

The Influence of Financial Performance and Dividend Policy on Firm Value: Study on Lq-45 Companies Listed In Idx 2016-2018

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Abstract. *The purpose of this study was to examine and explain the effect of Financial Performance and Dividend Policy on Firm Value. This research is explanatory or confirmatory which provides a causal explanation or influence between variables, through hypothesis testing. The data analysis method used Generalized Structured Component Analysis (GSCA). The research findings show that Financial Performance has a positive and significant effect on Firm Value. The Dividend Policy variable has a positive and insignificant effect on Firm Value.*

Keywords: *Financial Performance, Dividend Policy, Firm Value*

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I. Introduction

The main objective of the company from a financial perspective is to maximize the prosperity of the company owners (shareholders), which is shown by the increase in firm value, which is reflected in the company's stock price. Firm value can provide maximum prosperity for shareholders if the share price increases. The higher the share price of a company, the higher the prosperity of the shareholders. The share price of a company is also a reflection of the success of the strategic financial decisions made by the company's management. The success of the strategic financial decisions made by company management. The success of management in carrying out its duties can be assessed from the stock market price or the value of ordinary shares, which is the right index to measure the success of achieving company goals (increasing firm value).

Firm value is the price a prospective buyer is willing to pay if the company is sold. Firm Value is the selling price if the company is sold, which not only reflects the value of the company's assets but also the level of business risk, company prospects, management, business environment, and other factors if the company has not gone public. (Husnan, 2001).

For companies that have go public, maximizing firm value is often expressed in terms of maximizing share value, which is measured by the Price Book Value. Price Book Value shows the comparison between a company's stock performance in the stock market and its book value. The higher the resulting price book value, it shows that the company's future performance is considered more prospective by investors. (Warsono, 2003) If the company operates and develops, the value of the shares will increase, on the other hand, if the company does not develop, the value of the company's shares will decrease, which in turn will affect the Firm Value.

There are many determinants that affect firm value, one of which is financial performance. For a company, maintaining and improving financial performance is a must, so that these shares continue to exist and remain in demand by investors. Financial reports published by the company reflect the company's financial performance. This financial information has a function as a means of information, a tool of management accountability to the owner of the company, a description of the company's success indicators and as a material for consideration in decision making. (Harahap, 2004).

From the financial statements which are then used financial ratios, it can be seen whether the company is operated efficiently and effectively. The ratio used in this study, namely the rate of return on assets and the rate of return on equity, can be a tool to measure the level of efficiency and effectiveness. Financial Performance of a company that influences increasing firm value. The level of firm value becomes the benchmark for investors to invest, this illustrates the market value of a company in increasing the attractiveness of investors. Firm value can be measured by the Tobin's Q formula. An increasing stock price indicates an increase in Firm Value. When the share price increases, the shareholders will increase in prosperity.

Signaling theory (Ross, 1977) explains the reasons why companies provide financial statement information to outside parties such as the capital market and how companies should provide signals to users of financial reports. Signal theory shows the asymmetry of information between company management and the parties that have an interest in that information. To reduce information asymmetry, financial information is provided to outside parties. With reduced information asymmetry, Firm Value can increase.

Several empirical studies have shown evidence that financial performance influences firm value, as was done by Purwanto and Agsutin (2017) who found evidence that earnings growth has a significant negative effect on Price Book Value, Current Ratios have a significant negative effect on Price Book Value, Ratio debt to equity has a significant negative effect on Price Book Value and returns on assets have a significant positive effect on Price Book Value. Furthermore, Marsha and Murtaqi (2017) in their research found evidence that the three financial ratios have a significant effect on Firm Value. Return on equity and Current Ratio have a positive relationship with firm value, while Acid Test Ratio has a negative relationship.

Research conducted by Murni et al., (2018), about The Role of Financial Performance in Determining The firm value, found evidence that the Debt Equity Ratio has a significant negative effect on returns on equity and has no significant effect on firm value. Furthermore, Monika and Khafid (2016) found evidence that the financial performance variable uses a profitability ratio, namely the return on equity influences firm value.

Investors have the main objective in investing their funds into the company, namely, to seek income or return on investment (return) in the form of dividend yield and income from the difference in the selling price of shares to the purchase price (capital gain). In relation to dividend income, investors generally want a relatively stable dividend distribution, because dividend stability can increase investor confidence in the company, thereby reducing investor uncertainty in investing their funds into the company. On the other hand, companies that are going to pay dividends are faced with various considerations, including: the need to retain a portion of their profits for re-investment that may be more profitable, the company's need for funds, company liquidity, the nature of shareholders, certain targets related to the dividend payout ratio and other factors related to dividend policy (Brigham and Houston, 2005).

Husnan (2001) states that companies in managing their finances are always faced with three important, interrelated problems. The three problems are investment decisions, funding decisions and policies to determine how much dividends should be distributed to shareholders. These decisions will have an influence on Firm Value which is reflected in the company's market price.

Dividend policy is related to agency theory which explains the relationship between agents and principal which can sometimes lead to conflicts of interest (Jensen and Meckling, 1976). The conflict that occurs is in accordance with the agency theory, where managers want a small dividend distribution because the company requires large funds to finance its operational activities, while shareholders want a large dividend distribution.

An empirical study related to the effect of dividend policy on Firm Value was found in Anton's research (2016), which found evidence that the dividend payout ratio has a positive effect on Firm Value after controlling for other company-specific variables. Managers can create value by increasing dividends to optimal levels. Furthermore, Budagaga (2017) in his research found evidence of a significant positive relationship between dividend payments and firm value. The results tend to favor agency costs rather than an explanation of the signaling hypothesis.

Sondakh (2019) in his research found evidence that dividend policy has a negative and significant effect on the Firm Value of financial services listed on the Indonesia Stock Exchange. Furthermore, Tamrin et al (2019) in their research found evidence that dividend policy has a positive and insignificant effect on Firm Value. Firm Value will be maximized with a high dividend payout ratio. This is because investors assume that the risk of dividends is not as big as an increase in the cost of capital, so that investors prefer dividend profits than expected profits from capital appreciation. Husna and Satria (2019) found evidence that the dividend payout ratio has no effect on Firm Value.

This study uses companies that are members of the LQ-45 Index (liquid 45) because they are companies listed on the IDX that have met certain criteria applied by the Exchange. This LQ45 index contains 45 types of stocks that are most actively traded on the IDX. The main criterion for an issuer to be included in the LQ45 index calculation is transaction liquidity or transaction value on the regular market. Apart from having a high level of liquidity, the main characteristic of the stocks included in the LQ45 index is their high market capitalization. Therefore, some investors consider the LQ45 shares to be blue chip stocks.

Based on the description above, this study aims to test the validity of financial management theories tested in this research model which examines the effect of Financial Performance, Dividend Policy and Firm Value which is depicted in the hypothetical model. The financial management theories tested in this research model include signaling theory and dividend policy theory, namely Bird in The Hand Theory. Furthermore, this study aims to examine and explain the effect of financial performance, dividend policy on firm value in LQ-45 companies listed on the Indonesia Stock Exchange 2016-2018.

II. Literature Review

2.1 Financial Performance

Gitman and Zutter (2012) state that Financial Performance is the result of all activities carried out in utilizing owned financial resources. The company's financial performance, in other words, is the result of many individual decisions made continuously by management in a company, which can assess the company's

performance or management. Furthermore, Fahmi (2011) states that Financial Performance is an analysis carried out to see the extent to which a company has implemented proper and correct financial implementation rules.

According to Munawir (2000) the objectives of the Financial Performance analysis are: to determine liquidity, namely the company's ability to meet financial obligations when collected, to determine the level of solvency, which shows the company's ability to meet financial obligations if the company is liquidated, both short-term and long-term obligations. , to determine the level of profitability, which shows the company's ability to earn profits before a certain period and to determine business stability, namely the company's ability to conduct its business stably as measured by considering the company's ability to pay dividends regularly to shareholders without experiencing obstacles or financial crisis.

Furthermore, Doyle (1994) emphasizes that profitability is a common performance measure for companies. In the western world, profitability is considered a common measure in finance (Robinson, 1982). One of the profitability ratios is the rate of return on assets / Return on Assets (ROA) (Salman et al., 2012). Return on equity (ROE) is a ratio that shows the company's ability to generate net income for return on shareholder equity and is a ratio used to measure the level of profitability of equity. High ROE indicates that the company can use its equity efficiently and effectively, so that investors believe it and then the company is able to provide greater income to shareholders. Mwangi et al. (2014), Fidanoski et al. (2014), Khan et al. (2013), Khanam et al. (2014), Marobhe (2014) uses ROE as a variable of Financial Performance.

Earning Per Share describes the amount of rupiah earned for each common share. This performance measurement illustrates the effectiveness and efficiency of the company and the results of this measurement are used to make corporate strategy decisions and can be used to succeed in competing and at the same time meeting the expectations of customers, employees, and funders. Khanam et al. (2014) and Marobhe (2014) use Earning Per Share as a variable of Financial Performance.

Debt to Assets Ratio (DAR) is a ratio that measures how much assets are financed with debt. The higher the ratio, the greater the risk the company will face (Adi et.al, 2012). One of the ratios that investors pay attention to is the Debt-to-Equity Ratio (DER), because it can show the composition of funding in financing the company's operational activities or utilizing its debts. DER shows the relationship between total liabilities and the amount of equity provided by the owner of the company (Ebaid, 2009)

2.2 Dividend Policy.

The decision about how much share of profit will be distributed as dividends and how much will be retained as retained earnings is called the dividend policy. Any change in dividend policy will have two opposite effects. If the dividend will be paid in full, the reserve interest will be neglected, otherwise if all profits will be retained, the shareholders' interest in cash will be neglected. To safeguard these two interests, financial managers can adopt optimal dividend policies (Brigham & Gapenski; 1996).

The optimal dividend policy is a dividend policy that can create a balance between the current dividend and future growth, which can maximize the company's stock price (Brigham & Houston, 2005). Furthermore, Sartono (2000) states that the size of the company's dividend is influenced by several factors, namely: the company's need for funds, liquidity, borrowing capacity, shareholder condition, and dividend stability. Brigham & Houston (2005) states that the factors that influence dividend policy are: debt contracts, payment of preferred stock, Impairment of capital rule, cash availability, tax penalties for detention of unreasonable profits, investment opportunities, cost of selling new shares, controlling.

Compared with previous opinions, Weston & Copeland (1995) is more detailed in determining the factors that need to be considered in the dividend policy to be implemented by the company, namely: Law, liquidity position, debt repayment requirements, restrictions in debt agreements, levels expansion of assets, profit rates, opportunities to capital markets, corporate control, position of shareholders as taxpayers, taxes on incorrectly accumulated profits.

2.3 Firm Value

The main objective of the company from a financial management perspective is to maximize the prosperity of the company owners (shareholders), which is shown by the increase in Firm Value which is reflected in the company's stock price (Husnan & Pudjiastuti, 1996). The share price of a company is also a reflection of the success of strategic financial decisions (investment decisions, funding decisions, and dividend policies) made by company management. The success of strategic financial decisions made by company management is assessed based on the impact they have on share prices.

The stock market price basically shows the central assessment of all market participants and the value of the company itself. The stock market price can also act as a "barometer" of a company's performance. The stock market price shows how well the company's management performs its duties on behalf of shareholders. Shareholders who are not satisfied with the performance of management can sell their shares and invest their funds in other companies. These actions, if carried out by shareholders, can result in lower share prices in the market. (Van Horne & Wachowicz, 1997). Thus, it can be concluded that the success of management in carrying

out its duties can be assessed from the stock market price or the value of common stock is the right index to measure the success of achieving company goals (increasing Firm Value).

For companies that have go public, maximizing Firm Value is often expressed in the form of maximizing share value as measured by Price Book Value. Price Book Value shows the comparison between a company's stock performance in the stock market and its book value. The higher the price book value, it shows that the company's future performance is considered more prospective by its investors. (Warsono, 2003) If the company operates smoothly, the stock value will increase, on the other hand, if the company's operations are not smooth, the company's stock value will decrease, which in turn will affect the Firm Value. Thus, the price of ownership shares is a picture of the actual condition of the company which can be used as an appropriate index to measure the efficiency of the company. The stock price is also influenced by several factors, namely PER (Price Earning Ratio), EPS (Earning Per Share), the risk-free interest rate as measured by the government deposit interest rate and the level of certainty of company operations (Sartono, 2000).

2.4 Signaling Theory

Signaling Theory was developed by Ross (1979), which suggests that companies with good financial performance can be used by managers as an optimistic signal for the company's future. This signaling theory arises because of the problem of asymmetric information. Myers and Majluf (1984) also make a signaling model which is a combination of investment decisions and funding decisions. Managers are better than anyone, assumed to know the "true" value of the company in the future. In addition, managers are also assumed to act in accordance with the interests of the old shareholders, namely those who own shares in the company when decisions are made. These old shareholders are also assumed to be passive or do nothing to change their portfolio. For simplicity's sake, let us assume the interest rate is zero, and that there are no taxes, transaction costs, or imperfect markets.

According to the signaling theory, companies that can generate profits tend to increase the amount of debt, because additional interest payments will be offset by profit before tax. Signaling is a manager's funding activity that is believed to reflect the value of the company's shares. In general, debt funding is considered a positive signal so that managers believe that the stock is under valued. While the signal theory according to Brigham and Houston (2011) is an action taken by the management of a company to provide guidance to investors about how management assesses the company's prospects.

2.5 Agency Theory

Jensen and Meckling (1976) explain the agency relationship in agency theory that a company is a collection of contracts (nexus of contracts) between the owner of economic resources (principal) and the manager (agent) who manages the use and control of these resources. Messier, et al. (2006) added that this agency relationship resulted in two problems, namely the occurrence of asymmetric information, in which management in general had more information about the actual financial position and operating position of the entity from the owner; and the occurrence of a conflict of interest due to different objectives, where the management (agent) does not always act according to the interests of the owner (principal). Efforts to overcome or reduce agency problems will cause agency costs to be borne by both the principal and the agent. Jensen and Meckling (1976) divide agency costs into monitoring costs, bonding costs, and residual loss. Monitoring costs are costs borne by the principal to monitor agent behavior, namely, to measure, observe and control agent behavior. Bonding costs are costs borne by the agent to establish and comply with a mechanism that ensures that the agent will act in the interests of the principal. Furthermore, residual loss is a sacrifice in the form of reduced prosperity of the principal because of differences in the decision of the agent and the decision of the principal.

2.6 Bird-in-the Hand Theory

Dividend Irrelevance Theory of Modigliani & Miller (1963) has received a lot of criticism, especially the assumption about investor preferences that do not differ between dividends and capital gains, in other words that investors will not care whether to receive dividends or capital gains from shares that are they have. Among his opponents were Myron Gordon and John Lintner. They argue that the rate of return or rate of return required by investors (k_s) will increase because of a decrease in dividend payments. Investors feel more secure in obtaining income in the form of dividend payments than waiting for capital gains because the risk element of dividend yield (D_1 / P_0) is smaller than the expected growth element (g) in the required rate of return equation for investors, namely $k_s = D_1 / P_0 + g$. Investors will ask for a higher rate of return if k_s is used to substitute dividends. So, investors will ask for a higher rate of return for each reduction in dividend yield.

Meanwhile, Modigliani & Miller (1963) argued that investors feel the same, whether they receive dividends today or receive capital gains in the future. So that the required rate of profit (k_s) is not affected by the dividend policy. So, the opinion of Gordon - Lintner by MM is called the-bird-in-the hand fallacy, because according to MM's view, most investors plan to reinvest their dividends in the same or similar companies with

the same risk, therefore the level of risk of income they are determined by the level of risk in their operating cash flows, and not by their dividend policy.

2.7 Conceptual framework

The establishment of a company must have clear objectives. There are several things that state the purpose of establishing a company. The first objective is to achieve maximum profit. The second goal is to make the company owners or shareholders prosper. Meanwhile, the third objective of the company is to maximize Firm Value which is reflected in its share price. The three objectives of the company are not substantially different. It is just that the emphasis that each company wants to achieve differs from one another. (Harjito and Martono, 2005). Firm Value can provide maximum prosperity for shareholders if the share price increases. The higher the share price of a company, the higher the prosperity of the shareholders.

The company's financial performance is one of the factors that potential investors see to determine their stock investment. For a company, maintaining and improving Financial Performance is a must so that stocks continue to exist and remain attractive to investors. The financial statements issued by the company reflect the company's Financial Performance. This financial information has a function as a means of information, a tool of management accountability to the owner of the company, a description of the company's success indicators and as a material for consideration in decision making (Harahap, 2004).

This research is based on signaling theory. The higher the Financial Performance, the higher the Firm Value will signal. Increasing company profits give a signal that the company's operations and company finances are getting better. Financial reports that contain financial ratios that can be known and analyzed by investors. This condition will encourage investors to buy shares. The large number of investors who buy shares will raise the stock price which means increasing Firm Value. Opinion of Modigliani & Miller (1963) which states that Firm Value is determined by the earning power of the company's assets which shows the higher the profit margin.

Marsha and Murtaqi (2017) in their research found evidence that Financial Performance as measured using Return on Assets, Current Ratio has a significant effect on Firm Value. Furthermore, Novita et al (2019) found evidence that Financial Performance as measured using Current Ratio and Return on Equity has a positive and significant effect on Firm Value.

Firm Value can be seen from the company's ability to pay dividends. Dividends are the proportion of profits distributed to shareholders in an amount proportional to the number of shares they own (Sunariyah, 2004). There are times when the dividend is not distributed by the company because the company feels the need to reintervene the profits it receives. The amount of dividend can affect the stock price. If dividends paid are high, the share price tends to be high so that the Firm Value is also high and if dividends are paid to small shareholders, the share price of the company that distributes it is also low. The ability of a company to pay dividends is closely related to the company's ability to earn a profit. If the company gets high profits, then the company's ability to pay dividends is also high. Large dividends will increase Firm Value (Harjito and Martono, 2005).

Dividend policy concerns the use of profit which is the right of the shareholders. Basically, this profit can be divided as dividends or held to be reinvested in the company. If the company chooses to distribute profits as a dividend, it will reduce retained earnings and further reduce the total internal sources of funds. If the company chooses to hold back the profits it earns, the ability to form internal funds will be even greater. When profits are to be shared or retained, it is still necessary to consider the company's objectives, namely maximizing the prosperity of shareholders and increasing Firm Value.

Tamrin et al., (2017) tested the dividend policy and firm value as measured by the dividend policy ratio. The results of the study show that the dividend policy ratio has a statistically significant positive relationship with the value of the company as measured by Price earning meaning and Price book value.

This study is a development of the results of previous research related to the variables that are determinants of the interaction of Financial Performance, Dividend Policy and Firm Value. This research model is built based on the development of previous research models based on the evolution of previous research models related to the variables studied. From the description above, the conceptual model in this study can be described as shown in the figure1.

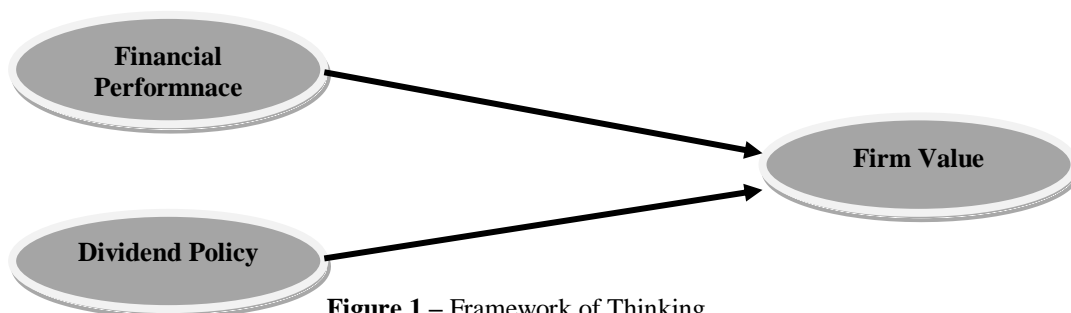


Figure 1 – Framework of Thinking

2.8 Research Hypothesis

A good company's financial performance will have an impact on increasing company value. This good Firm Value will attract investors to invest in the company, with the hope that they will get a profit (dividend). If the company gets large profits this year, the amount of dividends to be distributed will also be even greater, automatically in the coming year investors will be interested in investing in the company so that they will benefit. Investors will be more motivated to invest in the company in the future. So that the greater the investors who invest in the company, the higher the share price of the company and the more the number of shares outstanding. These two things can increase Firm Value. The value of a company is determined by the earning power of the company's assets itself.

Sofyan (2004) explains that one of the factors considered by investors to determine stock investment decisions is Financial Performance. An attempt by a company to keep investors interested in shares is to maintain and improve financial performance. The company's financial performance can be reflected in the financial statements. The function of financial information from the company's financial statements can be as information, a management accountability tool to the owner of the company, as a material for consideration in decision making and a description of the company's success indicators. Information about the company's financial statements as an indicator that affects Firm Value can help various parties who need it in considering decision making.

Empirical studies examining the effect of Financial Performance on Firm Value have been conducted by several researchers such as Purwanto and Agsutin (2017) who found evidence of Return on Assets to have a significant positive effect on PBV. Marsha and Murtaqi (2017) found evidence that Return on Assets has a positive relationship with Firm Value. Murni, Sabijono and Tulung (2018) found evidence that the Debt Equity Ratio has a significant effect on Firm Value. Monika and Khafid (2016) found evidence that financial performance variables measured using return on equity (ROE) influenced Firm Value.

H1: Financial Performance has a significant effect on Firm Value.

The financial function is basically concerned with investment decisions, funding policies, and dividend policies. Dividend policy is a form of policy in which the company can determine the proportion of profits that the Company receives to be paid to investors according to the number of shares it owns. Although companies can provide guarantees regarding Firm Value to investors through the amount of dividends paid, the company also needs to consider some of the funds needed for company development. This is reinforced by the dividend theory (Halim, 2002) which states that there are three different views regarding the dividend payment policy by the company. These three views are related to the size of the dividend paid to investors, including: (1) Dividends should be paid as large as possible, (2) Dividends should be paid as small as possible, and (3) Dividends should be paid after all investment opportunities meet the requirements of being spent. The difference in view is related to the steps taken by the company to increase the value of the company while still paying attention to the existence of investors as owners of the company's capital.

An empirical study that examines the effect of dividend policy on firm value has been conducted by Anton (2016) who found evidence that the dividend payout ratio has a positive effect on firm value. Budagaga (2017) in his research found evidence of a significant positive relationship between dividend payments and firm value.

H2: Dividend Policy has a significant effect on Firm Value.

III. Research Methods

This research uses a quantitative approach with this type of explanatory research with the intention of explanatory (explanatory or confirmatory) which provides a causal explanation or the influence between variables through hypothesis testing. The population in this study are companies that are included in the LQ45 which are listed on the IDX 2016-2018 which distribute dividends of 30 companies.

Variable Measurement

Table 1. Measurement Variables

No	Variable	Indicator	Measurement
1	Financial Performance	Return on Assets	$ROA = \frac{\text{Earning After Tax}}{\text{Total Assets}}$ (Marsha and Murtaqi, 2017)
		Return on Equity	$ROE = \frac{\text{Earning Berfore Tax}}{\text{Total Equity}}$ (Monica and Khafid, 2016)(Novita et al, 2019)
		Debt Assets Ratio	$DAR = \frac{\text{Total Debt}}{\text{Total Assets}}$ (Adi et al. 2012)
		Earning Per Share	$EPS = \frac{\text{Earning After Tax}}{\text{Number of shares outstanding}}$ Khanam et al. (2014)dan Marobhe (2014)
		Debt Equity Ratio	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$ (Murni et al, 2018) (Purwanto and Agsutin, 2017), Novita et al, 2019)
2	Dividend Policy	Deviden Payout Ratio,	$DPR = \frac{\text{Dividen Per Share}}{\text{Earning per Share}}$ (Anton, 2016), (Tamrin et al, 2017). (Sondakh, 2019)
		Deviden Yield	$\text{Dividen Yield} = \frac{\text{Dividen Per Share}}{\text{Market Price Per Share}}$ (Tamrin et al, 2017).
3	Firm Value	Price Book Value	$PBV = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$ (Purwanto and Agsutin, 2017), (Novita et al, 2019)
		Price Earning Ratio	$PER = \frac{\text{Market price per share}}{\text{Earnings Per Share}}$ (Weston & Copeland ,1992)

Data analysis used the GSCA method with the following steps (Solimun, 2013):

- a. Designing a Structural Model
- b. Designing a Measurement Model
- c. Construct a Path diagram

The shape of the path diagram for GSCA can be seen in Figure 2. Research Analysis Model.

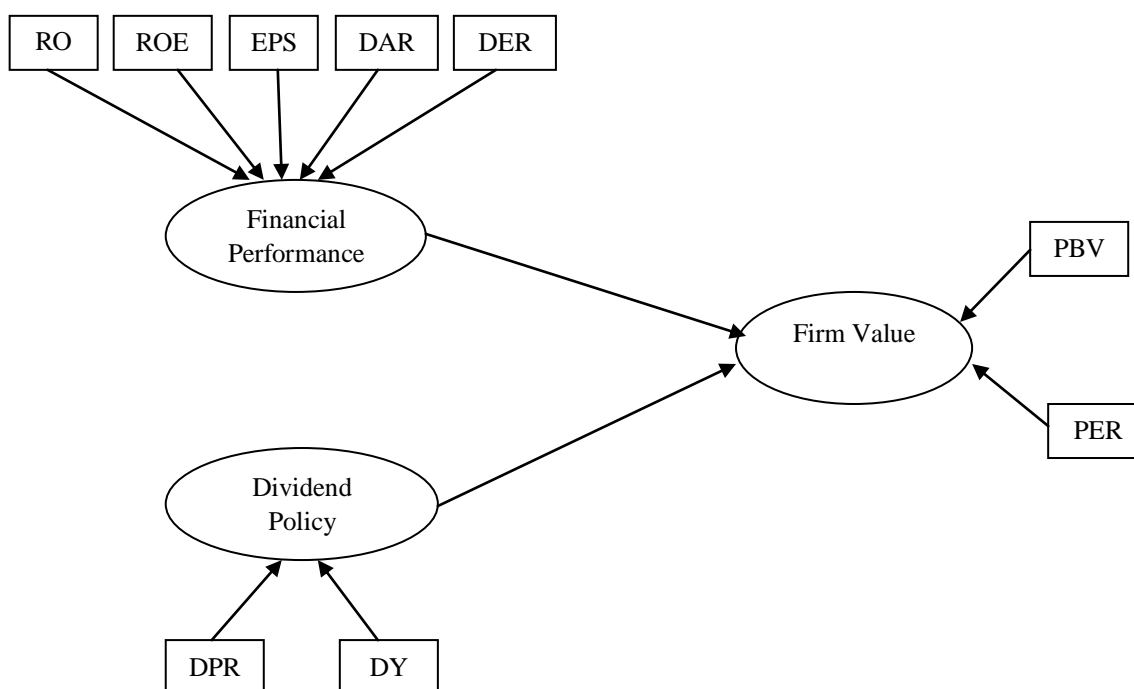


Figure 2. Research Analysis Model

IV. Results and discussion

Overall Model Test Results involving measurement models and structural models based on GSCA calculations and significant tests obtained through Boststrapping are presented in Table 2:

Table 2. Model Fit Testing

Model Fit	
FIT	0.0733
AFIT	0.0555

The results of the analysis obtained a FIT value of 0.0733, this means that the model formed can explain all the variables at 7.3%. The AFIT value = 0.0555 shows that the variability of Firm Performance and Dividend Policy variables against Firm Value can be explained by the model after experiencing a correction of 5.5%. Hypothesis testing in the GSCA analysis is based on the estimated value and significance between variables. The test results are presented in the following table:

Table 3 Results of Hypothesis Testing Analysis

Influence Testing					
No	Influence between variables (Explanatory Variables → Response Variable)		Estimate	CR	Explanation
1	Financial Performance	Firm Value	0.8787	14.572	Significant*
2	Dividend Policy	Firm Value	0.1506	1.037	Not significant

Keterangan: *= significant at $\alpha = 0.05$

Hypothesis analysis results:

1. Hypothesis 1: Financial Performance has a significant effect on Firm Value. The results of the GSCA test show that the estimated path coefficient of 0.8787 and CR 14.572 is greater than t table 1.99, at the level of P = 0.05. The results of empirical testing are sufficient evidence to accept the hypothesis 1. The path coefficient is positive and significant, which means that the financial performance and firm value have a unidirectional effect. The effect of financial performance on firm value is in accordance with the original prediction that financial performance has a significant effect on firm value. These results indicate that financial performance is a determining factor for firm value.

2. Hypothesis 2: Dividend Policy has a significant effect on Firm Value. The GSCA test results show that the estimated path coefficient is 0.1506 and CR 1.037 is smaller than t table 1.99, at the level of P = 0.05. The results of empirical testing are not enough evidence to accept hypothesis 2, so hypothesis 2 is rejected. The path coefficient which is positive and insignificant means that the Dividend Policy and Firm Value have a unidirectional influence. The effect of Dividend Policy on firm value is not in accordance with the original prediction that Dividend Policy has a significant effect on Firm Value. These results indicate that the dividend policy is not a determining factor for firm value.

The research findings show that the variable Financial Performance has a significant effect on Firm Value. The direction of the positive and significant financial performance path coefficient is in accordance with the results of Purwanto and Agsutin (2017) research which found evidence that financial performance measured using Return on Assets has a significant positive effect on Price Book Value. Marsha and Murtaqi's research (2017) found evidence of financial performance measured using Return on Equity has a significant effect on Firm Value.

The findings of this research show that Financial Performance has a significant effect on Firm Value, this means that Financial Performance is one of the factors seen by potential investors to determine stock investment. For a company, maintaining and improving Financial Performance is a must so that these shares continue to exist and remain in demand by investors. The financial statements issued by the company reflect the company's Financial Performance. This financial information has a function as a means of information, a tool of management accountability to the owner of the company, a description of the company's success indicators and as a material for consideration in decision making.

Financial Performance influences Firm Value in accordance with signaling theory (Ross, 1979) which states that the higher the Financial Performance, the higher the Firm Value. Increasing company profits give a signal that the company's operations and company finances are getting better. Financial reports that contain

financial ratios that can be known and analyzed by investors. This condition will encourage investors to buy shares. The large number of investors who buy shares will raise the stock price which means increasing Firm Value. The opinion of Modigliani & Miller which states that Firm Value is determined by the earning power of the company's assets, which shows the higher the profit margin.

The Dividend Policy variable has an insignificant effect on Firm Value. The positive and insignificant direction of the Dividend Policy path coefficient is in accordance with the results of Rehman's (2016) research which found evidence of Dividend Payout as a cash flow indicator ratio of dividend policy has no significant effect with Firm Value as measured using Tobin's Q. Research analysis approves the hypothesis of pecking order theory and trade off theory in case of capital structure and signaling theory in case of dividend policy.

Research findings show that the Dividend Policy has no effect on Firm value, this is because shareholders only want to take short-term profits by obtaining capital gains. Investors consider that a small dividend income today is no more profitable when compared to future capital gains.

The results of this study are not in accordance with Bird in The Hand Theory (Modigliani and Miller, 1963) which states that Firm Value will be maximized by a high dividend payout ratio, because investors think that dividend risk is not as big as an increase in the cost of capital, so investors prefer profits in dividends rather than the expected gain from the increase in the value of capital. In addition, the dividend payout ratio is only a detail and does not affect the welfare of shareholders. An increase in dividend value is not always followed by an increase in Firm Value. Because Firm Value is determined only by the company's ability to generate profits from the company's assets or investment policies.

V. Conclusions and Implication

Based on the findings of the research it can be concluded that Financial performance as measured by Return on Assets, Return on Equity, Earning Per Share, Debt to Assets Ratio and Debt to Equity ratio has a significant effect on Firm Value. This finding is in line with Signaling Theory (Ross, 1997) which states why companies provide financial statement information to outsiders such as the capital market and how companies should provide signals to users of financial reports. Signal theory shows the asymmetry of information between company management and the parties that have an interest in that information. To reduce information asymmetry, financial information is provided to outside parties. With reduced information asymmetry, Firm Value can increase. These findings indicate that financial performance is empirically a determining factor for firm value in LQ-45 companies listed on the Indonesia Stock Exchange (BEI).

Dividend Policy as measured by Dividend Pay Out Ratio and Dividend Yield has no significant effect on Firm Value. This finding is not in line with Bird in The Hand Theory (Modigliani and Miller, 1963) which states that Firm Value will be maximized by a high dividend payout ratio, because investors think that dividend risk is not as big as an increase in the cost of capital, so investors prefer profits in the form of dividends rather than the expected gain from the increase in the value of capital. This finding indicates that the dividend policy is not empirically a determining factor for Firm Value for LQ-45 companies listed on the Indonesia Stock Exchange (BEI).

Companies that are included in the LQ 45 Index can use financial measures, which provide a good signal for the company's condition by maintaining and increasing the company's financial ratios so that it can increase dividends and Firm Value.

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