Print ISSN: 2621-1963 / Online ISSN 2621-1505
DOI : https://doi.org/10.33096/atestasi.v4i1.724

Impact of Cash Flow and Dividend Policy on Manufacturing Firm Value

Ansir Launtu [1*]

Received: February 09, 2021 Revised: March 15, 2021 Accepted: March 30, 2021

Abstract

A cash flow statement is a report showing how running, spending, and funding activities impact cash over an accounting period. In addition to cash flow, the dividend policy determines whether the company's earnings will be paid as dividends to investors or retained for reserve funds to support future investments. Firm value is the price a prospective buyer willing to pay if the business is sold. The research objective was to evaluate the impact of cash flow and dividend policies on firm value in Indonesian-listed manufacturing companies (BEI). The research tool used is multiple regression analysis techniques to evaluate the linear relationship between two or more independent variables and the dependent variable. The results showed a small effect of cash flow and dividend policies on firm valuation. Meanwhile, cash flow and dividend strategies have a strong and important effect on firm valuation

Keywords: Cash Flow; Dividend Policy; Firm Value

1. Introduction

Financial reports are an important source of information for financial report users (Muslim et al., 2021). Financial reports are intended to provide details on the financial status, results, and improvements in the financial condition that is useful to a large number of users in making economic decisions (IAI, 2007). Financial reports are an important method for investors and stakeholders to monitor business developments regularly. Investors and creditors are interested in learning information about decisions. Long-term, the company's key goal is to maximize value (Wahyudi & Pawestri, 2006). The company's worth is expressed in its share price (Fama & French, 1998). The stock price on the capital market is established based on an agreement between the demand and the supply of investors so that the stock price is a reasonable price that can be used as company value output (Hasnawati, 2005). Optimization of firm value can be accomplished by introducing the financial management function, where a financial decision can affect other financial decisions and firm value (Fama & French, 1998).

In a company, cash is important since all business operations often require cash flow. Money is used to purchase products and services as well as fixed assets for inventory production. According to (Cahyo, 2013), cash flow summarizes cash flows over a span. This report is often referred to as a source report, and the use of corporate activities, acquisitions, and cash flows and shows changes in cash and securities over that period. Money allows both parties to rely more on cash flow according to their respective interests. Internally, management uses cash flow as the basis for different strategies or decisions on the company's operations. Meanwhile, external parties, especially investors and creditors, use cash flow as a basis to decide whether to invest in a business. One of the main policies relating to cash flow is the payment of dividends to business owners or shareholders for the money they spend in the company to share income paid to shareholders or investors (Badruzaman, 2017). Operating cash flow is the most dominant factor in firm valuation, as operating cash flow displays the company's key revenue-producing operations. Increased cash flow from operating activities would give investors an optimistic indication of the potential financial success of the business. It will result in investors interested in enterprise investment. The more investors invest in the company, the greater the company's value. The dividend payout ratio dictated the volume of profit split between cash dividends and retained earnings as the funding source (Badruzaman, 2017). Payment policies require relatively high cash outflows. The strategy must be developed in the process, taking into account the company's ability to produce cash and the company's requirements for cash funds.

1* First Author and Corresponding Author. Department of Management, STIEM Bongaya, Makassar City, South Sulawesi 90131, Indonesia, South Sulawesi, Indonesia, [Email: ansir.launtu@stiem-bongaya.ac.id]

Investors have the main goal of raising health by expecting dividends and capital gains. By comparison, the company expects sustained growth to ensure its existence while providing interest to its shareholders. On the other hand, dividend policy does not hamper the company's growth. Dividends paid at this moment would have a higher valuation than capital gains received in the future so that investors unable to speculate will favor dividend capital gains (Rakhimsyah & Gunawan, 2013). The phenomenon on the Indonesia stock exchange shows that the company's valuation based on the stock market value has increased, although there is no financial policy enforced by the company (Hasnawati, 2005). Very competitive market rivalry and high valuation in Indonesian companies will also affect the better state of the Indonesian economy. Indonesia's economic growth has seen an improvement over the past few years. From 2007 to 2012, the industry's contribution to the Indonesian economy was around 30% per year. This figure shows the fundamental factor in manufacturing's contribution to Indonesia's annual economic development. From 2011, the manufacturing industry's growth rate reached 7.36 percent, and 2012 reached 7.78 percent, higher than non-oil and gas growth of 6.82 percent in 2011 and 6.91 percent in 2012 (http://www.kemenperin.go.id).

The researcher's justification for selecting a manufacturing company as the focus of research is that a manufacturing company is a company that sells its goods beginning with an uninterrupted production process from buying raw materials, processing materials, and being ready-to-sell products. The corporation needs a source of funds to be used on fixed assets. Manufacturing firms need more long-term financing sources to finance their activities, one of which is investing in equity investors. Financial accounting is an accounting component that prepares financial reports for outside parties, including shareholders, creditors, vendors, and the government. The key principle used is the accounting equation (assets = liabilities + equity). Financial accounting deals with tracking transactions for a business or entity and preparing different periodic reports from these records results. This report is written for the public interest and is commonly used by business owners to determine the performance of management or is used by managers as shareholder financial transparency.

Esthirahayu, (2014) argues that financial reports are as historical and comprehensive as progress reports. Also, it is said that financial statements consist of data that result from a combination of recorded facts, principles, and practices in accounting and personal opinions. (Masyitah & Harahap, 2018) financial statements describe the financial condition and results of a company's operations at a particular time or for a certain period. In general, the financial statements consist of balance sheets, profit and loss statements, and reports of changes in capital. Still, other groups that help obtain explanations are often included in daily practice, such as reports of sources and use of cash or cash flows, pieces of production costs, etc. The balance sheet informs the financial position at a particular time, reflected in the number of assets owned, the number of liabilities, and the company's capital. The income statement informs about the income and expenses of a company during a specific period. The cash flow statement discloses the changes in financial position due to business activities, expenditures, and investments during the period.

The concept of a cash flow statement put forward by (Purnomo, 2014) is a report showing how operating, spending, and funding activities of banks affect cash over an accounting period. The cash flow statement outlines net cash increases or decreases over the accounting period. Cash flow statements can provide information that enables consumers to assess changes in net assets, financial structure (including liquidity and solvency), and influence the volume and timing of cash flows to respond to changing conditions and opportunities. Cash flow information helps measure the capacity of a company to produce cash and cash equivalents. It enables users to create models to determine and compare the 10 present values of different companies' potential cash flows. Cash flow details also improve the comparability of operating performance results from different organizations. Historical cash flow information is also used to show the number, timing, and certainty of potential cash flows. Cash flow information helps analyze the accuracy of past forecasts of potential cash flows. One of two methods of determining and presenting cash flows from operational operations is the Direct Method and the Indirect Method (Khikmawati & Agustina, 2015). The direct approach is a cash or cash-based income statement showing cash receipts and cash disbursements briefly. Meanwhile, the indirect method does not specify the key category of cash flows as in the direct method.

The cash flow statement classifies cash receipts based on operating, investment, and funding activities. Transaction characteristics and other events for each operation category are (PSAK No. 2): operational activities, investment activities, and financing activities. Operating operations are the company's primary revenue-producing activities and other non-investment and funding activities. Investing practices are acquiring and disposing of long-term assets and other non-cash equivalent investments. Financing operations lead to improvements in the volume and structure of the company's capital and loans. Khikmawati & Agustina, (2015) states that knowledge helps to understand accounts explaining why cash and cash equivalents changed over time.

A dividend policy is a decision as to whether the company's generated income will be distributed to investors in the form of dividends or held for reserve funds to support potential investment. The dividend payout ratio dictated the volume of profit split between cash dividends and retained earnings as a funding source (Latuheru, 2016). Dividend policy concerns the use of profit, which is the right of shareholders and can be divided into dividends or retained earnings to be reinvested (Harjito & Nurfauziah, 2006). Based on this opinion, dividend policy can be described as the distribution of corporate income to investors whose value depends on the company's policy, resulting in the company's reduced retained earnings. (Dewi, 2008) Shareholders' dividends can be paid in cash dividends, property dividends, scrip dividends, liquidation dividends, and stock dividends.

One of the essential components in dividend policy is the dividend payout ratio, which shows the dividend per share/DPS

relative to earnings per share/EPS. Mulyanti & Supriyani, (2018) have various dividend policies carried out by companies, including a stable dividend policy, a dividend policy with a minimum dividend amount plus a certain extra amount, a dividend policy with a constant dividend payout ratio, and a flexible dividend policy. Many companies adopt a stable dividend policy because investors prefer regular dividends. According to Asna and Graha (2006), dividend policy is influenced by law, liquidity position, the need to pay off debts, prohibitions on debt agreements, asset expansion rates, profit levels, profit stability, opportunities to capital markets, control, shareholders' position as taxpayers, and taxes on incorrectly accumulated profits.

Asna & Graha, (2006) states that the company's dividend policy does not affect both firm value and the cost of capital. Firm value is determined by the earning power of the company's assets. Therefore, firm value is determined by investment decisions. In contrast, whether the profits earned will be distributed in dividends or will be retained does not affect firm value. The dividend irrelevance theory is a theory which states that the company's dividend policy does not affect the firm value or the cost of capital (Asna & Graha, 2006). Latuheru, (2016) stated that if there is an increase in dividends, the rise in share prices is often followed. Nurhayati, (2013) argues that a dividend increase above is usually a "signal" to investors that company management predicts a good income in the future.

Esthirahayu, (2014) the company value is the price a prospective buyer is willing to pay if the company is sold. The higher the company's value, the greater the prosperity the company owner will receive. Maximizing company value or share price is not identical with maximizing earnings per share, EPS. Academics and analysts in the financial sector have developed various concepts of value to understand the behavior of stock prices. Here are some of them, namely: economic value, intrinsic value, and market value.

H1: Cash flow has a positive and significant effect on firm value

H2: Dividend policy has a positive effect on firm value

2. Research Design and Method

This research was carried out in companies listed on the Indonesian stock exchange (BEI). In this report, 125 manufacturing firms were listed on the Indonesia Stock Exchange during 2009-2013. This study's sampling technique used purposive sampling.

Table 1. Research Sample Criteria

No	Criteria	Total
1	Companies listed on the Indonesia Stock Exchange 2009-2013	503
2	Manufacturing company from 2009-2013	125
3	Companies selected as samples	10
4	Research period 2009-2013	5
5	Sample	50

The type of data used is quantitative data. Although the data source used is secondary data, which is already available to researchers seeking and collecting data. Secondary data can be accessed easier and faster since it's readily available. The author uses documentation as a tool for obtaining the relevant details. Data analysis was conducted using multiple linear regression equation:

$$Y = b0 + b_1X_1 + b_2X_2 + e$$

The analysis methods used in this research are the regression analysis assumption method. It consists of normality test, multicollinearity, heteroscedasticity, and autocorrelation. Hypothesis testing consists of the simultaneous test (F statistical test), partial hypothesis testing (Hypothesis t-test), and the determination coefficient test (R2).

3. Results and Discussion

Result Analysis

Based on the criteria and the samples in this study during the 2009-2013 period, they are presented in table 2:

Table 2. Research Sample

No	Company Code	Company name	Lifting date
1	AMFG	Asahimas Flat Glass Tbk	08 Nov 1995
2	ASII	Astra Internasional Tbk	04 Apr 1990
3	CPIN	CharoenPokphandIndonesia Tbk	18 Mar 1991
4	DLTA	Delta Djakarta Tbk	27 Feb 1984
5	GDYR	Goodyear Indonesia Tbk	22 Dec 1980
6	GGRM	Gudang Garam Tbk	27 Aug 1990
7	HMSP	HM Sampoerna Tbk	
8	INDF	Indofood Sukses Makmur Tbk	14 Jul 1994
9	LION	Lion Metal Works Tbk	20 Aug 1993
10	UNVR	Unilever Indonesia Tbk	11 Jan 1982

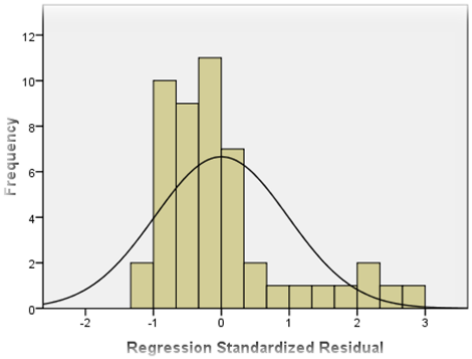
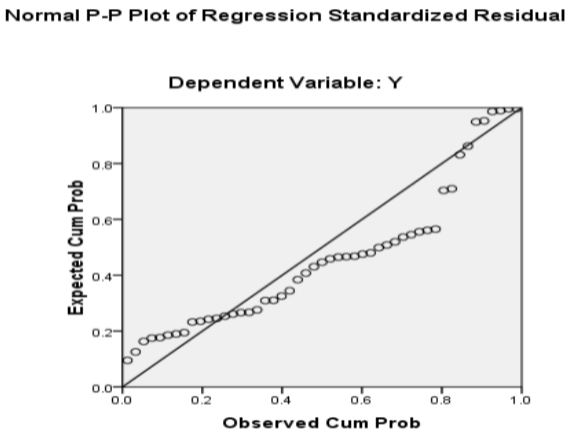


Figure 1. Normality Histogram Diagram



The normality test is used to test whether the regression model between the dependent variable (related) and the independent variable (free) has a normal distribution or not, which can be seen using the normal p_plot and the histogram diagram, which is neither leftward nor right-leaning. The data is in a normal state if the distribution of the data is neither leftward nor rightward.

Figure 2 shows that the data is usually distributed, where the data appears to be spread out following a diagonal and a histogram diagram that is not leaning left and right so that it can be said that the data is usually distributed. Multicollinearity is a condition in which other (independent) variables are correlated with one another. The VIF value is not more than 10, and the Tolerance value is not less than 0.1.

Table 3. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Cash Flow	.891	1.122
	Dividend Policy	.891	1.122

Based on the results of table 3, it can be seen that the two variables independent with a VIF value are not more than 10 tolerance, not less than 0.1, so it can be concluded that this regression model does not have a multicollinearity problem. Heteroscedasticity describes the value of the relationship between the predicted value and the Studentized Delete Residual value. Here is a picture to see the presence or absence of heteroscedasticity.

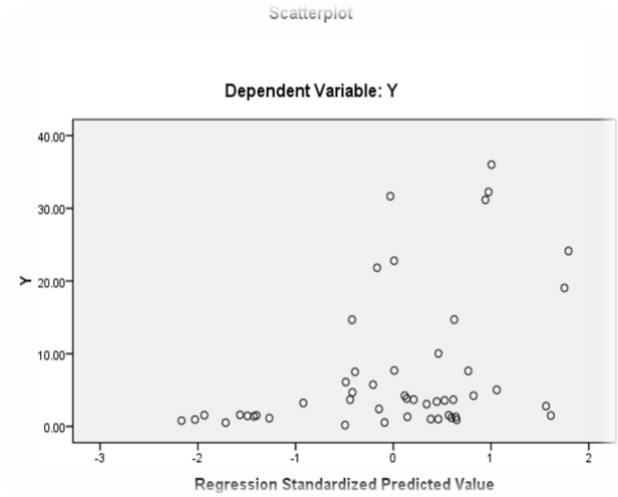


Figure 3. Scatterplot graph

The scatterplot graph in Figure 3 shows no apparent pattern. It indicates no heteroscedasticity for the research variables, so the basic assumption that the residual variation is the same for observations is fulfilled. Autocorrelation tests whether in a linear regression model there is a correlation between confounding error in period t and confounding error in period t-1 (previous). If there is a correlation, then there is a problem with an autocorrelation that arises because sequential observations over time are related.

Table 4. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.384a	.148	.111	9.15033	1.825

The Lagrange multiplier (LM) value shows that the residual leg 2 (res_2) parameter coefficient provides a significant probability of 0.148 above 0.05. It indicates that the LM test does not have autocorrelation. Hypothesis Testing with the F Test is used to pay attention to the significant value of F in the calculation output with an alpha level of 5%. If the significant value of the F test is less than 5%, then there is an influence between all independent variables on the dependent variable. Table 6 shows that the calculated F test value is 3,985 > F table 3,200 with a significance value of 0.025 < 0.05, then H0 is rejected, and Ha is accepted. Where required, a significance value of F is less than 5%. Thus, it can be concluded that all the independent variables in this study simultaneously affect Firm Value (Y). It means that the Cash Flow and Dividend Policy have increased together, which will have an impact on the increase in Firm Value.

Table 5. Simultaneous Test Results

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	667.310	2	333.655	3.985	.025a
Residual	3851.510	46	83.728		
Total	4518.820	48			

In this study, the t-test is used to test whether the hypothesis proposed in this study is accepted or not by knowing whether the independent variable individually affects the dependent variable.

Table 6. Partial Test Results

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-23.126	11.435		-2.022	.049		
Cash Flow	1.839	.732	.362	2.513	.016	.891	1.122
Dividend Policy	.120	.059	.295	2.044	.047	.891	1.122

a. Dependent Variable: Firm Value

Discussion

The results showed that there was a positive and significant influence between cash flow on firm value. The positive effect shows that operating cash flow is in line with firm value. Alternatively, high operating cash flow will affect firm value and vice versa if operating cash flow is low, it could be a low company value. The relationship between operating cash flow and firm value is generally explained using the signaling theory that increasing operating cash flow will increase firm value. Investors will be very interested in increasing operating cash flow because it shows that the company can increase revenue in the future. The results of this study are also in line with the research conducted (Baridwan, 1997), which examined cash flow on firm value and the results showed a positive and significant effect between cash flow and firm value. In theory, the greater the amount of cash the company has, the smaller the risk of fulfilling its obligations. However, that does not mean that the company must maintain an ample cash supply because the greater the amount of cash, the greater the idle cash. Thus, cash flow has an influence internally for management and externally for investors and creditors.

The research results indicate that the effect of dividend policy on firm value is positive and significant. The positive effect shows that the effect of dividend policy is in line with firm value. In other words, a good/high dividend policy will affect firm value and vice versa. If the dividend policy is low, it could be a low company value. The significant effect shows that the dividend policy has an essential role in increasing firm value. This research is in line with (Sujoko & Soebiantoro, 2018), proving that dividend policy positively and significantly affects company value. An increase in stock prices will increase company value because company value compares stock prices to the book value of shares (Sujoko & Soebiantoro, 2018). However, the results of this study are not in line with the results of research conducted (Sujoko & Soebiantoro, 2018) which found evidence that dividend policy has a positive effect on firm value.

4. Conclusions

Based on the results of research and discussion, it can be concluded that the results of operating cash flow have a positive and significant effect on firm value, and the results of dividend policy have a positive and significant effect on firm value. The suggestion for further research is that it is expected to use a sample from all companies and use a more extended observation year so that the results of the study can realize the capital market conditions of all companies. In further research, it is recommended to use external factors of the company so that the independent variable affects firm value with the research model adequate.

References

Asna, & Graha, A. N. (2006). Analisis Pengaruh Rasio Kuangan terhadap Return Saham Perbankan yang Terdaftar di Bursa Efek Indonesia. *Research Gate, 2*(3), 192–212.

Badruzaman, J. (2017). Pengaruh Earning Per Share Terhadap Harga Saham. Jurnal Akuntansi, 12(1), 101–110.

Baridwan, Z. (1997). Analisis Nilai Tambah Informasi Laporan Arus Kas. *Jurnal Ekonomi Dan Bisnis Indonesia, 12*(2), 15. https://journal.ugm.ac.id/jieb/article/view/39995

Cahyo, A. D. (2013). Pengaruh Laba Bersih, Arus Kas Operasi Dan Investment Opportunity Set Terhadap Kebijakan Dividen Perusahaan Manufaktur Yang Terdaftar Di Bei Periode 2009-2012. *Journal of Chemical Information and Modeling, 53*(9), 1689–1699.

Dewi, S. C. (2008). Pengaruh kepemilikan managerial, kepemilikan institusional, kebijakan hutang, profitabilitas dan ukuran perusahaan terhadap kebijakan dividen. *Jurnal Bisnis dan Akuntansi, 10*(1), 47-58. https://doi.org/10.34208/jba.v10i1.252

Esthirahayu, D. P. (2014). Pengaruh Rasio Likuiditas, Rasio Leverage dan Rasio Aktivitas Terhadap Kinerja Keuangan Perusahaan (Studi pada Perusahaan Food and Beverage yang Listing di Bursa Efek Indonesia Tahun 2010-2012). *Jurnal Administrasi Bisnis, 8*(1).

Fama, E. F., & French, K. R. (1998). Taxes, financing decisions, and firm value. *Journal of Finance, 53*(3), 819–843. https://doi.org/10.1111/0022-1082.00036

Harjito, D. A., & Nurfauziah, N. (2006). Hubungan Kebijakan Hutang, Insider Ownership dan Kebijakan Dividen dalam Mekanisme Pengawasan Masalah Agensi di Indonesia. *Jurnal Akuntansi dan Auditing Indonesia, 10*(2), 121–136.

Hasnawati, S. (2005). Dampak set peluang investasi terhadap nilai perusahaan publik di Bursa Efek Jakarta. *Jurnal Akuntansi dan Auditing Indonesia, 9*(2), 117–126.

Khikmawati, I. K., & Agustina, L. (2015). Analisis rasio keuangan terhadap pelaporan keuangan melalui internet pada website perusahaan. Accounting Analysis Journal, 4(1), 1–8. https://doi.org/10.15294/aaj.v4i1.7816

Latuheru, B. P. (2016). Pengambilan Keputusan Investasi (Studi Pada Pt. Pelabuhan Indonesia Iv (Persero) Cabang Ambon). *PELUANG, 10*(2).

Masyita, E., & Harahap, K. K. S. (2018). Analisis Kinerja Keuangan Menggunakan Rasio Likuiditas Dan Profitabilitas. *JAKK| Jurnal Akuntansi dan Keuangan Kontemporer, 1*(1), 33-46.

Mulyanti, D., & Supriyani, R. L. (2018). Pengaruh Perputaran Kas dan Perputaran Persediaan Terhadap Likuiditas pada PT Ultra Jaya, Tbk. *Jurnal Kajian Ilmiah, 18*(1), 34–42. https://doi.org/10.31599/jki.v18i1.180

Nurhayati, M. (2013). Profitabilitas, likuiditas dan ukuran perusahaan pengaruhnya terhadap kebijakan dividen dan nilai perusahaan sektor non jasa. *Jurnal Keuangan & Bisnis Program Studi Magister Manajemen Sekolah Tinggi Ilmu Ekonomi Harapan, 5*(2), 144-153.

Purnomo, H. (2017). Kajian Pengaruh Arus Kas Terhadap Likuiditas (Studi Kasus Pada Laporan Tahunan BPR Arta Kencana Madiun). *JURNAL EKOMAKS, 3*(2).

Rakhimsyah, L. A., & Gunawan, B. (2013). Pengaruh Keputusan Investasi, Keputusan Pendanaan Dan Kebijakan Dividen Terhadap Nilai Perusahaan. *Management Analysis Journal, 2*(2), 31–45. https://doi.org/10.15294/maj.v2i2.2517

Sujoko, & Soebiantoro, U. (2018). Pengaruh Struktur Kepemilikan, Strategi Diversifikasi, Leverage, Faktor Intern Dan Faktor Ekstern Terhadap Nilai Perusahaan (Studi Empirik Pada Perusahaan Manufaktur Dan Non Manufaktur Di Bursa Efek Jakarta). *EKUITAS (Jurnal Ekonomi Dan Keuangan), 11*(2), 236–254. https://doi.org/10.24034/j25485024.y2007.v11.i2.317

Wahyudi, U., & Pawestri, H. P. (2006). Implikasi Struktur Kepemilikan Terhadap Nilai Perusahaan: Dengan Keputusan Keuangan Sebagai Variabel Intervening. *Simposium Nasional Akuntansi 9 Padang, 53*, 160. https://doi.org/10.1017/CBO9781107415324.004