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The Impacts of The Ratio of Liquidity, Activity And Profitability Towards Company Value With Dividend Policy As Intervening Variables

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Abstract*. This purpose aims to know the impacts of liquidity, activity and pofibility towards the company value with dividen policy as intervening variables. The population of this research is manufacture company listed on BEI (Indonesia Stock Exchange). The sample is chosen by using purposive sampling method and it brings out 21 data in 5 years research from 2010 until 2014. The result shows that liquidity (CR) gives positive impact to the company value which is proxied with Tobins-Q, liquidity (CR) also gives significant impacts to the company value through dividend policy (DPR) with negative direction. The activity (TATO) gives negative impacts to the company value which is proxied with Tobins-Q, but profitability (ROE) gives positive impact to the company value through dividend policy (DPR).*
Keywords:*Liquidity, Activity, Profitability, Dividend policy, Company value.*

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I. Introduction

A company is established with several purposes. The first is to get maximum profit, the second is to prosper the owner of company or shaleholders, and the third is to maximize the value of company reflected on stock price. These three purposes actually do not have big differences in the substance, every company has its own emphasis to achieve. Harjito and Martono in Alfredo (2011).

The company value can be seen through the ability of company in paying dividend. Sometimes the dividend is not divided by the company because the company should invest the profit earned. The amount of dividend can affect the stock price. If the payable dividend is high, so the stock price tend to be high, if the dividend is paid to the small shareholder so the stock price which share it will be low. The company value is a reflection of adding the amount of equity of company with the company debt.

There are several factors which impact the company value, such as : funding decisions, dividend policy, investment decisions, capital structure, company growth, company size. These several factors have relationships and influences through the company value which is inconsistent. The company value is the value profit in the future which is expected and counted with the suitable interest rate (Kusumadilaga, 2010).

According to several experts, the financial performance is a formal business which is done by company to evaluate the efficient and effectiveness of the company's activities that have been implemented for a certain period of time. Sometimes the financial performance gets reduction, one of the ways to face this problem is by measuring the financial performancewith analyzing financial statements using financial ratios. The result of measurement toward the achievement of work is used as a basic for management or manager of the company to improve the performance of work in the next period and it is used as a base in giving reward and punishment to the manager and organization member. The performance measurement which is conducted in any given period is very helpful to evaluate the improvement achieved by the company and produce useful informations in taking decision of management and create its company value for the stakeholders (Pertiwi, 2012).

Research Problems

The ratio of liquidity, activity and profitability give impact on the company value as well as the ratio of liquidity, activity and profitability give impact on the company value through devidend policy as intervening variable.

Objectives of the study

The aim of this research is to know the impacts of ratio of liquidity, activity and profitability to the company value and to know the impact of ratio of liquidity, activity and profitability towards the company value through dividend policy.

II. Theoretical Review

Signaling Theory

The basic of this theory is that the manager and shareholder do not have accessof similiar capital information or the availability of information asymmetry. Sometimes there is the existence of information which only known by the manager, while the shareholders do not know about it. As a result, when the company's funding policy changes, it can bring information to shareholders that will make the value of the company change. In other words, it emerges sign or signal (signaling).

If the manager believe that the company has a good prospect, and want to increase the stock price, the manager can communicate it with the investors. The manager can make more debt which act as more reliable signal.It is because of the company which increases the debt can be viewed as a company that is confident with the prospect of the company in the future. Hopefully, the investors can take that signal which indicate that the company has a good prospect in the future. Therefore, we can conclude that those explanation about debt is a good sign or signal form the company (Umi Mardiyati, 2012).

Bird In The Hand Theory

According to Gordon (2012) in his theory about bird-in-the-hand, is that dividend is better than capital gain, because the shared dividend has less risky again, therefore the company should create a high dividend payout ratio that offers a high dividend yield to be able to maximize its stock price. One of the advantages if this theory is applied is that by giving high dividend, then the stock price of the company will be high too. But the lack of this theory is that the investor should pay high tax as the consequences of high dividend. Modigliani dan Miller (Cecep 2012) assume that Gordon's argument is a fallibility. They use the term of "The Bird in the Hand Fallacy". They think that in the end the investor investors will re-invest the dividends received at the same company or companies that have almost the same risk. This theory is strengthened by Al-Malkawi. *at.,al* (2010)which confirms that in an uncertain world and filled with the asymmetry of information, dividends are judged differently from the capital gains:"A bird in the hand (dividend) is worth more than two in the bush (capital gain). Due to the uncertainty of future cash flows, investors will often tend to choose dividends rather than retained earnings (Cecep, 2012).

The Company Value

According to Ika in Bayu and I.B Panji (2012) is that the company value is the value which relfects the price that willing to be paid by investor to the company. The high stock can make the value of company is high too. It is important to maximize the value of company because by increasing the value of company, it makes the shareholder has a good prosperity which become the main target of company. The alternative that can be used to measure the company value beside Price Book Value (PBV) is Tobin Q ratio. This ratio is developed by Profesor James Tobin (1967). Sketchily, Tobin's q is a meaure of performance by comparing two assessments of the same asset. Tobin's q is the ratio of the market value of the firm's assets as measured by the market value of the number of outstanding shares and the debt (enterprise value) against the replacement cost of the company's assets (Fiakas, 2005).

Financial Performance

According to Munawirin Hadianto (2013), financial performance is the performance achieved by the company in a certain period and contained in the company's financial statements concerned.Financial ratio analysis is the basis for assessing and analyzing the performance of a company's operations or company performance. The real value of financial statements lies in the fact that financial statements can be used to help estimate future earnings and future dividends. Investors will analyze the condition of the company by looking at financial ratios because by using analytical tools in the form of ratios will be able to explain or provide an overview to the analyzer about the good or bad state of a company's financial position. The ratios used in this research are the ratio of liquidity, activity, and profitability.

Liquidity

According to Mamduhin Zulfia (2013) is that liquidity can be interpreted as the ability of a company to fulfill financial obligation in short-term or that should be immediately paid. The company can be said liquid if the company can fulfill the obligation at maturity. The level of liquidity can me measured by ratio of liquidity. Current Ratio is the ratio that is used to measure the company's ability to pay short-term liabilities or debts that are due sooner when billed in its entirety.

Activity

According to Sutrisno in Wanti (2015), Kasmir (2008), the ratio of activity can measure how large the effectiveness of the company in utilizing the source of funds and or assets owned. This ratio can be used to measure the level of efficiency (effectiveness) utilization of company resources or or how efficient the company's management is in using assets or managing its assets. Total turnover assets are a comparison between sales with total assets of a company where this ratio describes the speed of rotation of total assets in a certain period.

Profitability

According to Kasmir (2010), profitability is the factor than can affect the value of company. If the manager can manage the company well then the cost that will be paid by the company will be lower so the profit that will be earned become more big. ROE is the measurement of profitabilty that measure the ability of company in producing finance at the level of sales, assets, and capital stock. ROE shows the company's ability to generate profits.

Dividend Policy

The Dividend Policy is an important decision in the company. This policy will involve two parties with different interests: the first party, the shareholders and the second party, the management of the company itself. The dividend policy can be measured by using a dividend payout ratio (DPR), because the DPR is more able to describe managerial opportunistic behavior by looking at how much profit is distributed to shareholders as dividends and how much is kept in the company.

Previous Researchs

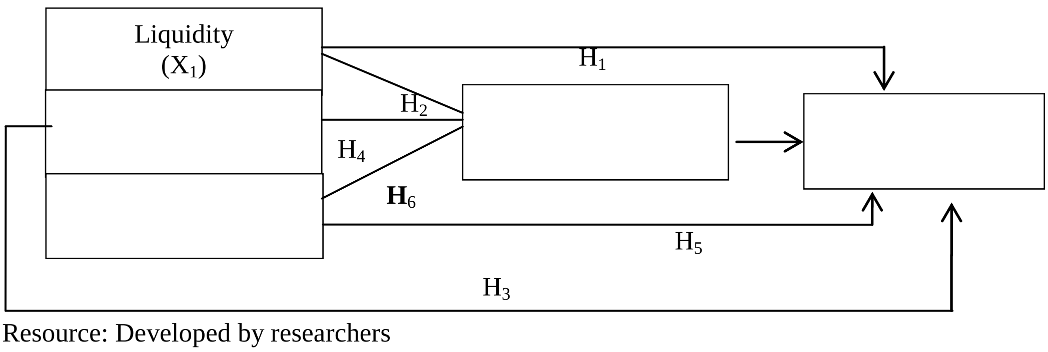
Wijaya dan Panji (2015) conducted a research about the impact of profitability toward the company value with dividend policy and the opportunity of investation as maditation variable. The result of the research shows that profitability gives positive and significant impact toward the company value, profitability gives positive and significant impact to the dividend policy, and dividend policy give positive impact to the company value. Therefore, dividend policy strengthens profitability to firm value and dividend policy is able to mediate the relationship of profitability and firm value.

Purnami and Luh (2016) conducted research on the influence of investment opportunity set, total turnover assets, and sales growth on the dividend policy of manufacturing company case research of consumer goods industry sector listed on BEI (Indonesia Stock Exchange). The result of research shows that investment opportunity set has negative but not significant effect on dividend policy, total turnover asset has positive and significant influence to dividend policy, sales growth has negative but not significant effect on dividend policy.

Nofrita (2013) conducted a research on the effect of profitability on firm value with dividend policy as intervening case research variable at a manufacturing company listed on BEI (Indonesia Stock Exchange). The results showed profitability does not significantly affect dividend policy, but dividend policy and profitability have a significant positive effect on company value.

Ariyanti (2014) conducted the research about the influence of total asset turnover (TATO), inventory turn over (ITO), debt to equity rasio (DER), and earning per share (EPS) to dividen payout rasio (DPR). The case research of manufacturing companies listed on the BEI. The result shows that there are four variables which have a significant effect to DPR those are TATO, ITO, DER, and EPS. Besides, the research also produces that TATO and ITO have a positive effect to DPR, while DPR and EPS have a negative effect to DPR.

Framework Objective



Resource: Developed by researchers

Hypothesis

Hypothesis 1 : Liquidity (CR) has a positive effect on firm value.

Hypothesis 2 : Liquidity (CR) has a positive effect on firm value through dividend policy (DPR)

Hypothesis 3 : Activity (TATO) has a positive effect on firm value.
Hypothesis 4 : Activity (TATO) has a positive effect on firm valuethrough dividend policy (DPR)
Hypothesis 5 : Profitability (ROE) has a positive effect on firm value.
Hypothesis 6 : Profitability (ROE) has a positive effect on dividend policy (DPR)

III. The Research Method

The object of this research is a manufacture company listed in Indonesia Stock Exchange (BEI) and the time of the research is conducted for 3 months starting from June until August 2015. The population in this research is the manufacture company that has go public in the period from 2010 until 2014 and listed in Indonesia Stock Exchange (BEI). Total population are141 companies, and 21 companies are selected. The data used are data of stock price, annual reports, and financial reports from 2010 until 2014 based on the official website of Indonesia Stock Exchange (BEI), that is http://www.idx.co.id/ andIndonesian Capital Market Directory (ICMD).

The data analysis technique uses path analysis. This analysis is used to know and to obtain dependent variable and independent thoroughly both simultaneously and partially with SPSS (Statistical Product and Service Solution) as the assistance. The path analysis is used to analyze the relationship pattern between variable with the aim to know the direct or indirect effect of a set of independent variables (exogenous) to the dependent variable (endogen)(Ghozali, 2013).

The model structure in this research is divided into two:

1. The substructure equation (direct influence) : $Z = B_1X_1 + B_2X_2 + B_3X_3 + e_1$………………………… (1)
2. The substructure equation II (indirect influence) $Y = B_1X_1 + B_2X_2 + B_3X_3 + B_4Z + e_2$....................... (2)

Where:

X_1 = Liquidity
X_2 = Activity
X_3 = Profitability
Z = Dividend Policy
Y = Firm Value
B_1, B_2, B_3 = path coefficient
e = Error

Based on the path diagram structure above, this research is divided into two models. The first model explains indirect relationship between liquidity variable (X_1), activity (X_2), and profitability (X_3) toward dividend policy (Y). Then, the second model explains the direct relationship between liquidity variable (X_4), activity (X_2), profitability (X_3), and dividend policy (X_4) to firm value (Y).

IV. The Result and Discussion

Hypothesis Test

The Result of the Structure Equation *Path Analysis* I

Research variable	Standardize Coefficient	*Sig*
Constant		0,007
X_1	-0,063	0,042
X_2	0,128	0,213
X_3	0,073	0,037
R	0,151	
R Square	0,023	
Adj R Square	-0,008	

Resource: processed researchers

The result of the structure equation *path analysis* II

Research variable	Standardize Coefficient	*Sig*
Constant		0,023
X_1	0,525	0,000
X_2	0,030	0,736
X_3	0,032	0,720
Y	0,044	0,022
R	0,520	
R Square	0,270	
Adj R Square	0,239	

Resource: processed researchers

To decide the dividend policy variable influence in the table, then it can be determined by:

$PZe_1 = \sqrt{(1\text{-}R^2\ ZX1X2X3)}$ ……………………………………………………….................................... (3)
$= \sqrt{(1-0{,}023)} = 97{,}7\%$.
Then the value (e_1), the coefficient of other variable path to the dividend policy is 0,977. So the path equation is : Z = (-0,063) + 0,128 + 0,073 + 97,7.To find out the other variable influence to firm value through dividend policy, so it can be determined by:
$PYe_2 = \sqrt{(1\text{-}\ R^2\ YX1X2X3Z)}$ ……………………………….……………………………………………...(4)
$= \sqrt{(1-0{,}270)} = 73\%$
So the value (e1) the other coefficient variable path to firm value is 0,73. So the path equation is: Y = 0,525 + 0,030 + 0,032 + 0,044 + 0,73.

The Hypothesis Test 1.
The hypothesis H_1 states that the current ratio gives positive effect to firm value. From the table 4.8 it can be seen that the value of coefficient path $X_1 \rightarrow Y$ as big as 0,525 with sig = 0,000 (<0,05) is significant. Thereby, the hypothesis 1 states that liquidity has a positive effect to firm value accepted.

The Hypothesis Test 2.
The hypothesis H_2 states that the current ratio has a positive effect to firm value through dividend policy. From the table 4.7 and 4.8, it can be seen that the value of coefficient path $Z \rightarrow Y$ 0,044 with sig = 0,022 (<0,05) is significant. Thereby, hypothesis 2 states that liquidity has an effect to firm value through dividend policy accepted with different direction that is negative effect.

The Hypothesis Test 3
The hypothesis 3 states that total asset turnover has a positive effect on firm value. From the table 4.8 can be seen that the value of coefficient path $X_2 \rightarrow Y$ as big as 0,030 with sig = 0,736 (>0,05) is not significant. Thereby, the hypothesis 3 that states the ratio activity has positive effect on dividend policy refused.

The Hypothesis Test 4
The hypothesis H_4 states that total asset turnover has a positive effect on firm value through dividend policy. From the table 4.7 and 4.8, it can be seen that the value of coefficient path $X_2 \rightarrow Z$ as big as 0,128 with sig = 0,213 whereas the value of coefficient path $Z \rightarrow Y$ 0,044 with sig = 0,022 (<0,05) is significant. Thereby, the hypothesis 4 that declares the activity has effect on firm value through the dividend policy accepted.

The Hypothesis Test 5
The hypothesis H_5 declares that return on equity has a positive effect on corporation value. From the table 4.8, it can be seen that the value of coefficient path $X_3 \rightarrow Y$ as big as 0,032 with sig = 0,720 (>0,05) is not significant. Therefore, the hypothesis 5 that declares the ratio of profitability has a positive effect on dividend policy refused.

The Hypothesis Test 6
The hypothesis H_6 states that return on equity has positive effect on corporation value through dividend policy. From the table 4.7 and 4.8, it can be seen that the path coefficient value $X_3 \rightarrow Z$ as big as 0,073 with sig = 0,037 whereas the path coefficient value $Z \rightarrow Y$ 0,044 with sig = 0,022 (<0,05) is significant. Therefore, the hypothesis 6 that declares profitability has an effect on firm value through dividend policy accepted.

V. Discussion

The firm value liquidity

The test results for liquidity variable which is proxied with the current ratio shows that the liquidity has a positive effect on firm value. The result of this research is consistent with the research (arif, 2015) and Rustam (2013) which shows that the liquidity has a significant effect to the corporation value. The liquidity is very important for a company because the improvement value for a company is said to be good when it is viewed from the liquidity of the company. The company liquidity is also very important as it relates to converting assets to cash. It is in line with signaling theory because when the investor sees good company liquidity, it will give positive signal to the company.

The firm value liquidity through dividend policy.

The test result that is proxied with the current ratio has a significant effect on the firm value through dividend policy but with negative direction. The result of this research is consistent with the research Rahmawati (2011) which shows that liquidity does not has a positive effect on dividend policy. In this research, liquidity that is proxied with the current ratio has a negative direction effect to dividend policy, this is probably because the retained earnings are invested in fixed assets, so the inventory turnover rate is low and shows over investment in the inventory or the large receivable balance that may be difficult to collect and the impact on dividend payout to the investor is getting smaller. But the effect of dividend policy to firm value is positively influenced.

The firm value activity

The research result for variable activity that is proxied with total asset turnover does not have an effect on firm value. The result of the research is not consistent with the research of Rinaya (2016) which shows that ratio activity has a positive effect on firm value, this result gives a description that if the company cannot keep costs down during operational will reduce the profit that is earned by the company. The higher the rate of total asset turnover shows more effective the company is in using all its wealth to increase sales.

The firm value activity through dividend policy

The research result variable activity that is proxied with total asset turnover has a positive effect on firm value through dividend policy. The result is consistent with the research of Purnami and Luth (2016) which stated that activity that is proxied with Total asset turnover has a positive effect on firm value. In this research, the effectiveness of the use of all company property in order to generate sales has increased, so every dollar that invested in the company property also increases so that it will attract the shareholder's concern that the company's ability to pay dividend also increases and automatically firm value also increased.

The firm value profitability

The research result for profitability variable that is proxied with Return on Equity does not has an effect on firm value. The result is not consistent with the research of Nofrita (2013) which stated that profitability has a significant positive effect on firm value. In this research, profitability has decreased on firm value. In terms of its meaning, profitability is used to measure the effectiveness of management in managing the company.

The Dividend profitability firm value through dividend policy

The research result profitability variable that is proxied with Return on Equity has a positive effect on firm value through dividend policy. The result is consistent with the research of Wijaya and Panji (2015) which stated that profitability has a significant positive effect on firm value and dividend policy as variable mediation that mediating the relationship of profitability on firm value. Profitability is the main determine as dividend payment consideration. The higher profitability shows that the better management in generating the company operation. The result of the research in line with the theory Bird in hand that is submitted by Myron Gordon and Jhon Litner (1959) in Nofrita, (2013) stated that firm value will be maximized by high dividend payment ratio, it is because the investor assumes that the dividend risk is not as big as capital cost increase, so the investors prefer the profit in the dividend form rather than the expected profit from rising capital values.

VI. Suggestion

1. For the company, it is expected to pay attention the current ratio to increase the investor's confidence to the company. Because the high liquidity level (current ratio) means that stock attracted many investors and it will cause the increase of firm value.
2. For the company, it is important to pay attention to the inventory turnover rate. Because if the inventory turnover is low and indicates an over investment in the inventory then the possibility of large receivable balances will be difficult to collect and the impact on dividend payment to the investor getting smaller, because of that the companies are expected to pay attention to it so that the ability to pay dividends increases.
3. The company has to pay attention to asset and sales effectiveness that they have in order to maintain the level of needs so that to increase firm value in the shareholders' eyes.
4. The company needs to increase more the effectiveness of using all company's property in order to produce sales. Because, if each dollar that is invested in the company's property form increased then it will attract the shareholder's attention that the ability to pay dividend has increased.
5. The company has to correct again the prospect of activity that generated by the company in order to more productive and from the management functional effectiveness can cause an increase or decrease in profit for the company.
6. The company should keep maintaining those profitability level because if the high profitability then the ability to pay dividend is also high and the increase of firm value also reflected from the company that distribute dividend.

VII. Conclusion

1. The current ratio has a significant effect on firm value. The bigger the current ratio shows the higher company's ability to fulfill obligations in short terms and increase the firm value.
2. The current ratio has significant effect on the firm value through dividend policy. The company's decision to distribute dividend and the amount of dividend that can be distributed to the shareholders depends on the company's liquidity.
3. Total asset turnover does not have significant effect on firm value. The research result gives description if the asset has decreased, and then the sales will also decrease and resulted in the decline of firm value in the shareholders' eyes who want to a profit. Because of that, the company has to pay attention to the asset and the sales effectiveness owned to maintain the level of needs.
4. Total asset turnover has positive impact on firm value through dividend policy. Total asset turnover is the measure of company's activity ratio in using its assets. The high asset turnover will reflect the company's performance financial. It is because the higher asset turnover means the higher company's ability to distribute its dividend.
5. Return on equity does not have positive effect on firm value. In terms of management functional effectiveness consists of marketing, human resources, and operational that probably has decreased so it causes the firm value decrease because the effectiveness to those factors will cause a rising and lowering in profit for the company, and lowering profit that takes place continuously will lead to the corporate bankruptcy.
6. Return on equity has a positive effect on firm value through dividend policy and it is as variable mediation that can mediate the profitability relation on firm value. Profitability is the main determine as dividend payment consideration, the higher profitability shows the better management in generating the company operation. The higher profitability shows that the better management in generating the company operation. The companies with the high profitability usually will distribute the high profitability as well, and the increase of firm value will also be reflected from the company's ability to pay dividends

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