The Influence of Profitability, Leverage And Free Cash Flow on Firm Value With Dividend Policy as A Moderation Variable (Empirical Study of Consumption Goods Industry Sector Companies on The IDX Period 2019-2021)

Yolanda Dwi Ferdiansah
Departemen of Accounting
Institut Teknologi dan Bisnis Widya
Lumajang, Indonesia
yolandaferdi0@gmail.com

Fetri Setyo Liyundira
Departemen of Accounting
Institut Teknologi dan Bisnis Widya
Lumajang, Indonesia
yolandaferdi0@gmail.com

Ratna Wijayanti Daniar Paramita
Departemen of Accounting
Institut Teknologi dan Bisnis Widya
Lumajang, Indonesia
yolandaferdi0@gmail.com

***Abstract*—This study investigates the impact of profitability, leverage, and free cash flow on firm value, with a focus on consumer goods manufacturing companies listed on the Indonesian Stock Exchange from 2019 to 2021. It employs a quantitative descriptive approach, using purposive sampling to select 32 companies. Data analysis utilizes multiple linear regression to assess these relationships and moderated regression analysis (MRA) to explore dividend policy as a moderator. Key findings include the positive influence of profitability and free cash flow on firm value, while leverage negatively affects it. Dividend policy reinforces the positive impact of profitability on firm value and intensifies the negative effect of leverage. However, it does not moderate the relationship between free cash flow and firm value. Approximately 89.3% of firm value is explained by the variables studied, leaving 10.7% influenced by other unexamined factors. These findings enhance our understanding of firm value dynamics in the consumer goods manufacturing sector on the Indonesian Stock Exchange during the specified period.**

Keywords—dividend policy, firm value, free cash flow, leverage, profitability

I. INTRODUCTION

Industrial development in Indonesia is growing rapidly due to developments in industrial technology[1]–[4], of course, has an impact on the growth of the Indonesian economy as shown by the percentage of Indonesian economic growth published by the Indonesian Central Statistics Agency where in 2018 the Indonesian economy rose 5.17%, in 2019 it rose 5. 02%, in 2020 it fell by 2.07%, in 2021 it rose again by 5.02%, and in 2022 it rose by 5.31%. One of the industrial sectors that contributes greatly to the Indonesian economy is the manufacturing industry, where this sector contributes 81% of Indonesia's export revenue for non-oil and gas commodities [5].

The size of the manufacturing sector in Indonesia is of course due to the large number of investors who invest in the manufacturing sector. When investing, prospective investors must of course pay attention to the fundamental value of a company by considering the company's ability to provide investment results that meet expectations. On the other hand, companies that go public must attract as much interest as possible from investors to buy their shares so that it will increase the value of the company as the level of confidence of potential investors increases in investing their capital in the company. Kasmir [6] defines firm value as the value that potential buyers are willing to pay when the company is sold. In addition, firm value can also be said to be a level of value that has been achieved by the company as a sign of the level of public trust in the company. Firm value is the level of firm value that can be imaged by the level of the company's share price which is formed from market mechanisms that can be an indicator of the level of public trust in a company [7]–[11].

According to Kasmir [6], several things can influence the value of a company, namely profitability, leverage, free cash flow and dividend policy. Profitability reflects the extent to which the company's capability to gain profits from total sales, assets or capital owned, so if the value of the profitability ratio shows a higher value, it means the better the company's capability to obtain profits. So this can be considered a positive signal for potential investors to invest their capital and will ultimately increase the value of the company. Leverage is an indicator to find out how much debt is used by a company to fund its operational activities [12]. High leverage indicates that the company has high debt. As a source of company funding, the decision to increase debt must be reviewed carefully by the company. A debt portion that is too large can endanger the company's sustainability because it can cause financial distress and difficulty paying off its obligations due to the debt and interest attached to it [13]–[17]. In this way, leverage can have a negative effect on firm value. Free cash flow is the remaining operating cash flow that can be used to pay debt, buy back shares, pay dividends or save it for future company growth opportunities [18]–[23]. High free cash flow in a company indicates high company performance, so the firm value will increase [24]–[29].

Dividend policy is a company's decision to distribute profits or retain them for reinvestment [30]. If the higher the dividend paid, the smaller the amount of retained earnings will be, so the company's growth will be slower and vice versa. Dividend policy can be a negative or positive signal depending on whether management's decision is correct in distributing it or depending on its relationship with the company's financial performance.

This research is a follow-up research conducted by previous researchers. However, what makes the difference is the research period and research object. The research period is

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during the 2019-2021 period. Meanwhile, the research objects used are only consumer goods industrial sector companies listed on the Indonesian Stock Exchange. This is done so that the research results obtained are more specific.

Based on the background description that has been explained, researchers will test the influence of profitability, leverage and free cash flow on firm value as well as the influence of dividend policy in moderating the influence between the variables studied in companies in the consumer goods industry sector on the Indonesia Stock Exchange for the 2019-2021 period.

This research aims to determine the influence of profitability, leverage and free cash flow on firm value as well as the ability of dividend policy to moderate this influence relationship.

II. METHODS

Moderated Regression Analysis (MRA) is a statistical method used in research to examine the interaction effects or moderation effects of one or more independent variables on the relationship between a dependent variable and another independent variable. It is a technique commonly used in the fields of social sciences, economics, and business research. Here's how moderated regression analysis works:

- Basic Regression Analysis: Initially, you perform a standard multiple regression analysis. In this analysis, you examine how one or more independent variables (often referred to as predictors or factors) affect a dependent variable.
- Moderator Variable: In moderated regression analysis, you introduce a moderator variable. This variable is used to test whether its presence influences or modifies the relationship between the independent variables and the dependent variable. The moderator variable can be categorical or continuous.
- Interaction Term: To test the moderating effect, you create an interaction term by multiplying the moderator variable with one or more of the independent variables from the basic regression analysis.
- Regressions with Interaction Terms: You run a new regression analysis, including the interaction term(s) alongside the original independent variables. This analysis helps determine whether the moderator variable has a significant impact on the relationship between the independent variables and the dependent variable.
- Interpretation of Interaction Effects: The significance of the interaction term(s) indicates whether the moderator variable moderates the relationship between the original independent variables and the dependent variable. You interpret the results to understand the nature and strength of this moderation effect.

Moderated regression analysis allows researchers to explore how the relationship between variables changes under different conditions or for different groups. It helps provide a more nuanced understanding of the relationships between variables by considering the impact of a third variable (the moderator). This method is valuable in various fields, including psychology, economics, marketing, and social sciences, where researchers want to understand under what conditions or for which groups specific relationships are stronger or weaker.

III. RESULT AND DISCUSSION

To carry out a normality test, you can also use Kolmogorov-Smirnov. The condition for this test is that if the sig value is greater than 0.05, it can be concluded that the residual value has a normal distribution, whereas if the sig value is less than 0.05, it means that the residual value does not have a normal distribution. The following are the results of the Kolmogorov-Smirnov test:

TABLE I. NORMALITY TEST

	Unstandardized Residual	Conclusion
N	96	Normal
Kolmogorov-Smirnov Z	0,065	
Asymp. Sig. (2-tailed)	0,200[c,d]	

Based on Table 1 Asymp value. Sig. (2-tailed) is 0.200 which indicates that the residual distribution is normal because the sig value has a value of more than 0.05.

TABLE II. MULTICOLLINEARITY TEST

Model	Collinearity Statistics		Conclusion
	Tolerance	VIF	
(Constant)			
ROE	0,632	1,581	There is no multicollinearity
DER	0,925	1,081	There is no multicollinearity
FCF	0,617	1,620	There is no multicollinearity

Table 2 shows the Tolerance & VIF values of the independent variables. The Tolerance value of the profitability variable (ROE) is 0.632, the leverage variable (DER) is 0.925 & the free cash flow (FCF) variable is 0.617. From the output of each Tolerance value, it shows that the Tolerance value is more than 0.10, which means that multicollinearity does not occur. Meanwhile, the VIF value of the profitability variable (ROE) is 1.581, the leverage variable (DER) is 1.081 & the free cash flow (FCF) variable is 1.620. Each VIF value is smaller than 10, which indicates that there are no signs of multicollinearity.

TABLE III. MULTICOLLINEARITY TEST

du	**dl**	**dw**	**4-du**	Conclusion
1,7316	1,6015	1,990	2,2684	There is no autocorrelation

Based on the spss output results above, it can be seen that the regression model formed shows a Durbin-Watson value of 1.990 and the du value sought in the distribution of Durbin-Watson table values based on the number of samples (n) in this study is (n) = 96, using The independent variable (k) is k = 3. Therefore, from the Durbin-Watson table, the value of du = 1.7316 is obtained, while the value of 4-du = 2.2684, which means du < dw < 4-du = 1.7316 < 1.990 < 2.2684. Therefore, it can be concluded that there is no autocorrelation occurring in the data used in this research, so it can be concluded that the data is free from autocorrelation or does not show symptoms of autocorrelation.

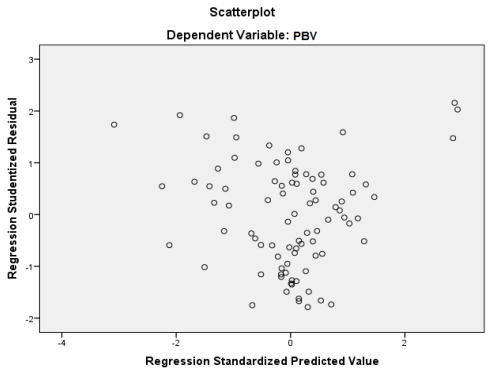

FIGURE I. REGRESSION

From the image above, it can be seen that the dots do not form a visible pattern and are scattered above and below the 0 (zero) line. Therefore, it can be concluded that there are no signs of heteroscedasticity in each regression model, so the regression model is suitable for use.

TABLE IV. MULTIPLE LINEAR REGRESSION RESULT

Model	*Unstandardized Coefficients*		Sig.
	B	Std. Error	
(Constant)	-1,448	0,622	0,022
ROE	38.784	1,987	0,000
DER	-4,023	0,514	0,004
FCF	10.549	2,529	0,013

Based on the unstandardized discriminant coefficient-values in the table above, the following equation model can be obtained:

PBV = -1,448 + 38,784 ROE - 4,023 DER + 10.549 FCF + e

Information: PBV = The value of the company (Y)

ROE = Profitability (X1)

DER = Leverage (X2)

FCF = Free cash flow (X3)

The equation above shows that the profitability variable (ROE) and the free cash flow (FCF) variable have coefficients in a positive direction, while the leverage variable (DER) has a coefficient in a negative direction. The explanation of the multiple linear regression equation above is as follows:

The constant-value in the regression equation shows a value of -1.448, which means that if all independent variables have a value of 0, then the value of the company (Y) is -1.448. The profitability coefficient (ROE) value for variable X1 is 38.784 (positive indicates a unidirectional relationship). This shows that for every 1 (one) unit increase in profitability (X1), the firm value variable (Y) will increase by 38.74 and conversely, every 1 (one) unit decrease in profitability (X1) will reduce the firm value (Y) by 38. 74. The leverage coefficient (DER) value for variable X2 is -4.023 (negative indicates a unidirectional relationship). This shows that for every 1 (one) unit increase in leverage (X1), the firm value (Y) will decrease by 4.023 and conversely, every 1 (one) unit decrease in leverage (X2) will increase the firm value (Y) by 4.023. The free cash flow (FCF) coefficient-value for variable X3 is 10.549. This shows that for every one unit increase in free cash flow (X3), the firm value variable (Y) will increase by 10,549 and conversely, every 1 (one) decrease in free cash flow (X3) will reduce the firm value (Y) by 10,549.

Based on the results of the t-test, the calculated t-value has a positive direction of 19.517 with a significant-value of 0.000. Meanwhile, the t table value is obtained by looking at the t table. Sig value < 0.05, or 0.000 < 0.05, then H1 is accepted and H0 is rejected. t-table (α/2; n-k-1) = (0.05/2 ; 96 – 3 – 1) = (0.025 ; 92) = 1.986. So it is known that the t-table value is 1.986. So tcount> t-table or 19.517> 1.986, it can be concluded that variable X1 has a contribution to Y. So it can be concluded that profitability (ROE) has a positive effect on fim value.

Based on the results of the t-test, the calculated t-value has a negative direction of -4.045 with a significant-value of 0.004. Meanwhile, the t table value is obtained by looking at the t table. The sig value < 0.05, or 0.004 < 0.05, then H2 is accepted and H0 is rejected. t-table (α/2; n-k-1) = (0.05/2 ; 96 – 3 – 1) = (0.025 ; 94) = 1.986. So it is known that the t-table value is 1.986. So tcount>t-table or 4.045 > 1.986, it can be concluded that the variable X2 has a contribution to Y. A negative tcount-value indicates that

Based on the results of the t-test, the calculated t-value has a value of 2.529 with a significant-value of 0.013. Meanwhile, the t table value is obtained by looking at the t table. The Sig value is 0.013 < 0.05, then H3 is accepted and H0 is rejected. t-table (α/2; n-k-1) = (0.05/2 ; 96 – 3 – 1) = (0.025 ; 94) = 1.986. So it is known that the t-table value is 1.986. So tcount>t-table or 2.529>1.986, it can be concluded that free cash flow has a positive effect on firm value.

TABLE V. COEFFICIENT OF DETERMINATION TEST RESULTS

Model	R Square	Adjusted R Square
1	0,896	0,893

The coefficient of determination value is 0.893, which means that the magnitude of the influence of variable regression model.

TABLE VI. MODERATED REGRESSION ANALYSIS (MRA) TEST RESULTS

Variable	B	t_{count}	Sig.	Adj R Square
Equality 1 : With Moderation				
(Constant)	-2,188	-5.716	-5.716	0,887
ROE	36.017	27,338	0.000	
Equality 2 : Without Moderation				
(Constant)	-0,504	-0,963	0,338	0,916
ROE	12.506	2,730	0.008	
DPR	0,024	0,111	0.912	
ROE*DPR	20,699	5,306	0.003	

Based on the table above, the beta value of the interaction variable between profitability and dividend policy (ROE*DPR) is 20.699 with a significance value of 0.003 < 0.05, which means that dividend policy can significantly moderate the relationship between profitability and firm value, the adjusted R square value shows the magnitude The influence that the dependent variable can have on the independent variable, the adjusted R square value of profitability on firm value is 0.887 or 88.7%, while after moderation from the dividend policy the adjusted R square value becomes 0.916 or 91.6%. This shows that dividend policy can strengthen or enlarge the influence of profitability on firm value. In this regression, dividend policy is a pure moderator because it is only significant when interacts with profitability and does not have a partially significant effect on firm value.

TABLE VII. RESULTS OF MODERATION REGRESSION TEST FOR DIVIDEND POLICY ON LEVERAGE

Variable	B	t_{count}	Sig.	Adj R Square
Equality 1 : With Moderation				
(Constant)	-1,394	-1,083	0,282	0,238
DER	6,136	5,417	0,000	
Equality 2 : Without Moderation				
(Constant)	0,202	-0,145	0,885	0,348
DER	-2,885	-2,098	0.039	
DPR	1,743	2,065	0.042	
DER*DPR	4,551	3,803	0.000	

Based on the table above, the beta value of the interaction variable between leverage and profitability (DER*DPR) is 4.551 with a significance value of 0.000 < 0.05, which means that dividend policy can significantly moderate the relationship between leverage and firm value. The adjusted R square value shows the magnitude of the influence. which can be given by the dependent variable to the independent variable, the adjusted R square value of profitability to firm value is 0.238 or 23.8%, whereas after moderation from the dividend policy the adjusted R square value becomes 0.348 or 34.8%. This shows that dividend policy can strengthen or enlarge the influence of leverage on firm value. In this regression, dividend policy is a quasi moderator because it has a partially significant effect on firm value and has a significant effect when interacting with leverage.

TABLE VIII. RESULTS OF DIVIDEND POLICY MODERATION REGRESSION TEST ON FREE CASH FLOW

Variable	B	t_{count}	Sig.	Adj R Square
Equality 1 : With Moderation				
(Constant)	-1,394	-1,083	0,282	0,238
DER	6,136	5,417	0,000	
Equality 2 : Without Moderation				
(Constant)	0,202	-0,145	0,885	0,348
DER	-2,885	-2,098	0.039	
DPR	1,743	2,065	0.042	
DER*DPR	4,551	3,803	0.000	

Based on the table above, the beta value of the interaction variable between free cash flow and profitability (FCF*DPR) is 11.519 with a significance value of 0.148 > 0.05, which means that dividend policy is unable to moderate the relationship between free cash flow and firm value, the adjusted R square value shows the magnitude of influence that the dependent variable can have on the independent variable, the adjusted R square value of profitability on firm value is 0.259 or 25.9%, while after moderation from the dividend policy the adjusted R square value becomes 0.261 or 26.1%. By looking at the results of the significance value which does not indicate the ability of dividend policy to moderate the relationship between free cash flow and firm value and the increase in the adjusted R square percentage which only rose 0.02%, it can be concluded that dividend policy is not able to moderate the relationship between free cash flow and firm value.

The research findings demonstrate a strong positive and significant relationship between profitability, represented by ROE, and firm value, proxied by PBV. This alignment with the findings of previous research conducted by [9], and [10] supports the idea that a high profitability ratio is a coveted achievement for all companies. When profitability continues to rise, it signifies strong company performance and garners positive attention from investors. This positive perception leads to increased demand for the company's shares, resulting in higher share prices and, consequently, an elevated firm value.

The conclusion drawn from this is that profitability acts as a positive signal, demonstrating the company's competence in its operations. Companies with strong profitability are seen as having favorable business prospects, making them attractive to investors. The increased demand for shares and rising share prices directly contribute to an overall enhancement of the firm's value.

The research reveals that leverage, as represented by the debt-to-equity ratio (DER), negatively impacts firm value, as indicated by price-to-book value (PBV). This aligns with signaling theory, suggesting that high leverage serves as a negative signal for potential investors, resulting in share price declines and a subsequent decrease in the company's value. The pecking theory, emphasizing the importance of a company's funding hierarchy, supports these findings, emphasizing that a company with low debt is viewed favorably, while excessive debt is detrimental.

These results are consistent with prior research conducted by [31], which also underscore the adverse effects of high leverage on firm value. In essence, a high leverage value signals a substantial reliance on debt for financing, creating a negative signal for investors and diminishing the firm's value due to the increased risk associated with high leverage.

The outcome can be attributed to the way leverage represents a company's debt relative to its capital. A higher leverage value indicates a larger debt burden, dissuading investors due to concerns about financial risk and the associated interest costs. Leverage serves as a ratio reflecting the extent of debt in comparison to a company's capital, with higher leverage signaling greater debt exposure.

The research findings indicate a positive and significant relationship between free cash flow and firm value, represented by price to book value (PBV). This alignment with signaling theory suggests that free cash flow serves as a favorable signal for investors, reflecting their expectations of dividend distributions and share value growth stemming from the effective use of available free cash flow.

Furthermore, Brigham & Daves [32]–[34] put forth a theory emphasizing the connection between firm value and the company's capacity to generate free cash flow, which corroborates the research results. This highlights that companies with ample free cash flow exhibit flexibility, allowing them to pay off debt, distribute dividends, and invest in company development, consequently enhancing firm value. Additionally, Herda [35] research underscores the positive impact of free cash flow on firm value, driven by investors' preference for companies with high free cash flow, indicative of strong company performance.

Free cash flow's positive effect on firm value can be attributed to its reflection of the actual cash available to shareholders, enabling companies to pursue profitable investments and better withstand adverse circumstances. High free cash flow serves as a favorable signal to investors regarding effective company management, stimulating interest in share purchase and leading to increased share prices, consequently elevating the company's overall value.

To sum up, the research findings reveal that dividend policy, represented by the dividend payout ratio (DPR), acts as a moderator in several key relationships.

Firstly, dividend policy strengthens the positive link between profitability and firm value. In high-profitability scenarios, the company's capacity to distribute dividends increases, serving as a positive signal to investors seeking returns on their investments. This aligns with the concept of Modigliani and Miller (MM), where investors favor dividends over retained earnings. The result is consistent with previous research by [2], [13], [14] demonstrating that dividend policy moderates the profitability-firm value relationship.

Secondly, dividend policy intensifies the negative relationship between leverage and firm value. When a company has high leverage, the decision to increase dividend policy is seen as inappropriate, potentially worsening prospective investors' assessment of the company. This result is in line with signaling theory, as it becomes a negative signal when a high-leverage company increases dividend policy. These findings are supported by prior studies conducted by [14], [15] which demonstrate the moderating role of dividend policy in the leverage-firm value relationship.

However, it's important to note that dividend policy does not moderate the positive influence of free cash flow on firm value. The inability to moderate this relationship can be attributed to various factors, such as the allocation of free cash flow for operational expenses and debt payments, rather than dividends. Additionally, investors may focus on a company's cash flow without emphasizing the value of dividends paid. This conclusion aligns with the results of [13].

Dividend policy's moderating effect on firm value is contingent on the specific financial factors under consideration, and the extent of this influence varies in different contexts.

IV. Conclusion

Profitability positively influences firm value, as it reflects a company's ability to generate profits, thereby attracting investors. Their investment leads to increased share prices and, consequently, a higher firm value. Leverage has a negative impact on firm value because high debt levels increase the risk of financial distress due to difficulties in meeting obligations and the associated interest costs. This, in turn, reduces demand for shares, resulting in decreased share prices and diminished firm value. Free cash flow contributes positively to firm value, as a company with strong free cash flow has the financial flexibility to pay dividends, settle debt, or invest in business development. This serves as a positive signal for investors, driving share prices upward and enhancing the overall firm value. Dividend policy acts as a moderator, strengthening the relationship between profitability and firm value by distributing dividends when profits are high. This reinforces investors' positive perception of profitability. Dividend policy also moderates the relationship between leverage and firm value by increasing the negative impact of high leverage. However, it does not appear to moderate the relationship between free cash flow and firm value, potentially because investors prioritize free cash flow over dividend policy in their investment decisions.

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