Research Paper

The Influence of Company Growth, Profitability, and Free Cash Flow on Company Value with Dividend Policy as Moderating Variable (An Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange from 2018-2020)

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Abstract.
This research aims to analyze the influence of a company's growth, profitability, and free cash flow on the company's value and the role of dividend policy in moderating this relationship. The research population is 159 manufacturing companies listed on the Indonesia Stock Exchange from 2018-2020. The sample is selected using a purposive sampling technique. There are 44 companies as the sample with 132 units of analysis. The data analysis uses Moderated Regression Analysis (MRA) supported by Eviews 9 tool. The results show that growth and profitability influence the company's value, while free cash flow does not affect the value. A dividend policy can weakly moderate the relationship between a company's growth and value, but it cannot moderate profitability and free cash flow to the company's value.

Keywords: free cash flow, dividend policy, company value; company growth; profitability

1. Introduction

A company is an organization that has specific purposes in its establishment. One is to maximize its value (Gautama et al., 2019). To achieve this goal, its financial management must be able to improve its performance as best as possible through its roles in spending all the available resources to seek, manage, and share funds to provide profits or prosperity for shareholders and maintain business.

A company's value represents potential investors to assess the condition of a company correlated with stock prices. High share prices can increase investor interest because it indicates a high level of shareholder prosperity (Triyani et al., 2018). If the company can perform a good signal about its value, potential investors will consider it as an alternative investment. This reflects the investor's overall assessment of each owned share.

However, the company's value does not always increase as expected. This happened in 2020 when many companies experienced a significant decline in stock values due to the Coronavirus outbreak (Alfira et al., 2021). According to a news portal, bareksa (www.Bareksa.com, 2020), the COVID-19 coronavirus pandemic had impacts on health and economic aspects. The impacts were reflected in the performance of the capital market. Throughout the spread of Covid-19, the Jakarta Composite Index (JCI) tended to be in the red zone. Compared to the beginning of the year, the JCI had decreased by 22.28%.

A factor predicted as the most influential for the company's value is the company's growth. Suhandi (2021), Aeni (2019), and Silalahi & Sihotang (2021) found that company growth has a positive effect on the company's value. Other studies by Purwohandoko (2017), Suzulia & Saluy (2020), and Dhani & Utama (2017) explained that company growth does not affect the company's value.

Profitability is another aspect that may influence the company's value. Sucuahi & Cambarihan (2016), Yulianti & Syarif (2021), and Denziana & Monica (2016) showed that profitability has a positive effect on the company's value. However, Nurwulandari (2020), Yusmaniarti, et., al (2021), and Ukhriyawati & Malia (2018) found that profitability does not affect the company's value.

Free cash flow is the third variable that can affect the company's value. Palupi (2020), Zurriah (2021), Dewi, et., al (2019), and Permata, et., al (2018) explained that free cash flow has a positive effect on the company's value. However, Widiastari & Yasa (2018), Mayarina & Mildawati (2017), and Dewi, et., al (2018) found that free cash flow does not affect the company's value.

2. Literature Reviews

2.1. Agency Theory

The agency theory was proposed by Jensen and Meckling (1976). They explained that there are differences in interests between managers as agents and shareholders as principals. Shareholders expect to compensate management based on its performance.

At the same time, managers prefer the payroll system by looking at the results and the level of effort.

2.2. Signaling Theory

The signaling theory was founded by Spence (1973). He explained that a company would provide a signal to financial statements (including investors) which aims to increase shareholder value. This signal may be any information related to management's efforts to realize what investors need. It can also be another piece of information that shows that this company is better than others.

2.3. Hypotheses

The following scheme describes the research framework:

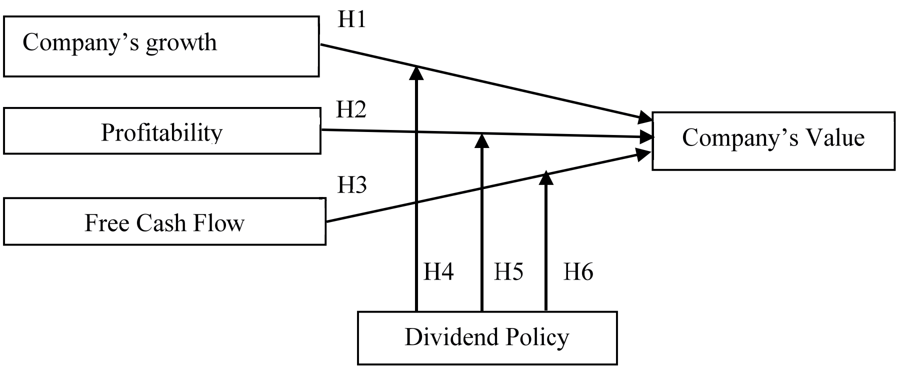

Figure 1: Research Framework. Source: processed from various sources, 2022

This research formulates six hypotheses based on the above framework:

H1: Company growth positively influences the company's value.

H2: Profitability positively influences the company's value.

H3: Free Cash Flow positively influences the company's value.

H4: Dividend policy moderates the influence of the company's growth on the company's value.

H5: Dividend policy moderates the influence of profitability on the company's value.

H6: Dividend policy moderates the influence of Free Cash Flow on the company's value.

3. Method

This is quantitative research with a hypothesis-testing study design. The population is manufacturing companies listed on the Indonesia Stock Exchange (IDX) in a row from 2018-2020. The sampling technique is a purposive method to obtain 44 companies with 132 units of analysis. This research also uses descriptive and verification analysis methods. The data analysis process uses the statistical data processing program Eviews 9.

4. Results and Discussions

4.1. Results

4.1.1. Descriptive Statistics Analysis

TABLE 1: Descriptive Statistics Analysis.

	LOG_PBV	GROWTH	ROE	FCF	DPR
Mean	0.626807	0.078221	0.150728	-0.103753	0.662699
Median	0.655218	0.050383	0.107987	-0.145047	0.463968
Maximum	4.039394	6.227489	1.450882	11.25018	5.237762
Minimum	-1.526264	-0.339485	0.000646	-3.408318	0.001805
Std. Dev.	0.915994	0.557783	0.202055	1.060238	0.750678
Skewness	0.245703	10.24572	4.999469	9.168635	3.131351
Kurtosis	3.405732	113.6398	30.75381	101.8981	15.68194
Jarque-Bera	2.233534	69635.83	4786.389	55644.04	1100.292
Probability	0.327336	0.000000	0.000000	0.000000	0.000000
Sum	82.73846	10.32519	19.89607	-13.69539	87.47625
Sum Sq. Dev.	109.9150	40.75699	5.348232	147.2578	73.82075
Observations	132	132	132	132	132

Source*:* Output Eviews 9, 2022

The results of descriptive statistics in table 1 show there are 132 observations. It is the total research data consisting of 3 years from 2018 to 2020. The research sample consists of 44 companies listed in the manufacturing sector from 2018 to 2020.

4.1.2. Moderation Regression Analysis

In this research, the moderation regression test used is the Moderated regression analysis (MRA). The regression equation has a multiplication interaction between two or more independent variables. The regression equation is written as follows:

$$PBV = \alpha + \beta 1 GROWTH + \beta 2\ ROE + \beta 3\ FCF + \beta 4\ (GROWTH * DPR)$$
$$+ \beta 5\ (ROE * DPR) + \beta 6\ (FCF * DPR) + \varepsilon$$

Equation 1 -- Moderation Regression Equation

The following table shows the results of the regression test:

Table 2: Result of Moderated Regression Analysis Test.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.296078	0.151974	1.948213	0.0536
GROWTH	0.304647	0.159105	1.914758	0.0578**
ROE	2.474043	0.752985	3.285648	0.0013*
FCF	-0.022506	0.038686	-0.581762	0.5618
GROWTH*DPR	-0.666823	0.281180	-2.371520	0.0193*
ROE*DPR	-0.044350	0.629719	-0.070428	0.9440
FCF*DPR	-0.011395	0.143782	-0.079255	0.9370

source*:* Output Eviews 9, 2022
Note: *: significance value 0,05
**: significance value 0,10

Table 2 shows that the constant value is 0.2960. It means that if the variables of GROWTH, ROE, FCF, ''GROWTH * DPR, ROE * DPR, and FCF * DPR have a value of 0 or constant, then the company's value variable (PBV) is 0.2960. The probability value of the company's growth (GROWTH) is 0.0578, which means that it significantly affects the company's value (PBV). The probability value of the profitability variable (ROE) is 0.0013, which means that it influences the company's value (PBV). The probability value of free cash flow (FCF) is 0.5618, which means that free cash flow does not affect the company's value (PBV). The free cash flow regression coefficient is -0.0263. It has a negative direction and shows that an increase of 1 unit (FCF) will cause a decrease in the company's value (PBV) of 0.0263. Other influential factors are considered constant. The probability value of company growth (GROWTH) moderated by dividend policy (DPR) is 0.0193 with a regression coefficient of - 0.6648. This means that the dividend policy (DPR) can moderate the effect of company growth (GROWTH) on the company's value (PBV) in a negative direction. The probability value of profitability (ROE) moderated by dividend policy (DPR) is 0.9440. It means that dividend policy (DPR) cannot moderate the effect of profitability (ROE) on the company's value (PBV). The probability value of free cash flow (FCF) moderated by dividend policy (DPR) is 0.9370. It means that dividend policy (DPR) cannot moderate the effect of free cash flow (FCF) on the company's value (PBV).

4.2. Discussions

1. The Influence of Company Growth on Company Value

   The findings prove that company growth significantly and positively affects value. It is based on the signal theory which states that investors consider the company's growth to show a positive signal and development. The company's growth will have beneficial impacts. The company will also expect a rate of return from the investment. The high growth rate makes investors interested in investing because the company has good prospects. It will affect the increase in share value and also increase the company value (Aeni, 2019). These results support Aeni (2019), Suhandi (2021), Fajaria & Isnalita (2018), and Dhani & Utama (2017).

2. The Influence of Profitability on Company Value

   The results are following the signal theory which explains that an increase in profit is a positive signal to shareholders. It shows that the company is profitable and can provide welfare to shareholders through high stock returns. Those that can increase their profits will have more opportunities to expand their business. The larger scale companies are easily e trusted by creditors. They can also obtain internal and external sources of funds to further increase profits through expansion and efficiency of operational activities. The findings are in line with Sucuahi & Cambarihan (2016), Aeni (2019), and Denziana & Monica (2016).

3. The Influence of Free Cash Flow on Company Value

   The results of this research prove that free cash flow does not influence the company's value. The results of descriptive statistical tests show average value (mean) is -0.111251. It means the company's finances are not in a good condition. Companies with negative free cash flow indicate that their internal source of funds is insufficient for investment. Their income cannot support business expansion or development. Therefore, they are unable to distribute their funds to shareholders. The insignificant result is due to the tendency of investors not to take into account free cash flow due to the unavailability of the free cash flow ratio in the company's financial statements. So, finding the amount of free cash flow takes a long time because everything must be calculated manually. Free cash flow is thus not a priority for investors to determine their investment decisions in the company. The findings are in line with Widiastari & Yasa (2018), Mayarina & Mildawati (2017), and Dewi et., al (2018).

4. Dividend Policy Moderates Effect of Company Growth on Company Value

   The results show that dividend policy can moderate the influence of company growth on company value but in a negative direction. This indicates that if there is an increase in company growth, the value will decrease. The results of descriptive statistics show that 66% of the sample companies distribute dividends higher than the average. Thus, investors prefer cash dividends rather than being promised a return on investment (Capital Gain) in the future. It is because receiving cash dividends is a form of certainty to reduce risks. The existence of a dividend policy will weaken the influence of company growth on the company value.

5. Dividend Policy Moderates the Influence of Profitability on Company Value

   The results of the analysis prove that dividend policy cannot be a moderator in the influence of profitability on company value. This shows that information about dividend payment policy does not affect increasing company value. The profitability level can give a positive signal to investors about the company's value. However, the dividend policy cannot strengthen investors' assessment of the company's shares when there is an increase in profitability. This indicates that profitability is more important for investors for future guarantees. The results of the study were shown by PT. Indocement Tunggal Prakasa Tbk in 2018 experienced a decrease in the Dividend Payout Ratio from 2.2487 to 1.1031 in 2019. The Return on Equity and company value continued to increase though. The ROE value was 0.0493 in 2018 and increased to 0.0795 in 2019. The PBV value was 2.9248 in 2018 and increased to 3.0344 in 2019. This shows that dividend policy is not the basis for considering company value.

6. Dividend Policy Moderates the Influence of Free Cash Flow on Company Value

   The results of this research show that dividend policy cannot strengthen the influence of free cash flow on company value. The moderating variable (dividend policy) cannot empirically strengthen or weaken the influence of both. This means that the presence or absence of a fixed dividend policy does not affect the free cash flow of the company value. This is because not all investors observe the amount of distributed dividends, but those who play in the capital market choose to invest in a fast way (traders) which have fluctuating stock price movements driven by external factors. Therefore, the distribution of large dividends does not increase company value.

5. Conclusions and Suggestions

Based on the findings and discussion, the company's growth and profitability have a significant positive effect on company value. However, free cash flow has no significant effect on company value. The dividend policy can moderate (weaken) the effect of company growth on company value. Meanwhile, dividend policy cannot moderate the influence of profitability and free cash flow on company value.

The authors suggest some points for the companies. The first is they should increase their assets and sales activities to balance it. Higher sales rates will be important to obtain funds from external parties. The second is that companies must increase their profitability to increase their values. Higher profitability reflects better company conditions. The last is the companies should maximize distributed dividend policy because this is very attractive to investors which can increase their values.

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