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The Effect of Financial Performance on Company Value: The Moderating Role of Dividend Policy

G. M. Djoko Hanantijo[1], Alvira Vaniasari[2]

[1]Post Graduate Program in Management, Perbanas Institute, Jakarta, Indonesia
djoko.hanantijo@perbanas.id

[2]Post Graduate Program in Management, Perbanas Institute, Jakarta, Indonesia
alvirale13@gmail.com

Abstract: ***Testing whether there is an effect of financial performance on company value with dividend policy as a moderating variable is the aim of this study. The research method used was purposive sampling with a sample size of eleven Food and Beverages sub-sector companies in Indonesia during the 2016-2021 period. The data analysis technique used is linear regression analysis and Moderated Regression Analysis (MRA). The research results show that; ROE has a significant positive effect on PBV while CR has no significant effect on PBV. The DPR is not able to moderate the effect of ROE on PBV and the DPR is also unable to moderate the influence of CR on PBV.***

Keywords: Financial Performance, Dividend Policy, Company Value, Profitability, Liquidity.

1. Introduction

In 2020 the Indonesian economy experienced a downturn caused by the Covid-19 virus pandemic. The emergence of the Covid-19 virus certainly has a negative impact on the health and economy of the nation. This prompted the Indonesian government to issue a policy in the form of Large-scale Social Restrictions which ultimately had an impact on various industrial sectors, one of which was the Food and Beverages sub-sector. Many companies in the Food and Beverages sub-sector have experienced various impacts, one of which is the decline in company value, which in turn affects investors' decisions to invest in the company. The value of the company must be increased to attract investors to invest in the company, so that the company obtains additional capital for business purposes. One of the things that are analyzed by investors is to compare stock prices between periods which can be measured using Price to Book Value (PBV).

Financial performance is one of the factors considered by potential investors to invest in a company. To see financial performance, potential investors can view and review through financial reports that have been audited and published by the company. Financial performance various types of financial ratios can be used, such as; profitability ratios, liquidity ratios, solvency ratios, leverage ratios, and activity ratios. In this study, profitability ratios and liquidity ratios are used to measure the financial performance of companies in the Food and Beverages sub-sector. The profitability ratio in this study is proxied by Return On equity (ROE) which is able to represent the rate of return that will be obtained by shareholders on their investment in the company. Meanwhile, the liquidity ratio will be proxied by the Current Ratio (CR), while the CR is a ratio that can be used to measure a company's ability to meet short-term obligations without facing difficulties. [1]
In addition to financial performance, at least the dividend policy can also influence investors' interest in investing. Dividend policy is able to provide information about company performance. The amount of dividends can affect stock prices. If the dividend paid is large, the stock price tends to strengthen and the company's value also increases. However, if the dividend paid to shareholders is small, then the company's share price will weaken and result in a decrease in the value of the company. The amount of dividends can be represented through the calculation of the Dividend Payout Ratio (DPR). According to [2] the dividend payout ratio is a ratio that shows the percentage of net profit after tax that will be distributed as dividends to shareholders. In the research previously conducted by [3] revealed that ROE and CR have a positive and significant effect on PBV. However, these results contradict [4] which state otherwise. The existence of the Dividend Payout Ratio (DPR) as a moderating variable has also been carried out by previous researchers, such as research by [5] who found the fact that the existence of the DPR is able to moderate the effect of ROE on PBV. However, this fact contradicts the research of [6], which states otherwise. Still around the DPR's role as a moderator, this time in research by [7] it is stated that the DPR is able to moderate the influence of CR on PBV. However, these results are not in line with research conducted by [8] which stated the opposite fact.

Looking at the results of previous studies, there were different results between researchers. These differences make researchers interested in conducting further research in order to obtain results that are in accordance with the findings which will eventually be revealed in this study.

2. Literature Review

In order to help solve the problems in this study, researchers used several literatures and theories. Disclosure of the theory begins with the presentation of the grand theory followed by other theories related to the variables in this study.

2.1 Signaling Theory

Signaling theory is a signal given by company management to investors as a guide regarding company prospects. [9] Managers provide information to interested parties through the issuance of financial reports. Company management should share information with interested parties to avoid doubts and misinformation, so that it will attract investors to invest.

2.2 Price to Book Value

Price to Book Value (PBV) is a ratio used to measure the value provided by financial markets to management and organizations as a company that continues to grow. The formula for the Price to Book Value:

$$PBV = \frac{Price\ per\ Share}{Book\ Value\ per\ Share} \quad (1)$$

2.3 Return on Equity

ROE is able to measure the effectiveness of the company as a whole which is indicated by the size of the profit level obtained in relation to sales and investment. The better this ratio will describe the company's ability to generate profits. [10] The formula for the Return On Equity:

$$ROE = \frac{Earning\ After\ Taxes}{Total\ Equity} \quad (2)$$

2.4 Current Ratio

According to [11] Current Ratio is a ratio to measure a company's ability to pay short-term obligations that are due soon when billed as a whole. This ratio illustrates how much the availability of current assets is used to pay off short-term debt. The formula for the Current Ratio:

$$CR = \frac{Cuurent\ Assets}{Current\ Liabilities} \quad (3)$$

2.5 Dividend Payout Ratio

According to [2] the Dividend Payout Ratio is the percentage of net profit after tax distributed as dividends to shareholders. The greater this ratio means the less profit is retained to finance the investments made by the company. The formula for the Dividend Payout Ratio:

$$DPR = \frac{Dividend\ per\ Share}{Earning\ per\ Share} \quad (4)$$

3. Methodology

Quantitative research is a method in this study. The analysis technique used in this study consists of; Multiple linear regression and testing through Moderated Regression Analysis (MRA). A total of 32 companies were determined as a population. The sample selection technique used purposive sampling in order to obtain 11 companies that met the criteria with a total sample of 66 data, the result of multiplying 11 companies with 6 years of observation (2016-2021). The scope of research is Food and Beverages sub-sector companies listed on the Indonesia Stock Exchange. The software used to process the data is E-Views 13.

4. Result

After carrying out various stages of data processing starting from multiple linear regression analysis and then continuing with Moderated Regression Analysis (MRA) testing, several results are obtained which the researcher will explain in the form of a recapitulation.

Table 1: Recapitulation of Regression Analysis Test Results and MRA Test Results

Hypothesis	β	Sig	α	Result
Effect of ROE on PBV	1,125	0,0000	< 0,05	Positive significant
Effect of CR on PBV	0,05	0,6796	> 0,05	No significant effect
The effect of ROE on PBV moderated by DPR	-181,7961	0,3842	> 0,05	Not able to moderate
The effect of CR on PBV moderated by DPR	-561,8435	0,0627	> 0,05	Not able to moderate

5. Discussion

After processing the data, the next step is to conduct an in-depth discussion to be able to find answers to this research based on the facts and theories presented.

5.1 The Effect of Profitability on Company Value

Based on table 1, the sig value of the influence of profitability (ROE) on company value (PBV) is 0.0000 or < 0.05. Thus explaining that profitability has a significant and positive effect on company value. Companies that have a high profitability value reflect that the company is in good condition, so that it will attract investors to invest, then there will be an increase in demand for shares followed by an increase in the value of the company.

5.2 The Effect of Liquidity on Company Value

Based on table 1, the sig value of the effect of liquidity (CR) on company value (PBV) is 0.6796 or > 0.05. Thus explaining that liquidity has no significant effect on company value. Companies in the food and beverages sub-sector generally have a liquid level of liquidity (CR), while company values tend to be stagnant. This can prove that liquidity is not the main consideration for investors to decide to invest in a company. So it is suspected that there are other factors outside of this study besides liquidity (CR) which are the main focus of investors when deciding to invest in a company.

5.3 The Effect of Dividend Policy in Moderating Profitability on Company Value

Based on table 1, the sig value of the effect of profitability (ROE) on company value (PBV) is obtained, which is moderated by dividend policy (DPR), which is 0.3842 or > 0.05. Thus explaining that the dividend policy is not able to moderate the effect of profitability on company value. Dividend policy is included in the category of homologizer moderation (potential moderation), this is because the partial and interaction test results show insignificant results. A low or high dividend value cannot predict or explain company value. This may be influenced by ratios that only provide an overview of the profits that will be obtained by investors, but are unable to provide an overview of the value of the company. Therefore, the market does not consider this ratio in making investment decisions.

5.4 The Effect of Dividend Policy in Moderating Liquidity on Company Value

Based on table 1, the sig value of the effect of liquidity (CR) on company value (PBV) is obtained, which is moderated by dividend policy (DPR), which is 0.0627 or > 0.05. Thus explaining that the dividend policy is not able to moderate the effect of liquidity on company value. Dividend policy is included in the category of quasi-moderation, this is because the partial test results show significant results, while the moderation test shows insignificant results. This shows that the higher or lower the dividend policy does not affect the effect of liquidity on company value. These results indicate that the dividend policy does not cause a market reaction, so it does not affect the increase or decrease in company value.

6. Conclusion

Based on the results of data processing, it can be concluded that profitability (ROE) has a significant positive effect on company value (PBV). Meanwhile, liquidity (CR) has no significant effect on company value (PBV). Dividend policy (DPR) is not able to moderate the effect of profitability (ROE) on company value (PBV). Dividend Policy (DPR) is not able to moderate the effect of liquidity (CR) on company value (PBV).

7. Future Scope

Recommendations that can be given to further researchers are: it is hoped that future researchers can increase the number of sample companies and the period of observation. Future researchers are also expected to use other financial ratios to obtain a more complete picture.

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