

# LIQUIDITY, FIRM SIZE AND DIVIDEND POLICY TO THE VALUE OF THE FIRM (STUDY IN MANUFACTURING SECTOR COMPANIES LISTED ON INDONESIA STOCK EXCHANGE)

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**Abstract—The purpose of this study is to measure, measure, and measure corporate values based on companies Bursa Efek Indonesia (BEI), sampling technique with purposive sampling method based on sample selection criteria obtained by 31 companies. The observation period was conducted for 5 years (2010 - 2014) with a level of significance of alpha ( $\alpha$ ) 5% and analysis technique using multiple regression. The result of the experiment shows that the positive spider to value, size to value, financial related factors, size and risk factor to value. This means that liquidity, size, and policy can increase firm value.**

**Keywords: Liquidity, Company Size, Dividend Policy, Firm Value.**

## I. INTRODUCTION

Every firm is required to increase the value of the firm itself because the value of the firm is a factor considered by investors to invest. Corporate value is an indicator of financial performance for companies that go public. High corporate value can be reflected in the high stock market price (Sukirni, 2012). High corporate value also indicates high shareholder prosperity, because the higher the value of the firm investors will get an additional profit in addition to dividends provided by the firm in the form of capital gains from shares they have. Corporate value can describe the state of the firm. With the good value of the firm then the firm will be viewed well by potential investors, and vice versa. Companies that are "valuable" good firm performance. The good of a firm is influenced by the management of the firm itself. The management firm will strive to increase the value of the firm, which will certainly increase the shareholders' wealth.

The first factor that can affect the value of the firm is liquidity. Liquidity management must be able to

contribute to the realization of value creation (Michalski, 2010). Liquidity is the firm's ability to pay its short-term liabilities. The level of liquidity for the firm is to find out whether the firm concerned needs enough money to be used smoothly in running its business. Basically in measuring the level of corporate liquidity can be measured by comparing current assets with the current debt owned by the firm. The greater the value of corporate liquidity will certainly minimize the risk borne by investors in the short term. This certainly gives a positive signal for investors to invest, and stock prices will increase and certainly followed by rising firm value. Liquidity is a serious concern to companies because liquidity plays an important role in the firm's success (Owolabi, 2012).

Companies that have good liquidity will be considered to have good performance by investors. This will attract investors to invest in the firm. Prisilia (2013) which revealed that liquidity affects the value of the firm.

The next that can affect the value of the firm is the size of the firm. The size of the firm, in general, can be interpreted as a comparison of the size or magnitude of an object. Dewi and Ary (2013) mention that the size of the firm is an increase from the fact that large companies will have a large market capitalization. Great book value and high profits. While in small companies will have a small market capitalization, small book value, and low profits. The size of the has a different effect on the value of a firm. In terms of size, it is seen from the total assets owned by the firm, which can be used for the operations of the firm. Research conducted by Prasetia, et al (2014) which tested the effect of size variables on value indicates that size has a positive effect on value.

Furthermore, that may affect the value of the firm is the dividend policy. The dividend policy is the financial

decision of the firm whether the profit earned will be distributed to shareholders or as retained earnings. Dividend policy often leads to conflicts between firm management and shareholders. This happens because corporate managers often have different interests with shareholders (Sugiaro, 2011).

The management of the firm considers the profits earned by the firm should be used for the firm's operations. The shareholder considers that the profits earned by the firm should be distributed to the shareholders as dividends. The existence of a problem between the management and the shareholders will result in not achieving one of the firm's goals of increasing the value of the firm (Sukirni, 2012).

## II. LITERATURE REVIEW

### A. Firm Value

The value of a firm is a certain condition that has been achieved by a firm as a picture of the public trust to the firm, after going through a process of activities for several years, ie since the firm was established until now. Society assesses willing to buy a stock of the firm with a certain price according to perception and belief (Sukirni, 2012).

### B. Liquidity

According to Fahmi (2011: 174) states that liquidity is a picture of a firm's ability to meet its short-term obligations smoothly and on time so that liquidity is often referred to as short-term liquidity. According to Cashmere (2012: 130) liquidity ratio is the ratio used to measure how liquid a firm. The trick is to compare the existing components in a balance sheet, namely total current assets with total current liabilities (short-term debt). Assessment can be done for several periods so that visible development of corporate liquidity from time to time.

Liquidity shows the ability of a firm to meet its financial obligations that must immediately be met or when billed (Raharjaputra, 2009: 194). Liquidity, in theory, is positively related to value. The higher the liquidity, the higher the firm's value and the lower the liquidity, the firm's value will be low. High cash capability will impact the ability of short-term liabilities of the firm and have a positive impact on the value of the firm. Large liquidity shows inventories are rising, indicating large unemployment funds, hence value declining. Based on the explanation then the hypothesis proposed as follows:

*H1: Liquidity has a significant effect to firm value*

### C. Firm Size

The size of the firm draws the size of the firm. The size of the business in terms of business field run. The determination of the firm's large scale can be determined based on total sales, total assets, average sales rate (Handayani and seftianne, 2011).

The size of a firm is a scale that can be classified by the size of the firm measured by total assets, log size, stock market prices, etc. Firm size can also be measured by the number of sales, average sales, the market value of the firm's shares and others. The size of a large and growing firm can illustrate the level of future profitability, this ease of financing can affect the value of the firm and become good information for investors (Praselia, et al., 2014). Firm size describes the size of a firm that can be expressed by total assets or total net sales. The greater the total assets and sales the greater the size of a firm. The greater the asset the greater the capital invested, while the more sales the more the velocity of money in the firm. Thus the size of the firm is the size or amount of assets owned by the firm (Muliandi, 2010).

Large companies have a lower risk than small companies. This is because big companies have better control over market conditions, so they are able to face economic competition. In addition, large corporations have more resources to increase corporate value because they have better access to external information sources than smalls (Yunita, 2011). Based on the explanation then the hypothesis proposed as follows:

*H2: Firm size has a significant effect to firm value*

### D. Dividend Policy

According to Sitanggang (2012:5) dividend policy is a decision to determine how much of the share of net profit earned by the firm will be distributed to shareholders as dividends and how much profit is retained as a source of internal financing firm. The net profit of a firm is actually an advantage that belongs to the holder.

The dividend policy is a financial decision made by the firm whether the profit earned will be distributed to shareholders or held as retained earnings. Dividend policy often creates a conflict of interest between the management firm and the investor.

Bird in the hand theory states that investors are more interested in companies that pay dividends (Wiagustini, 2010: 262). The dividend payout made by the firm is considered to be a positive signal by investors to invest, as investors prefer a definite return on their investment. Companies that distribute dividends will attract investors to invest. With so many investors buying stocks it will raise the stock price so as to increase the value of the firm. Based on the explanation then the hypothesis proposed as follows:

*H3: Dividend policy has a significant effect to firm value*

III. RESEARCH FRAMEWORK

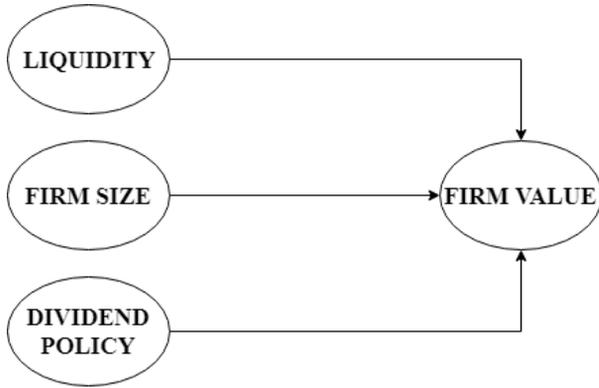


Fig 1. Framework

IV. METHODS

In this study using quantitative methods in the form of associative research that states the relationship and the impact between liquidity, firm size, dividend policy to firm value. The location of this research is conducted at manufacturing companies listed in Indonesia Stock Exchange (IDX) which can be accessed through website address www.IDX.co.id.

The object of this study is the firm's value projected by Price to Book Value (PBV). This research uses three independent variables: liquidity, size and dividend policy. The type of data used in this study is quantitative data, research data in the form of numbers (Sugiyono, 2013:12). Source of data used in this research is secondary data.

The population used in this study is the manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) as many as 164 companies. The number of samples taken is 31 companies. The sampling criteria used in this study:

1. Manufacturing companies listed on the IDX and publish complete financial data.
2. A manufacturing firm that distributes dividends.
3. Companies earning positive profits.

Data collection method used in this research is the non-participant observation method. The data analysis technique used in this research is Multiple Linear Regression. Data processing in this research using SPSS program.

The regression equation is described as follows:

$$Y = \alpha + b_1x_1 + b_2x_2 + b_3x_3 + e_i \quad (1)$$

Information:

- Y = Firm Value
- $\alpha$  = Constants

- b = Slope or regression coefficient
- X1 = Liquidity
- X2 = Firm Size
- X3 = Dividend Policy

V. RESULTS AND DISCUSSION

This section will analyze from empirical data, after test classical assumption the researcher will analyze F-test and T-test. The coefficient of determination is used to find out how much variation of independent variables can explain or provide the information needed to predict the variation of bound variables.

All the tables and figures should be centered, and numbered as examples.

Table's header should be placed at the top; the figure's header should be placed under the figures.

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TABLE 1. MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std.Error of the Estimate
1	.811 <sup>a</sup>	.658	.653	1.65953

From the table above can be seen that the value of R which is the correlation between independent variables with dependent obtained a number of 0811 or 8.11%. This means that there is a very strong relationship between liquidity, size and dividend policy with value. The coefficient of determination in this research is shown by adjusted Square (R2) value that is equal to 0653 or 65.3%. This means that 65.3% of the variations of the independent variables (liquidity, size and dividend policy) are able to explain the dependent variable ( value) while the remaining 34.7% (100% - 65.3%) is explained by other variables outside the regression model in this study.

TABLE 2. ANOVA

Model	F	Sig.
Regression	125.079	.000 <sup>a</sup>

From the overall test results obtained as shown in Table 4.5 above that obtained Fcount value of 125.079 > F Table of 2.65 with a significance value of 0.000 < 0.05 means Ho is rejected and Ha accepted. This means that there is a simultaneous (simultaneous) influence between liquidity variables, size and dividend policy on value.

**TABLE 3. COEFFICIENTS**

Model	t	Sig.
(Constant)	-7.718	.000
Liquidity	17.286	.000
Firm size	-.399	.690
Dividend policy	-1.792	.075

From the results of t-test in table 4.4 above can be explained as follows:

Liquidity has a sig value. 0.000 that is smaller than 0.05 so that Ha1 is accepted. This means Liquidity has a significant effect on firm value. Firm size has sig value. 0.690 is greater than 0.05 so that Ha2 is rejected. This means size has no significant effect on firm value. The dividend policy has a sig value. 0.075 that is greater than 0.05 so that Ha2 is rejected. This means that dividend policy has no significant effect on firm value.

Tests conducted on the first alternative hypothesis, able to prove that the liquidity has a significant positive effect on the value of the firm, so the hypothesis that there is a positive influence of liquidity on corporate value (H1) is accepted. The result of the hypothesis test which stated that liquidity has a positive effect on the firm value indicated by count value  $17.286 > t_{table}$  equal to 1,972 with significance value equal to  $0.000 < 0.05$ . The results of this study in accordance with the study of Putra and Lestari (2016) which states that partially liquidity has a positive and significant impact on corporate value. Simultaneously liquidity also has a positive effect on value. High liquidity can show the available funds to pay dividends, finance the firm's operations and investments so that investors' perceptions of the firm's performance get better. This can boost investor demand for firm stocks. Increased demand for shares will result in the value of the firm will increase.

Tests conducted on the second alternative hypothesis, unable to prove that the size of the firm positively affects the value of the firm, so the hypothesis that there is a positive influence of size on the value of the firm (H2) rejected. The result of the hypothesis test which stated that size does not have an effect on the firm value indicated by a count value of  $-0.399 < t_{table}$  equal to 1,972 with significance value equal to  $0.690 > 0.05$ . The results of this study in accordance with research Rumondor, et al (2015) stating that the partial size of the firm has no effect and not significant on the value of the firm. But simultaneously the size of the firm positively affects the value of the firm. Companies that are categorized as having larger firm sizes have the ease to enter the capital market, making it easier for companies to get additional funds to conduct the firm's operations. Investors will consider the size of the firm in investing because large companies are considered to have grown

and had a good performance. If the total assets of the firm increases then the value of the firm also increases.

The Tests conducted on the third alternative hypothesis, unable to prove that dividend policy has a positive effect on the value of the firm, so the hypothesis that there is a positive influence of dividend policy on corporate value (H3) is rejected. The result of hypothesis test which states that dividend policy has no effect and not significant to value is indicated by a count value of  $-1.792 < t_{table}$  equal to 1,972 with significance value equal to  $0.075 > 0.05$ . The results of this study in accordance with research Sofyaningsih and Hardiningsih (2011) which states that the partial dividend policy has no effect and not significant on the value of the firm. But simultaneously dividend policy has a positive effect on firm value. The high dividends paid to the shareholders are not related to the high value of the firm. This result is inconsistent with the informational content of dividends that dividend payouts are considered future prospects. This result is more consistent with the bird on hand theory which states that the current dividend payout is better than future capital gain.

## VI. CONCLUSION

Liquidity has a positive and significant impact on value. If liquidity increases then the value of the firm also increases. This proves investors will be interested in companies that have a good level of liquidity and control.

The size of the firm has no effect and no significant to the value of the firm. If the size of the firm increases then the value of the firm actually decreases. This proves that the size of the firm is not absolute to make investors interested in investing. The dividend policy has no effect and is insignificant to the value of the firm. If the dividend policy increases, then the value of the firm decreases. This proves that companies that pay dividends to shareholders do not necessarily make investors interested in investing.

Companies should have the optimal liquidity to ensure that the financial condition is safe and controlled. Companies should pay attention to firm size issues and dividend policies because they do not affect the 's value. So companies need to evaluate and analyze it so that firm size and firm dividend policy can attract investors to invest. Researchers are further expected to research by using other variables that may affect value.

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