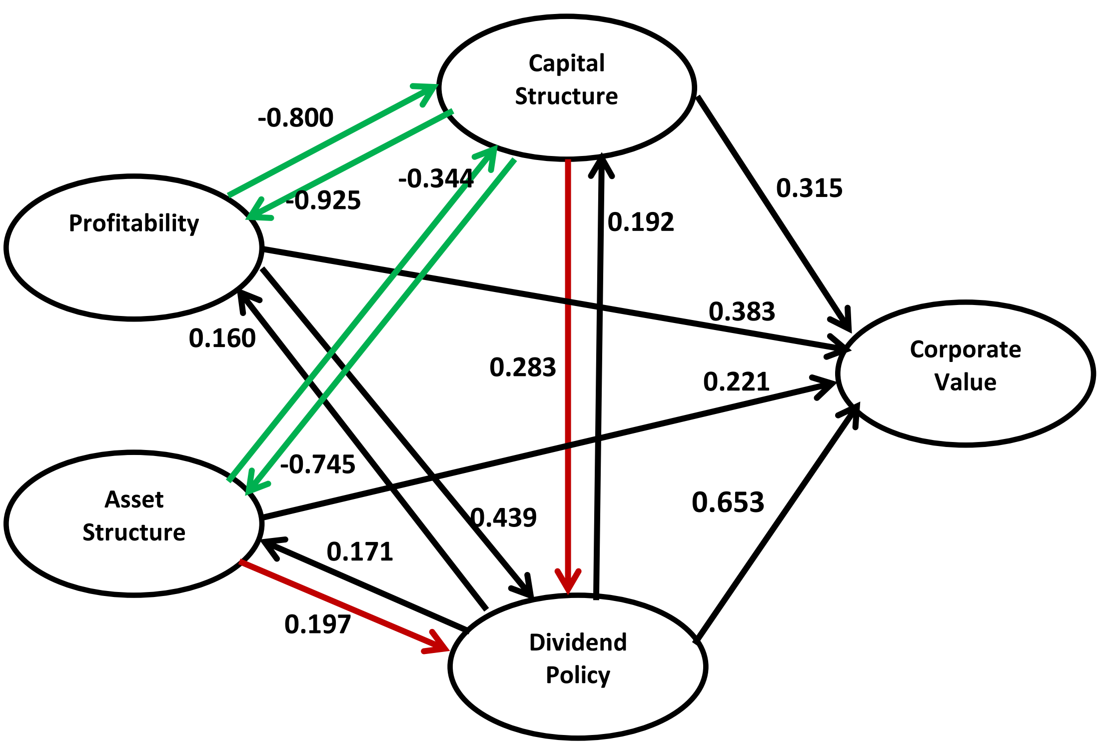
Table 2. Results of Estimation and *P*-value of the path coefficient

Information	Estimate	SE	CR	Prob	Info
X1 > Y1	-0.800	0.037	21.62*	0.000	Significant
Y1 > X1	-0.925	0.032	28.91*	0.000	Significant
X1 > Y3	0.383	0.144	2.66*	0.009	Significant
X1 > Y2	0.439	0.216	2.03*	0.044	Significant
Y2 > X1	0.160	0.060	2.67*	0.008	Significant
X2 > Y1	-0.344	0.045	7.64*	0.000	Significant
Y1 > X2	-0.745	0.043	17.33*	0.000	Significant
X2 > Y3	0.221	0.100	2.21*	0.028	Significant
X2 > Y2	0.197	0.151	1.30	0.195	Not significant
Y2 > X2	0.171	0.085	2.01*	0.046	Significant
Y1 > Y2	0.283	0.252	1.12	0.264	Not significant
Y2 > Y1	0.192	0.052	3.69*	0.000	Significant
Y1 > Y3	0.315	0.153	2.06*	0.041	Significant
Y2 > Y3	0.653	0.072	9.07*	0.000	Significant

Result of Hypothesis Testing

The result of hypothesis testing of each path in this study can be seen in Figure 1.

Figure 1. Path Coefficients



H1: Profitability (X1) has a significant effect on capital structure (Y1)
From the analysis result, the estimated value (path coefficient) of -0.800 with a critical ratio (CR) of 21.62* and the probability value (*p*) of 0.000, with a significance level of 0.05 are obtained, so hypothesis 1 which states that profitability has an effect on capital structure is accepted. The direction of profitability effect on capital structure is negative. It means if the level of profitability is higher, it will decrease capital structure, and conversely, if profitability is smaller, it will improve capital structure.

H2: Capital Structure (Y1) has a significant effect on profitability (X1)
From the analysis result, the estimated value (path coefficient) of -0.925 with a critical ratio (CR) of 28.91* and probability value (*p*) of 0.000 with a significance level of 0.05 are obtained, so hypothesis 2 which states that capital structure has an effect on profitability is accepted. The direction of capital structure effect on profitability is negative. It means if capital structure is higher, it will reduce profitability, and conversely if profitability is higher, it will decrease the level of capital structure.

H3: Profitability (X1) has a significant effect on corporate value (Y3)
From the analysis result, the estimated value (path coefficient) of 0.383 with a critical ratio (CR) of 2.66 * and a probability value of 0.009 with a significance level of 0.05 are obtained, so hypothesis 3 which states that profitability has an effect on corporate value is accepted. The direction of profitability effect on corporate value is positive. Thus, it can be said that any changes in profitability has an effect on corporate value.

H4: Profitability (X1) has a significant effect on dividend policy (Y2)
From the analysis result, the estimated value (path coefficient) of 0.439 with a critical ratio (CR) of 2.03* and a probability value of 0.044 with a significance level of 0.05 are obtained, so hypothesis 4 which states that profitability has an effect on dividend policy is accepted. The direction of profitability effect on dividend policy is positive. Thus, it can be said that any changes in profitability has an effect on dividend policy.

H5: Dividend Policy (Y2) has a significant effect on profitability (X1)
From the analysis result, the estimated value (path coefficient) of 0.160 with a critical ratio (CR) of 2.67* and a probability value of 0.008 with a significance level of 0.05 are obtained, so hypothesis 5which states that dividend policy has an effect on profitability is accepted. The direction of dividend policy effect on profitability is positive. Thus, it can be said that any changes in dividend policy has an effect on profitability.

H6: Asset Structure (X2) has a significant effect on capital structure (Y1)
From the analysis result, the estimated value (path coefficient) of -0.344 with a critical ratio (CR) of 7.64* and a probability value of 0.000 with a significance level of 0.05 are obtained, so hypothesis 6 which states that asset structure has an effect on capital structure is accepted. The direction of asset structure effect on capital structure is negative. It means if asset structure is higher, capital structure will be lower, and conversely, if capital structure is higher, it will reduce the level of asset structure.

H7: Capital Structure (Y1) has a significant effect on asset structure (X2)
From the analysis result, the estimated value (path coefficient) of -0.745 with a critical ratio (CR) of 17.33* and a probability value of 0.000 with a significance level of 0.05 are obtained, so hypothesis 7 which states that capital structure affects asset structure is accepted. The direction of capital structure effect on asset structure is negative. It means if capital structure is higher, it will reduce asset structure, and conversely, if asset structure is higher, it will lower capital structure.

H8: Asset Structure (X2) has a significant effect on corporate value (Y3)
From the analysis result, the estimated value (path coefficient) of 0.221 with a critical ratio (CR) of 2.21* and a probability value of 0.028 with a significance level of 0.05 are obtained, so hypothesis 8 which states that asset structure has a significant effect on corporate value is accepted. The direction of asset structure effect on corporate value is positive. Thus, it can be said that any changes in asset structure has an effect on corporate value.

H9: Structure of Assets (X2) has a significant effect on dividend policy (Y2)
From the analysis result, the estimated value (path coefficient) of 0.197 with a critical ratio (CR) of 1.30 and a probability value of 0.195 with a significance level of 0.05 are obtained, so hypothesis 9 which states that asset structure has a significant effect on dividend policy is rejected. The direction of the influence is positive, so it can be said that any changes in asset structure does not have an effect on dividend policy.

H10: Dividend Policy (Y2) has a significant effect on asset structure (X2)
From the analysis result, the estimated value (path coefficient) of 0.171 with a critical ratio (CR) of 2.01* and a probability value of 0.046 with a significance level of 0.05 are obtained, so hypothesis 10 which states that

dividend policy has a significant effect on asset structure is accepted. The direction of dividend policy effect on asset structure is positive. Thus, it can be said that any changes in the dividend policy has an effect on asset structure.

H11: Capital Structure (Y1) has a significant effect on dividend policy (Y2)

From the analysis result, the estimated value (path coefficient) of 0.283 with a critical ratio (CR) of 0.264and a probability value of 1.12 with a significance level of 0.05 are obtained, so hypothesis 11 which states that capital structure has significant effect on dividend policy is rejected. The direction of the influence is positive. Thus, it can be said that any changes in capital structure does not have an effect on dividend policy.

H12: Dividend Policy (Y2) has a significant effect on capital structure (Y1)

From the analysis result, the estimated value (path coefficient) of 0.192 with a critical ratio (CR) of 3.69 * and a probability value of 0.000 with a significance level of 0.05 are obtained, so hypothesis 12 which states that dividend policy has a significant effect on capital structure is accepted. The direction of the influence is positive. Thus, it can be said that any changes in dividend policy has an effect on capital structure.

H13: Capital Structure (Y1) has a significant effect on corporate value (Y3)

From the analysis result, the estimated value (path coefficient) of 0.315 with a critical ratio (CR) of 2.06 * and a probability value of 0.041 with a significance level of 0.05 are obtained, so hypothesis 13 which states that capital structure has a significant effect on corporate value is accepted. The direction of the influence is positive. Thus, it can be said that any changes in capital structure has an effect on corporate value.

H14: Dividend Policy (Y2) has a significant effect on corporate value (Y3)

From the analysis result, the estimated value (path coefficient) of 0.653 with a critical ratio (CR) of 9.07* and a probability value of 0.000 with a significance level of 0.05 are obtained, so hypothesis 14 which states that dividend policy has a significant effect on corporate value is accepted. The direction of the influence is positive. Thus, it can be said that any changes in dividend policy has an effect on corporate value.

5. CONCLUSIONS AND RECOMMENDATION

Conclusions

Based on inferential analysis finding conducted, some conclusions are drawn as the answers of the research problems and objectives that have been determined in this research.

1. Profitability has a significant effect on capital structure with negative direction. This research finding supports *signalling theory* (Bhattacharya,1979) stated that the increased profitability is a positive signal for investors to invest in a company having high profitability. Also, this research supports *pecking order theory* (Myers: 1984) proposing the order of meeting the company's funding need in which the first is internal financing source, its retained earnings. Secondly, it comes from debt's external financing source and the third is the issue of new stock. Companies having high rate of profitability will be likely to use lower rate in comparison with those having lower rate of profitability because those companies are able to provide their external funding to fulfill their financing need through the retained profit.
2. Capital structure has a significant effect on profitability. This research finding support *Pecking order Theory* (Mayer,1984) regarding the order of company financing *Pecking order Theory*, a theory that underlies the hierarchy of funding structure. This theory explains why profitable companies borrow the small amount. This is not because the company has low debt ratio target but it is because it requires the small amount of external financing. A less profitable company will be likely to have a higher debt because the internal funding source is not enough and debt is the preferred external funding source. Pecking order theory is supported by Hadloch & James's research finding (2002) who conducted research regarding impact of capital structure on profitability. Research finding stated that companies using debt financing resulted in the company management's anticipation toward the higher return level
3. Profitability has a significant effect on corporate value with positive direction. This research finding is suited with Signaling Theory which states that profitability is one of the factors that determines how big the corporate value is because profitability is the company's capability to produce profit toward the asset management and selling. For the investors wanting to invest, one of the internal indicators that become the consideration in assessing the company's future prospects is by knowing the value of its profitability. High Profitability is the reflection of company's operational management efficiency in the sense that profitability will affect the corporate value. The increased profitability also means the rising

internal financing source. This research indicates that empirically, profitability is a variable that can be used to determine or predict the corporate's high value rate.

4. Profitability has a significant effect on dividend policy with positive direction. This research is suited with (*Signalling theory)* indicating that empirically, the increased profitability will raise dividend payment. Dividend payment that a company makes is *cash outflow* that needs considering to retain its liquidity. Therefore, the decision of paying dividend is based on the high rate of profitability gained by a company. Profitability, basically, reflects company's financial fundamental condition in the sense that the company's higher profitability will increase the company' s profit that will be given to shareholders so that profitability factor will have a positive effect on dividend policy.
5. Dividend policy has a significant effect on profitability with a positive direction. This research suggests that the high amount of *dividend payout ratio* (DPR) as an indicator of dividend policy is a determinant factor and influences profitability gain. Therefore, it results in a positive correlation between dividend and profitability measured by comparing between business revenue obtained by the investors toward the asset total. (Jensen *et al* (1992). Dividend is an income gained by the investor toward the stocks they own if the company shares some of its net profit. The high rate of *dividend payout ratio* is a determinant factor and affects company's profitability gain. This research finding also supports Jensen's *et al.* research (1992) stating that there was a positive correlation between dividend and profitability, which are measured with the comparison between business income and *total assets.*
6. Asset structure has a significant effect on capital structure with negative direction. This research indicates that the higher asset structure owned by a company, the reduced use of debt ration in its capital structure. Asset structure can affect company's flexibility in determining the alternative of external funding because it is considered to have a relatively lower bankruptcy risk level than the company having low fixed asset ratio. Companies having sufficiently high asset structure will commonly use a funding source from a long term loan. A company whose asset structure can be used as credit collateral is likely to use its own capital in its capital structure position.
7. Capital structure has a significant effect on the asset structure with negative direction. This research finding is suited with *Pecking order Theory* (Mayer,1984) regarding the order of company financing which is a)company is more favored to *internal financing* (in the form of retained profit)), b) if it needs external financing, the company will then publish security first which starts with obligation, followed by security characterized by options (such as conversion obligation). If this is not adequate, it will then publish new shares. The research finding indicates that empirically the increased structural proportion of new shares will reduce the structural proportion of company's asset structures andthe opposite is also true. Position of capital structure becomes the primary focus for the company because the strength and the weakness of the capital structure position coming from external financing source will bring an impact on the financing use that will be invested in the position of fixed and current assets.
8. Asset structure has a significant effect on corporate value with positive direction. This research finding is suited with *Signalling Theory* (Bhattacharya,1979) stating that the higher rate of asset structure will result in a good signal for investors to make an investment as a result of more asset structures that enable them to be **company's loan collateral** *(signalling theory*). The rising effectiveness of company's asset structures will cause the higher productivity of asset structure, resulting in the higher corporate value. Corporate value, therefore, is a reflection of the level of asset productivity.
9. Asset structure has no a significant effect on dividend policy with positive direction. This research finding opposes signaling theory stating that asset structure is able to increase dividend payment. This finding is an anomaly, occurring in manufacturing companies in Indonesian Stock Exchange (BEI), which results not only from the company's decreased asset ownership from 2008 to 2012 in either its *current asset* or *fixed assets*, but also from the increased dividend payment from 2008 to 2012.
10. Dividend has a significant effect on asset structure with positive direction. This research finding is suited with *Model of Residual Dividend*stating that dividend payment is varying if company's investment opportunity is varying as well (fluctuated). This model is frequently employed as a guide to determine the target of a long term *payout ratio, allowing* the company to meet its demand to invest in the future as to strenghten the company's asset structure. A company's dividend policy is influenced by company's liquidity and its level of growth required in the future. Dividend payment that a company makes is a

cash outflow that needs a consideration to retain its liquidity level. Dividend payment that a company makes is a positive signal for an investor so that he will invest to the concerned company. The increasing investment activity will provide additional funding for the company to perform an increased activity of investment in the form of either fixed or current asset structure.

11. Capital structure does not have a significant effect on dividend policy with positive direction. Capital structure decision will affect dividend policy. The increased debt use in optimal limit in capital structure decision will have a positive impact on dividend payment policy as the available number of profits for shareholders experiences a rise as a result of tax saving due to debt use. However, the higher debt proportion used results in the higher amount of interest that a company should load, resulting in a stockholders' decreased amount of profit which, in turn, causes decreased dividend received by other stockholders.
12. Dividend policy has a significant effect on capital structure with positive direction. This research finding is suited with *Trade-Off Theory,* a model of capital structure assuming that company's capital structure is a balance between the profitability of debt use with *financial distress* and *agency cost*. Mehta (2012) in her research maintained that there was evidence that company's *leverage* is the most important consideration regarding company's dividend payment decision. Positive correlation between dividend policy and capital structure indicates that the higher *leverage financial* results in lower tax payment, resulting in company's will to pay higher rate of dividend.
13. Asset structure has a significant effect on corporate value with positive direction. This research finding is concordance with *pecking order theory* and *as symetric information* stating that avoiding a negative perception from investors, the funding use related to funding decision (capital structure) is retained profit, debt and stock issuance. The debt use in capital structure will positively be responded by investors and has a positive impact on corporate value that will, in turn, result in the increased corporate value. Theory of financing decision of Modigliani & Miller (1963) claiming that funding from debt can increase the corporate value as a result of tax saving sourced from the payment of debt's bank interest.
14. Dividend has a significant effect on the corporate value with a positive direction. This research finding is in concordance with *signalling theory* (Bhattacharya,1979) stating that dividend policy will affect stock value as dividend payment is a signal (*signaling hypothesis*) regarding the company's prospect in the future that will be followed by the company's increased stock value as a result of positive reaction of the market. Dividend payment made by the company will be seen as a positive signal regarding the company's future that will, in turn, increase the corporate value as investors have more interest and buy the company's stock.

6. RECOMMENDATION

Recommendation for Company Manager

1. Dividend policy will affect corporate value because dividend payment is a signal (*signaling hypothesis*) regarding the company's prospect in the future. Based on this finding, it is highly recommended that the company manager should be more careful in responding to dividend policy as this is very vital related to company's strategic interest especially related to efforts to retain the investor's trust. Investors will constantly expect that dividend policy will result in the increased corporate value that will, in turn, increase the investors' profit in the form of *capital gain*. The increased corporate value is the indicator of the increased wealth of **s**hareholders. Therefore, it is important for company managers to constantly retain the company's increased corporate value as the indicator of wealth of either company owners or shareholders.
2. To increase the position of their capital structure, company's managers should be more careful in determining the high level of their profit that is reinvested to strengthen their capital structure position.

Recommendation for Investor

It is advised for the investors to see not only the high rate of the dividend as the basis of investing in a company but they should also consider the company's asset structure position as this represents the total proportion of fixed asset total owned by a company with its current asset total. The bigger the company is, the better signal for the investors to make investment as a result of higher rate of assets that make company's debt guarantee possible.

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