

The Influence Of Profitability, Dividend Policy, Company Size, Capital Structure, And Liquidity On Firm Value

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Abstract:

Background: Firm value is the price potential investors are willing to pay if a company is to be sold. High company value reflects the good view of investors on the company's current performance and prospects for the future. The phenomenon of the decline in the value of manufacturing companies in Indonesia in the 2017-2020 period has become an interesting matter to study.

Materials and Methods: The object of this study was taken from manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period. The data used in this study is secondary data, namely annual financial reports. The sample used in this study was selected using a purposive sampling method. This study uses Panel Data Regression Analysis techniques.

Results: The results of this study indicate that profitability, dividend policy, company size, and capital structure have significant effects on firm value, while liquidity has no significant effect on firm value.

Key Word: Keywords: Profitability, Dividend Policy, Firm Size, Capital Structure. Liquidity, Firm Value

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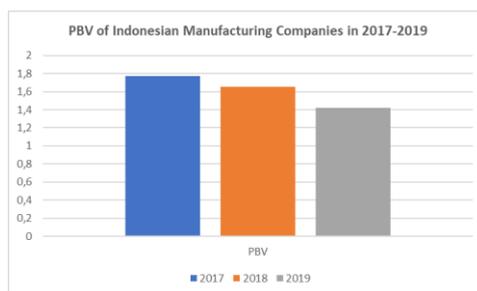
I. Introduction

Firm value is the price potential investors are willing to pay if a company is to be sold. Firm value is very important because it reflects investors' perceptions of company performance. High company value reflects a good perception of investors on company performance, and vice versa.

Firm value is often associated with the market price of the company's stock. If the stock market price is high, then the company value is also high. The financial ratio that is often used to measure a company's value is the comparison between the stock market price and the price-to-book value (PBV) ratio. Darmadji & Fakhrudin, (2006) defines PBV as a ratio that describes how much the market appreciates the book value of shares of a company. PBV shows the company's ability and creates company value in the form of prices for available capital. A higher PBV means that the company can be said to be successful in creating owner value and prosperity.

The phenomenon of the decline in the value of manufacturing companies in Indonesia in recent years has become an interesting matter to study.

Figure 1: PBV of Indonesian Manufacturing Companies in 2017-2019



Source:www.idx.co.id

In Table 1 above, there has been a decrease in company value as indicated by the Price Book Value (PBV) ratio of the manufacturing industry in 2017-2019. From an initial value of 1.77, the PBV of the manufacturing industry decreased to 1.65 in 2018 and closed again at 1.42 in 2019.

This research was conducted to examine the effect of profitability, dividend policy, firm size, capital structure, and liquidity on firm value. Many previous studies related to the factors that influence firm value have been carried out, but the results of previous research still contain research gaps and inconsistencies so research on this topic is still interesting to do.

II. Material And Methods

The object of this study was taken from manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period. The data used in this study is secondary data, namely annual financial reports. The sample used in this study was selected using a purposive sampling method.

To identify the factors that influence firm value, this study will use hypotheses related to the variables used in the study, including profitability, dividend policy, firm size, capital structure, and liquidity.

H1: Profitability Has a Significant Positive Relationship to Firm Value

Profitability is the ability of a company to generate profits during a certain period. Profitability is measured by Return on Assets (ROA), a ratio measuring a company's ability to earn profits available to company shareholders. According to Rizqia et al., (2013) companies that can maintain stability and increase profits are a positive signal to investors related to company performance. This positive signal causes the company's stock price to increase. The increase in stock prices in the market means that the company's value also increases in the eyes of investors. The results of research conducted by Suwardika & Mustanda (2017) and Rudangga & Sudiarta (2016) say that profitability has a significant positive effect on firm value.

H2: Dividend Policy Has a Significant Positive Relationship to Firm Value

A dividend policy is a decision related to the profits received by the company will be distributed to shareholders in the form of dividends or will be retained to be used as a capital increase. Dividend policy is measured by the Dividend Payout Ratio (DPR), which is the ratio that shows the amount of profit paid to shareholders in the form of dividends. The number of dividends distributed by companies can affect stock prices because investors prefer returns from dividends compared to capital gains, so the greater the distribution of dividends, the higher the company's stock price will be. Previous research conducted by Wati, Sriyanto, and Khaerunnisa (2018) and Palupi & Hendiarto (2018) concluded that dividend policy has a positive and significant effect on firm value.

H3: Company Size Has a Significant Positive Relationship to Firm Value

Company size can be indicated by total assets, total net sales, average level of sales, and average total assets. This study assesses company size by the natural logarithm of the company's total assets. Companies with large assets have the advantage of being easy to obtain additional funds either through the capital market or from financial institutions. It is this ease in obtaining additional funds that increase investor interest in investing their capital because companies that can enter the capital market and gain the trust of financial institutions are companies that have good performance. Research conducted by Rudangga & Sudiarta (2016) and Kusna & Setijani (2018) says that company size has a significant positive effect on firm value.

H4: Capital Structure Has a Significant Negative Relationship to Firm Value

Capital structure is related to funding sources used by companies to finance their investments and operational activities. In this study, the ratio used to measure Capital Structure is the debt-to-equity (DER) ratio.

DER is the ratio used to measure the level of debt to equity. The higher the debt, the lower the value of the company because there is a risk of bankruptcy which will be a burden to investors in the future. Research conducted by Anjarwati et al., (2015) and Mudjijah et al. (2019) concluded that capital structure has a negative and significant effect on company value.

H5: Liquidity has a Significant Positive Relationship to Firm Value

Liquidity is the company's ability to pay short-term debt. Investors consider a company that has high liquidity as a positive signal because the company has no problems paying off its short-term debt. This good signal attracts investors to invest their funds in the company and in turn will increase the company's stock price. Research conducted by Maryam et al., (2020), Oktaviarni, (2019), and Alifiani et al., (2020) concluded that liquidity has a positive and significant effect on firm value.

Procedure methodology

This study uses Panel Data Regression Analysis techniques with the following models:

$$PBV = a + b_1 ROE + b_2 DPR + b_3 SIZE + b_4 DER + b_5 CR + e$$

Where:

- PBV = Company Value
- a = Constant
- ROE = Profitability
- DPR = Dividend Policy
- Size = Firm Size
- DER = Capital Structure
- CR = Liquidity
- b1-b5 =Regression Coefficient
- e = Standard Error

III. Result

The results of the regression analysis test show the following results:

Table 1
Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.109994	3.174591	-2.554657	0.0111
ROE	8.426292	0.969761	8.689037	0.0000
DPR	1.013657	0.365711	2.771746	0.0059
SIZE	0.732470	0.253921	2.884631	0.0042
DER	-0.453683	0.218995	-2.071658	0.0392
CR	0.006599	0.058459	0.112880	0.9102

Based on Table 1 it can be concluded as follows:

First Hypothesis Testing (H1)

According to Table 1, the results on the ROE variable have a t-count of 8.689037 with a probability value of 0.0000 < from α 0.05 and a positive regression coefficient of 8.426292. This suggests that the ROE has no significant positive effect on PBV. So, these results prove that the first hypothesis (H1) is accepted.

Second Hypothesis Testing (H2)

According to Table 1, the results on the DPR variable have a t-count of 2.771746 with a probability value of 0.0059 < from α 0.05 and a positive regression coefficient of 1.013657. This suggests that the DPR has a significant positive effect on PBV. So, these results prove that the second hypothesis (H2) is accepted.

Third Hypothesis Testing (H3)

According to Table 1, the results on the SIZE variable have a t-count of 2.884631 with a probability value of 0.0042 < from α 0.05 and a positive regression coefficient of 0.732470. This suggests that SIZE has a significant positive effect on PBV. So, these results prove that the third hypothesis (H3) is accepted.

Fourth Hypothesis Testing (H4)

Based on Table 1, the results on the DER variable have a t-count of -2.071658 with a probability value of 0.0392 < from α 0.05 and a negative regression coefficient of -0.453683. This suggests that DER has a significant negative effect on PBV. So, these results prove that the fourth hypothesis (H4) is accepted.

Fourth Hypothesis Testing (H5)

Based on Table 1, the results on the CR variable have a t-count of 0.112880 with a probability value of 0.9102 > from α 0.05 and a positive regression coefficient of 0.006599. This suggests that CR has no significant positive effect on PBV. So, these results prove that the fourth hypothesis (H4) is rejected.

IV. Conclusion

This study has identified three factors that positively and significantly influence firm value: profitability, dividend policy, and firm size. The dividend policy has a significant positive effect on firm value because investors prefer companies that provide certainty for their return on investment in the form of dividends. Profitability significantly affects firm value because investors will choose a company that generates profits over a loss-making company. The high interest of investors in stocks that always pay dividends will increase the stock price and the

company's value. In addition, investors are also interested in companies that have large asset sizes because it shows good company performance.

This study also identified one factor that negatively significantly influences firm values: capital structure. Investors tend not to be interested in companies that have large debts because of the greater bankruptcy risk.

This study also identified one factor that positively but did not significantly influence firm value: capital liquidity. Investors are not interested in companies that have large liquidity because they tend to have financial performance that is less than optimal due to the company's current assets being too large.

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