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# Does Dividend Policy Moderate The Relationship between Profitability, IOS, and Liquidity toward Firm Value?

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***ABSTRACT :*** This study aimed to interpret the effect of profitability, investment opportunity set, liquidity, and dividend policy on firm value of property, real estate, and construction companies in the Indonesia Stock Exchange that distribute dividends in the 2015-2017. Saturated sampling is used to determine the sample. This research used quantitative method with analysis technique using moderated regression analysis (MRA). Based on the results of the analysis shows that: profitability has a negative and significant impact on the firm value, investment opportunity set (IOS) has a positive and significant effect on firm value, liquidity does not affect on firm value, dividend policy strengthens the effect of profitability on firm value, dividend policy weakens the effect of IOS on firm value, and dividend policy is unable to moderate the effect of liquidity on firm value.
***Keywords:*** *dividend policy, firm value, MRA*

## I. INTRODUCTION

Investors and potential investors have an interest in being able to predict how much their investment returns will be. According to signaling theory, information released by companies is very important for investors who will invest in the company. Signaling is an action taken by company management that provides guidance to investors on how investor views the company's prospects as providing financial statement information to investors (Brigham and Daves, 2018:601). The essence of signaling theory is that company management is likely to have personal knowledge about the current and future situation of the company rather than outsiders (Budagaga, 2017). The company's goal is the prosperity of shareholders and increasing shareholder value as reflected in the company's share price (Fajaria et al., 2018). Companies that have gone public will try to show maximum performance to increase the value of the firm. Firm value will influence the market or investor's view of the firm. If the firm's value is good, then the return expected by shareholders will be higher. Firm value describes how well or poorly management manages its wealth (Mentalita et al., 2019).

Dividends are the proportion of profit sharing obtained by a company that is distributed to the company's shareholders. Dividend is a form of return obtained by the company that can be used as a signal by the company to provide information about the company's prospects. If it is felt that the company's future prospects are good, income, cash flow is expected to increase, the company will increase dividends. The market will give a positive reaction to the announcement of the dividend increase. The opposite will happen if the prospect of the company in the future decreases.

## II. LITERATURE REVIEW

Company profitability can influence investors' decisions about investments made. Based on signaling theory, a company's ability to generate profits can be a signal and will attract investors to invest funds to add to its business. Investors will move companies with profit levels, while low profit levels will cause investors to withdraw their funds (Khuzaini, 2017). There is a relationship between investment opportunity set (IOS) and firm value, based on the signaling theory. IOS can be a positive signal for investors about the company's future growth until it can increase stock prices as an indicator of firm value. A company's liquidity refers to its ability to meet short-term obligations using company assets that can be quickly converted into cash because cash is the most liquid form of asset (Olang et al., 2015).

Dividend policy as a moderating variable affects the financial performance of the company's value, this is due to the dividend policy to be the center of attention of many parties such as shareholders, creditors, and other external parties who are interested in information released by the company. Dividends have or contain information that describes a company's prospects. The greater the dividends distributed to shareholders, the company's performance will be considered better (Tahu and Dominicus, 2017). High levels of dividend payments can be a source of information for external companies, so that it will attract investors and increase demand for shares and be a signal that the value of the company will move towards a better direction.

Investment opportunity set (IOS) is an indication that companies are still in competition between companies in the industry. The company will not grow or have shares that grow only because it has assets and profits that increase over time, so investment is a very important decision for the company because it is directly related to achieving the company's goals to maximize the value of the company (Myers, 1977). Dividend payments are expected to be an indicator that the company's performance is able to provide results to investors and meet the consumption needs of shareholders. Dividends are used as a communication tool between managers and shareholders. Overall information about the company's internal conditions is often unknown to investors, so that through company growth dividends and company prospects can be known.Fajaria et al. (2018) who found that liquidity had a significant positive effect on firm value and could be moderated by dividend policy. When a company is able to pay dividends, investors will judge that the company has a good performance mainly related to the fulfillment of obligations to shareholders, so this can be received as a signal that the company has good prospects in the future (Alipour et al., 2015). Figure 1 shows the conceptual framework.

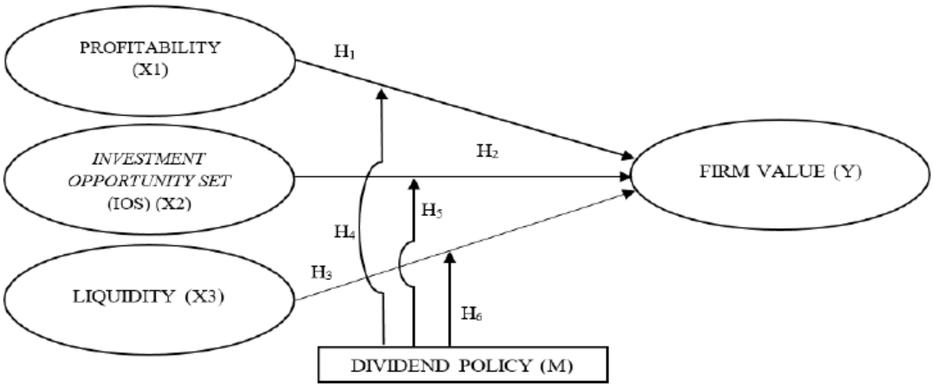


**Fig 1. Conceptual Framework**

## III. MATERIALS AND METHODS

The population in this study were property, real estate, and construction companies in the Indonesia Stock Exchange that distribute dividends in the 2015-2017 as many as 19 companies. Saturated sampling is used to determine the sample. This research used quantitative method with analysis technique using moderated regression analysis (MRA). Moderated regression equations from the empirical model of this research can be written below:

$$PER_t = \alpha + \beta_1 ROE_t + \beta_2 MVEBVE_t + \beta_3 CR_t + \beta_4 DPR_t + \beta_5 (ROE \times DPR)_t + \beta_6 (MVEBVE \times DPR)_t + \beta_7 (CR \times DPR)_t + e$$

## IV. RESULTS AND ANALYSIS

Profitability has a negative and significant effect on firm value in the property, real estate and construction industry sectors on the Indonesia Stock Exchange (BEI) in 2015-2017. This is indicated by the profitability variable negative regression coefficient of 54.545 with a significance of 0.003 < 0.05, then the effect is said to be significant. Because profitability has a negative and significant effect on firm value, H1 is rejected.

**TABLE 1. Moderated Regression Analysis Results**

| Model | Unstandardized Coefficients B | Sig. | Conclusion |
|---|---|---|---|
| 1 (*Constant*) | 10,049 | | |
| ROE | -54,545 | 0,003 | Significant |
| MVEBVE | 6,877 | 0,000 | Significant |
| CR | 0,642 | 0,348 | Not Significant |
| DPR | -14,673 | 0,171 | Not Significant |
| ROE_DPR | 160,303 | 0,005 | Significant |
| MVEBVE_DPR | -11,068 | 0,015 | Significant |
| CR_DPR | 0,665 | 0,552 | Not Significant |
| *Dependent Variable* : PER | | | |
| Source: *Results SPSS output* | | | |

Investment opportunity set (IOS) has a positive and significant effect on the value of the company in the property, real estate and construction industry sector on the Indonesia Stock Exchange (BEI) in 2015-2017. This is indicated by the regression coefficient of the investment opportunity set (IOS) positive value of 6.877 with a significance of0.000 < 0.05, then the effect is said to be significant. Because IOS has a positive and significant effect on firm value, H2 is accepted.

Liquidity has a positive and not significant effect on the value of the company in the property, real estate and construction industry sectors on the Indonesia Stock Exchange (BEI) in 2015-2017. This is indicated by the regression coefficient of a positive liquidity variable of 0.642 with a significance of0.348> 0.05, then the effect is said to be insignificant. Because liquidity has a positive and not significant effect on firm value, H3 is rejected.

Dividend policy is able to moderate (strengthen) the effect of profitability on the firm value of the property, real estate and construction industry sector on the Indonesia Stock Exchange (IDX) in 2015-2017. This is indicated by the interaction coefficient of profitability variables and positive dividend policy of 160.303, with a significance of 0.005 <0.05, the effect is said to be significant. Because dividend policy is able to moderate (strengthen) the effect of profitability on firm value, H4 is accepted.Dividend policy is able to moderate (weaken) the influence of investment opportunity set (IOS) on the firm value of the property, real estate and construction industry sector on the Indonesia Stock Exchange (BEI) in 2015-2017. This is indicated by the IOS variable interaction coefficient and the negative dividend policy of -11.068 with a significance of0.015 <0.05, the effect is said to be significant. Because the dividend policy is able to moderate (weaken) the influence of IOS on the firm value, then H5 is accepted. Dividend policy is not able to moderate the effect of liquidity on the firm value of the property, real estate and construction industry sector on the Indonesia Stock Exchange (BEI) in 2015-2017. This is indicated by the interaction coefficient of the variable liquidity and dividend policy which is positive at 0.665 with a significance of 0.552> 0.05, the effect is said to be insignificant. Because the dividend policy is not able to moderate the influence of liquidity on the firm value, then H6 is rejected.

## V. CONCLUSION

Based on the research analysis and the results of the discussion it can be concluded that profitability has a negative and significant effect on firm value.Based on the signaling theory, this happens because the performance signal from the issuer has not been received by investors because the financial statement information at the end of the year has not been approved. This finding is supported by Sugiastuti and Dzulkirom (2018).Investment opportunity set (IOS) has a positive and significant effect on firm value.This is in line with the Signaling Theory which states that investment expenditure provides a positive signal about the company's growth in the future so that it can increase stock prices which are used as an indicator of valuation of firm value. This finding is supported by Rizqia et al. (2013); Khuzaini et al. (2017); Raharja and Wiagustini (2018); Frederica (2019).Liquidity has a positive and not significant effect on firm value. This result does not support the Signaling Theory, that information about the company's ability to meet its short-term obligations is important for users of financial statements, especially investors who use the information as a basis for company valuation. This finding is contrary to Marsha and Isrochman (2017); Hermuningsih et al. (2019) who found that liquidity had a positive effect on firm value.

Dividend policies strengthen the effect of profitability on firm value. That is, the greater the dividend paid by the company will strengthen the effect of profitability on the value of the company. This finding is in line with the Signaling Theory, which shows that the size of the dividend payout ratio (DPR) by companies can be a signal that company management is able to manage resources appropriately and have good prospects in the future. The greater the dividends distributed to shareholders, the company's performance will be considered better. This finding is contrary to Tarigan et al. (2019). Dividend policy weakens the influence of IOS on the firm value. Based on the Signaling Theory, this happens because if the company has a high dividend payout policy it will cause the allocation of company funds that are proportioned for investment to decrease and tend to give a negative signal to investors. This finding is in line with Burhanudin et al. (2019). Dividend policy is not able to moderate the effect of liquidity on firm value.That is, changes in the size of dividend payments by companies, will not strengthen or weaken the effect of liquidity on the value of the company. Similar results were found in Tahu and Dominicus (2017).

This research suggested that companies can take advantage of the investment opportunity set (IOS) and conduct investment management that can provide a positive signal about the company's growth in the future so that it can increase the price of shares used as an indicator of company valuation. Investors must continue to pay attention and use information in financial statements related to profitability and investment opportunity set (IOS) as a means of making the right decision to invest in the company so as to get the expected return on investment. The company must also analyze the information in the financial statements related to dividend policy to see how the company can manage its resources including the net profit obtained to increase value for shareholders.

Besides through price earnings ratio (PER), fundamental analysis to assess a company can be done through other approaches such as the present value approach, price to book value (PBV), price to cash flow ratio, and economic value added (EVA) approach ) in accordance with the research objectives. Future studies are also expected to use other variables as moderating factors, such as capital structure, sales growth, and growth in company assets.

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