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The Effect of Dividend Policy, Liquidity and Profitability on Company Value

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Authors' contributions

This work was carried out in collaboration between both authors. Both authors read and approved the final manuscript.

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ABSTRACT

Aims: This research aims to analyze the influence of dividend policy, company liquidity and company profitability on company value in manufacturing companies
Place and Duration of Study: This research uses a sample of manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange for the 2017 - 2021 period.
Methodology: Researchers use causal quantitative methods with secondary data sources. The method used is the purposive sampling method. The total population in this study was 72 manufacturing companies in the sub-food and beverage consumer goods industrial sector and 18 companies were selected as samples with observation data of 90 samples. This research uses descriptive analysis techniques, classical assumption tests, model feasibility tests and multiple linear regression analysis using SPSS version 25 statistical software as a tool to process data and provide conclusions.
Conclusion: The results of this research show that dividend policy and profitability have a positive effect on company value, while liquidity does not have a positive effect on company value.

Keywords: Dividen policy; liquidity; profitability; company value.

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1. INTRODUCTION

In the current era of globalization changes, people's needs are increasing, especially in primary needs. Primary needs are needs related to basic human things or daily human needs, such as clothing, food and shelter. Companies engaged in the consumer goods sector are company sectors that are engaged or focused on primary needs. With the influence of globalization, it makes a change, namely from labor, production or rising food commodity prices, and this will have an impact on increasing the prices of raw materials or staples so that this will cause an increase in inflation in a country. The consumer goods sector is the business sector of companies that produce goods that are purchased directly to consumers in the form of finished goods or final goods and are directly consumed or used by consumers. Consumer goods companies are companies consisting of five sub-sectors, namely food and beverages, cigarettes, pharmaceuticals, cosmetics, basic household needs, household appliances.

"Investment is one way to develop and grow assets. One of the goals of investors investing is to expect dividends on shares and expect capital gains from these shares in the form of an increase in share prices. Economic development is accelerating every day so that it makes the value of the company even more attractive in the world. However, during the Covid-19 pandemic, several company sectors suffered a lot of losses, but the consumer goods sector was considered to be able to recover quickly. The rise and fall of stock prices in the capital market is an interesting phenomenon to talk about related to the issue of the rise and fall of company value. In fact, it has become a common phenomenon that stock prices can rise or fall due to certain factors from internal and external companies Hidayyah" [1].

"The first factor that affects firm value is dividend policy. Dividends are part of the net income given to shareholders. Investments generated from dividend policy have positive information about the company in the future and will certainly have a positive impact on shareholders, the greater the dividends distributed by the company, the greater the value of the company" Sucipto & Sudiyatno [2]. Research conducted by Sari [3] states that "dividend policy has a significant effect on firm value, it is stated that the greater the dividends distributed to shareholders, the better the company's performance will be considered so that in the end the company's value will increase". However, research conducted by Dewi, Santika [4] states that "dividend policy has no effect on firm value. This explains that dividend distribution does not affect investors to invest in the company, because investors are more interested in companies that can generate large profits so that they can increase market share prices and increase company value".

"The second factor that affects the company's value is the current ratio, which illustrates the company's ability to meet short-term obligations (debt). In other words, the current ratio serves to show the company's ability to meet maturing debt, as well as to find out the company in financing and fulfilling obligations when billed and will make the company's Company Value (Image) better" Cahyani & Wirawati [5]. Research conducted by Fakhrana Oktaviarni, [6] states that "liquidity has a significant effect on firm value, it is stated that a high liquidity value can reflect the company's ability to meet its short-term obligations. It can be interpreted that companies that have good liquidity value will be considered to have good performance". However, there is a rejection of research conducted by Febriani [7] which states that "the current ratio has no effect on firm value. The high current ratio value is considered a bad signal by investors because of the large amount of idle funds prepared by the company which makes the stock price go down and the company's value will also go down".

"The next factor that can affect firm value is profitability. Profitability is the company's ability to generate profits and or obtain net income from the company's operational activities in the accounting period" Siregar, [8]. The goal of shareholders in investing in the company is to get a return, the higher the company's ability to earn profits, the greater the return investors will get, so that it will make the company value better. This is related to investors who have the mindset that the company's management has succeeded in managing its assets so that it is able to earn profits well. Research conducted by Martha et al. [9] states that "profitability has a significant effect on firm value, this is stated in the increase in net profit obtained by the company will be followed by an increase in stock prices. If the stock price increases, it indicates that the company's financial performance is good so that investors will be interested in investing their funds in the company". However, research conducted by Pakekong & Murni [10] states that "profitability has no effect on firm value where investors do not only see that profitability is the main aspect in making investments, but there are still many other factors and considerations such as the ability to pay debt, asset management, the ability to distribute dividends every year and many more".

2. METHODS

2.1 Signalling Theory

Signaling theory was proposed by Spence in [11] "in the job market, employers are willing to pay higher wages to employ better workers. While an individual may know his or her own level of ability, the hiring firm is not usually able to observe such an intangible trait thus there is an asymmetry of information between the two parties. Education credentials can be used as a signal to the firm indicating a certain level of ability that the individual may pass thereby narrowing the informational gap". Signalling theory explains that the sender (owner of information) provides a signal or signal in the form of information that reflects the condition of a company that is beneficial to the recipient (investor). According to Gumanti, [12] signal theory was developed in the economic and financial literature to explicitly discuss evidence that parties within the company generally have better information about the company's condition and future prospects than outsiders such as investors, creditors or the government. In other words, the company has more control over information than outsiders who have an interest in the company. The condition where one party has excess information while the other party does not is called information asymmetry in financial theory.

2.2 Company Value

Brigham & Houston [13], suggest that "company value is a value that can be determined from the distribution of results as company performance. Firm value is seen from the maximization of shareholder wealth which is intended to maximize the company's share price". According to Risman [14] "the main purpose of establishing a company according to the theory of the firm is to maximize the value of the firm or shareholder wealth. The success of company management from a financial management perspective is the achievement of shareholder prosperity which is interpreted as an effort to maximize company value, in simple terms, this effort can be done in one way, namely increasing company income with efficient funding sources and risk management. Company value can be measured using Price Book Value (PBV)". "Price Book Value is defined as a comparison of the market value of a stock to its own book value so that it can measure the level of stock prices whether overloaded or underloaded. Book value is the value of equity divided by the number of shares outstanding or the value of equity per share Hery" [15].

$$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

2.3 Dividend Policy

Dividend payout ratio is the ratio of the total amount of dividends paid to shareholders. Bringham and Houstan [16]. Ross et al. [17] state that "dividends can be distributed to shareholders of record on a certain date. When a dividend has been declared, it becomes a corporate obligation and cannot be easily canceled by the corporation. The dividend amount is expressed in dollars per share as a percentage of the market price and as a percentage of earnings per share. Dividend policy is a financial decision made by the company whether the profit earned will be distributed to shareholders or retained as retained earnings". "Dividend policy is often referred to as a signal by investors in assessing the good and bad of the company, because dividend policy has an influence on the company Putra [18]. "This ratio shows the percentage of the company's profit paid to the company's ordinary shareholders in the form of cash dividends" Zuraida [19].

$$DPR = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

2.4 liquidity

Liquidity ratio is one of the ratios used in measuring the company's financial performance where investors can see whether the company is liquid or not. Liquidity ratio is also the ability of a company to meet its short-term obligations Cahyani [20]. Kasmir [21] states that Current Ratio Is a ratio that compares current assets with current debt. Current assets include cash, banks, securities, accounts receivable, inventory, prepaid expenses, accrued income, and loans. While current debt (short-term debt) includes trade payables, bank payables, salary payables, tax payables, dividend payables, and other payables that must be paid immediately. If the current ratio is 1:1 or 100%, it means that current assets can cover all current liabilities.

$$\text{Current ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

3. RESULTS AND DISCUSSION

3.1 Descriptive Statistical Analysis

1. Company value has a minimum value of 0.3061 owned by PT Tunas Baru Lampung, Tbk (TBLA) in 2019 while the maximum value of the company value is 6.8574 owned by PT Mayora Indah, Tbk (MYOR) in 2018. The average (mean) value of the company is 2.260425 while the standard deviation value of 1.5547734 indicates that the average value is higher than the standard deviation value, meaning that the research data is well distributed or the data distribution is homogeneous.
2. The minimum value Dividend Policy of 0.0791 is owned by PT Dharma Satya Nusantara, Tbk (DSNG) in 2017 while the maximum value of the company value of 2.5291 is owned by PT Delta Djakarta, Tbk (DLTA) in 2020. The average value (mean) of dividend policy is 0.430202 while the standard deviation value of 0.3627748 indicates that the average value is higher than the standard deviation value, meaning that the research data is well distributed or the data distribution is homogeneous.
3. Liquidity has a minimum value of 0.8183 owned by PT Dharma Satya Nusantara, Tbk (DSNG) while the maximum value of liquidity of 8.6378 owned by PT Delta Djakarta, Tbk (DLTA) in 2017. The average value (mean) of liquidity is 2.794900 while the standard deviation value of 1.8294570 indicates that the average value is higher than the standard deviation value, meaning that the research data is well distributed or the data distribution is homogeneous.
4. The minimum profitability value of 0.0128 is owned by PT Astra Agro Lestari, Tbk (AALI) in 2019, while the maximum profitability value of 0.3078 is owned by PT Tigaraksa Satria, Tbk (TGKA) in 2019. The average value (mean) of profitability is 0.139641 while the standard deviation value of 0.0680869 indicates that the average value is higher than the standard deviation value, meaning that the research data is well distributed or the data distribution is homogeneous.

Table 1. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1_Dividend Policy	90	,0791	2,5291	,430202	,3627748
X2_Liquidity	90	,8183	8,6378	2,794900	1,8294570
X3_Profitability	90	,0128	,3078	,139641	,0680869
Y_Company Value	90	,3061	6,8574	2,260425	1,5547734
Valid N (listwise)	90				

Table 2. One-sample kolmogorov-smirnov test

			Unstandardized Residual
N			90
Normal Parameters[a,b]	Mean		,0000000
	Std. Deviation		,58729856
Most Extreme Differences	Absolute		,100
	Positive		,100
	Negative		-,090
Test Statistic			,100
Asymp. Sig. (2-tailed)			,028[c]
Monte Carlo Sig. (2-tailed)	Sig.		,309[d]
	99% Confidence Interval	Lower Bound	,297
		Upper Bound	,321

Table 3. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,625[a]	,391	,369	,59745	1,725

Table 4. ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19,673	3	6,558	18,371	,000[b]
	Residual	30,698	86	,357		
	Total	50,371	89			

Table 5. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,026	,322		6,288	,000
	LN_X1_Dividend Policy	,205	,100	,185	2,042	,044
	LN_X2_Liquidity	,213	,116	,169	1,833	,070
	LN_X3_Profitability	,673	,109	,532	6,148	,000

a. Dependent Variable: LN_Y_PBV

3.2 Normality Test

The results of the final normality test with the One-Sample Kolmogorov-Smirnov Test show the Monte Carlo value of Sig. 0.309, this means that the data in this study are normally distributed.

3.3 Coefficient of Determination Test

The coefficient of determination test results show that the adjusted R Square (R2) value is 0.369 or 36.9%. This shows that the independent variables in this study, namely dividend policy, liquidity and profitability, can affect the dependent variable, namely firm value by 36.9% while the rest (100% - 36.9% = 63.1%) is influenced by other variables not examined in this study.

3.3 F Test

The results of the F statistical test show that the Fcount value is 18.371 with a significance level of 0.00 <0.05, which means that the independent variables, namely dividend policy, liquidity and profitability simultaneously or jointly affect the dependent variable, namely firm value.

3.4 T Test

1. The dividend policy variable proxied by DPR has a t value of 2.042 with a significance value of 0.044 <0.05. This shows that the dividend policy variable statistically affects firm value, so the first hypothesis is accepted.

2. The liquidity variable proxied by CR has a t value of 1.833 with a significance value of 0.070> 0.05. This shows that the liquidity variable statistically has no effect on firm value, so the second hypothesis is rejected.
3. The profitability variable proxied by ROE has a t value of 6.148 with a significance value of 0.000 <0.05. This shows that the profitability variable statistically affects the value of the company, so the third hypothesis is accepted.

4. CONCLUSION

1. Dividend policy proxied by DPR (dividend per share) has a positive effect on firm value. This shows that the higher the dividend, the higher the firm value. If the dividends paid are high, the stock price tends to be high so that the company value is also high.

2. Liquidity proxied by CR (current ratio) has no positive effect on firm value. This shows that the higher the liquidity, the lower the firm value. High liquidity is good but if it is excessive, the company will lose the opportunity to earn additional profits because the funds reserved for

liquidity are too large while there are fewer funds for profitable investments.

3. Profitability proxied by ROE (return on equity) has a positive effect on firm value. This shows that the higher the profitability, the higher the firm value. Profitability in this study is proxied by return on equity, which means that companies with high ROE can generate profits, measure the level of operational efficiency and efficiency in using their assets.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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