Effect of Dividend Policy and Capital Structure on Firm Value with Growth Opportunity as a Moderating Variables

Deddy Priyatna, S.Ak Scholar, Department of Accounting, ITB Ahmad Dahlan Lamongan, Indonesia
Evi Dwi Kartikasari, Lecturer, Department of Accounting, ITB Ahmad Dahlan Lamongan, Indonesia
*Irma Indira, Lecturer, Department of Accounting, ITB Ahmad Dahlan Lamongan, Indonesia
*Corresponding author’s email: Irmaindira910@gmail.com

ARTICLE DETAILS

Objective: Main objective this research is to examine and analyze the effect of dividend policy and capital structure on firm value with growth opportunity as a moderating variable.

Methodology: Quantitative techniques are used in this study. A purposive sampling of 54 samples based on preset criteria was conducted on the trading and service organizations that will be listed on the Indonesian Stock Exchange in 2019–2021 as the population for this study. Dividend Policy and Capital Structure, which are independent factors, Firm Value, a dependent variable, and Growth Opportunity, a moderating variable, are the variables that were looked at in this study. The research data was subjected to analysis using the SmartPLS 3 software application, which served as the analytical tool.

Results: The results of the research show that dividend policy which is proxied dividend payout ratio (DPR) has a significance impact on firm value, capital structure which is proxied debt to equity ratio (DER) has a significant impact on firm value, growth opportunity which is proxied earning per share (EPS) has a significance impact on firm value, dividend policy has a significance impact on firm value with growth opportunity as a moderating variable and dividend policy has not impact on firm value with growth opportunity as a moderating variable. The results of the research overall study have consequences for businesses in the trade and service sectors that are listed on the IDX, requiring them to conduct evaluations or plan in order to optimize corporate value for the benefit of shareholders.

Implication: Implications will be impact all parties based on the results of this research among companies listed on the IDX will make planning and evaluation, especially the trade and service sector to take precautions so that the company's value remains stable and normal. For potential investors, it will be an opportunity and opportunity to choose to invest in the right company to achieve maximum profit, high company value is indeed an attraction for
investors but good growth is also a support in seeing how far a company can increase its firm value supported by a high capital structure also has good implications for the company's development.

© 2023 The authors, under a Creative Commons Attribution-NonCommercial 4.0


**Introduction**

The corporate world is becoming more competitive as a result of globalization, and businesses are vying to grow. Companies that are still standing always make an effort to keep up their operational activities in order to accomplish their purpose, which is to build company value. Central Bureau of Statistics stated that the Indonesian economy in 2019 grew at 5.02%, then in 2020 experienced a growth contraction of 2.07% and in 2021 grew by 3.69%. The Central Bureau of Statistics states that in 2021 the trade sector is the sector with the third largest contribution to the national economy with a contribution of 12.97% after manufacturing sector with a contribution of 19.25% and husbandry sector of 13.28% to national GDP. The trade sector experienced fluctuating growth in 2019-2021. The achievement of the trade sector in 2021 is 4.65%, this is higher than in 2020 which experienced a deep contraction of 3.78% and higher than in 2019 before the covid-19 which grew by 4.6%. The Services sector experienced the highest achievement in 2020 at 11.56%, this occurred during the covid-19 pandemic. This achievement was higher than in 2019 which amounted to 11.56% and higher than the year after, namely in 2021 with an achievement of 10.46%. During 2019 to 2021 companies in Indonesia also experienced growth and contraction. This is inseparable from Indonesia's economic conditions which experienced a setback during the covid 19 pandemic that hit the Indonesian region at mid-2019.

Additionally, a company's ability to pay dividends is a sign of its value. Dividend policy relates to the sharing of gains that are already investors' legal entitlements, but dividend payments are more likely to be made if business profits rise (Sari, 2020). According to the signaling philosophy, a high dividend distribution encourages investors to make an investment. Share prices will rise as a result of the intensity of dividend payments, which will also result in rising corporate value. Research conducted by Mohammad Andri Dwi Aprianto (2021); Danik Sukmana, et al (2021); and Ulfah Setia Iswara, et al (2022) stated that dividend policy affects firm value. Meanwhile, research by Ni Komang Nova Desi Antari, et al (2022) states that it has no effect.

A high capital structure can maximize company operations, while high company operations can affect the profits generated higher, (Rosalia, et al, 2022). According to signaling philosophy, funds from outside the company tend to be preferred by investors more than funds from their own capital capital due to emission cost considerations. Managers can utilize debt as a more trustworthy signal to investor, businesses that take on more debt may be perceived by investors as being more optimistic about their future prospects. (Ragil & Sri Ayem, 2016). Research conducted Nike Apriliya Agatha & Moch Irsad (2021); and Endang Wahyun & Endang Purwaningsih (2021) state that DER affects PBV while at the research Ni Putu Ayu et al., (2021) fond no difference.

Companies with strong growth rates will require more capital in the future, particularly external capital, to finance their expansion or meet their investment demands (Indrajaya et al., 2019). According to the growth opportunity signaling theory, it will provide a signal to investors so that they can find out the extent to which the investment in a company has the potential to yield a return at the desired rate.. In research conducted Rafly Zidane and Titiek Suwarti (2022) states that GO
affects PBV but research conducted Diah Ayu Shinta Dewi (2022) states that it has no effect. In other research conducted Andy Hartawan (2021) states that growth opportunity affects dividend policy and in the research of Husnul Laila, et al (2022) states that growth opportunity affects capital structure.

The novelty of this study is that previous studies that examined firm value found inconsistencies in the results of several studies, so further research is needed on firm value. In addition, differences in research time, research objects, samples, and conditions of a company in developing countries allow for differences in research results and can also support the findings of earlier research. A sample of businesses from the commerce and service sectors that will be listed on the Indonesia Stock Exchange in 2019-2020 will be used for this research, which will be carried out in Indonesia. Previous research samples were mostly conducted in manufacturing and mining company. Researchers also use growth opportunity as a moderating variable so that the combinations to test the relationship to firm value are different and of course will show different results.

**Literature Review and Hypotheses Development**

**Signaling Philosophy**
Signaling philosophy explains that in order for companies with strong performance to send a signal to the market that they are a good location to invest in, signaling theory outlines the activities made by the company's management that inform investors about how management views the company's future. The signal is supported by information from periodic financial reports with the express purpose of encouraging potential investors to purchase company stock and make investments.

**Stakeholder Philosophy**
Stakeholder philosophy explains that a business must benefit all of its stakeholders, including shareholders, creditors, customers, suppliers, the government, the community, analysts, and other parties, and is not just an entity that exists for its own advantage. This notion explains the company's obligation to all parties. According to the stakeholder theory, organizational management is required to carry out and disclose activities that the company's stakeholders deem crucial.

**Firm Value**
This indicator can establish the market worth of the company as a whole, firm value is a crucial component of the business. The company's valuation also reflects the selling price (Sihombing, 2020). High corporate value will persuade the market to believe in the company's future possibilities as well as its current performance.

**Dividend Policy**
Regulations taken form stakeholders in whether or not to distribute company dividends to shareholders or retain them as company retained earnings Companies that distribute dividends or have high retained earnings will be attractive in the eyes of potential investors so they will be interested in investing (Rahmanto, 2017).

**Capital Structure**
A source of financing for businesses is the ratio of finances made up of own capital and foreign capital (Febriani & Kriastianti, 2020). The expansion of a company's operations and capital structure may be hampered by a high capital structure value. Profits may rise as a result of the company's efforts to optimize capital effectively. High corporate profits have the potential to raise the worth of the business because they will draw in more potential investors.

**Growth Opportunity**
Opportunity owned the corporation to realize a high level of growth in developing the company (Savitri and Mimba, 2016). Continuously growing businesses have favorable potential or prospects for the future. Companies that are expanding will offer signification profits in line with their expansion (Suastini et al., 2016).


Dividends can be understood as the portion of a company's earnings that is allocated to shareholders, subject to approval by the General Meeting of Shareholders (GMS). This is a crucial indicator that necessitates careful examination by management, as it influences decisions regarding the distribution of profits (Amelinda & Happy, 2018). The relationship between signaling theory and dividend policy lies in the notion that a substantial distribution of dividends serves as a favorable signal for investors, prompting them to allocate their capital. The provision of high dividends has the potential to elevate investor expectations, thereby indirectly augmenting stock prices and subsequently enhancing the overall value of the company. Research from Ni Putu Ayu Yuniastris, et al (2021); Elvira Angelina and Lailatul Amanah (2022) and Ni Komang Nova Desi Antari et al., (2022) get deviden policy result impact firm value. This leads to following theory being formed:

**H1:** The influence devidend policy on company worth in trading & service sector company listed on IDX in 2019 to 2021.

**Impact of Monetary Structures on Company Worth (In Trading & Service Sector Companies Listed on Indonesian Stock Exchange in 2019-2021)**

The monetary structures refers to the proportion of long-term debt relative to the company's equity (Kusumajaya, 2011; Apriada & Suwardikha, 2016). Debt can serve as a more dependable indicator for managers to communicate information to investors. The rationale behind companies opting to increase their debt lies in the perception that such a decision reflects their confidence in future prospects for the business. This, in turn, has the potential to enhance investors’ perception of the worth of the enterprise. According to the findings of Oktavia's research conducted in 2019, as well as the studies conducted by Nike Apriliya Agatha and Moch Irsad in 2021, and Endang Wahyuni and Endang Purwaningsih in 2021, it has been demonstrated that a company’s monetary structures significantly affects its overall worth. The hypotheses in this study are formulated founded on authoritative theories frameworks & the findings of previous research:

**H2:** The influence of monetary structures on company worth in trading & service sector companies listed on IDX on 2019 to 2021.

**Impact of Growth Opportunity on Company Worth (In Trading & Service Sector Companies Listed on Indonesian Stock Exchange in 2019-2021)**

Growth opportunity refers to a company's potential for future growth or development (Hermuningsih 2013). This is associated with signaling theory, companies that have a high growth rate are a good signal to stakeholders, and if they are interested, it will be easy to attract capital, especially capital from investors. Growth potential has an impact on business value, according to research by Ati Retnasari et al. (2021), Nahda Nabilah and Saiful Anwar (2022), Rafly Zidane and Titiek Suwarti (2022), who explored this relationship. The offered hypothesis is as follows, and it is based on the pertinent theory and prior research:

**H3:** The Influence of growth opportunity on company worth in trading & service sector companies listed on IDX on 2019 to 2021.

**Impact of Devidend Policy on Company Worth with Growth Opportunity as a Moderating**
Variable (in Trading & Service Sector Companies Listed on Indonesian Stock Exchange 2019-2021)

One of the encouraging indications for investors to put money into investment is high level of dividend distribution that will be offered by a high dividend policy. As a result, value of company will increase as well as the share price of the company. Signal theory and growth potential are related in that high firm growth will provide investors a signal to invest their money in the business in the goal of receiving a sizable return in the future. Because a company's capacity to generate profits increases with its rate of expansion. According to earlier study by Setiyawati et al. (2017), a mediator in connection between dividend policy & enterprise value is growth potential. Following is the proposed theory, which is based on the pertinent theory from the prior study:

**H4**: Changes in dividend policy impact company worth in trading & service sector companies listed on IDX in 2019–2021, moderated by growth opportunity.

Impact of Monetary Structures on Company Worth with Growth Opportunity as a Moderating Variable (In Trading & Service Sector Companies Listed on IDX in 2019-2021)

Managers can use debt to provide more reliable signals to investors, the more external funds (debt) a firm uses, the more investors are willing to put money into it, hoping it will improve in value because they believe in its future prospects. As a result of using cash for financing to raise corporate earnings and company value, debt used for business operations is decreased as growth opportunities decrease. On the other hand, the amount of debt utilised for the business's operational activities increases in direct proportion to the growth possibilities. Previous research by Saputra et al., (2021) has demonstrated monetary structures has an impact on as a moderating influence on corporate value, development prospect. According to relevant theory & earlier study, following idea is put form:

**H5**: monetary structures impact company worth in the trading & service sector companies listed on IDX in 2019–2021 is moderated by growth opportunity

The study’s conceptual framework is depicted in figure 1, as presented below:
Method
The present study utilizes quantitative research methods by employing secondary data collections techniques. Companies engaged in trade and providing services that went public on the Indonesia stock exchange between 2019 and 2021 made up the population considered in this study. In this study, 146 companies will be studied as a whole, using a purposive sampling technique, 54 combined annual financial statements from 18 engaged in trade and providing services companies went public on the Indonesia stock exchange on 2019-2021 were sampled. The study method for gathering data include documentation procedures and literature reviews. This study uses two independent variables, one dependent variable and one moderating variable. The research data underwent analysis utilizing a software application, such as SmartPLS 3.

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Meaning</th>
<th>Proxied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Value (Y)</td>
<td>Based on the performance of the firms as measured by share prices and the number of outstanding shares, the ratio is used to calculate amount of company’s book value.</td>
<td>PBV = \frac{Stock Price}{Book Value of Common Stock}</td>
</tr>
<tr>
<td>Deviden Policy (X1)</td>
<td>Ratio to determine the amount of the percentage of dividends distributed on profits earned by the company.</td>
<td>DPR = \frac{Dividend Per Share}{Profit Per Share}</td>
</tr>
<tr>
<td>Capital Structure (X2)</td>
<td>This ratio serves to determine fairness of level of debt compared to equity financing.</td>
<td>DER = \frac{Total Debt}{Total Equity}</td>
</tr>
<tr>
<td>Growth Opportunity (Z)</td>
<td>This ratio is used to measure the anticipated rate of profit growth and return to saham owner per share.</td>
<td>EPS = \frac{Net Profit}{Outstanding Share}</td>
</tr>
</tbody>
</table>

Results and Discussion
There are two steps in evaluating the model on the partial least squares, namely testing the inner model and outer model.
The validity test states that from the table above, a variable that can be said to be valid must have an outer loading value greater than 0.7. In this study, all variables have values above 0.7, so that all variables are said to be valid.

A component called composite reliability is used to evaluate a variable indicator’s level of reliability. A structure may be deemed dependable if the composite’s reliable value is greater than 0.6. All variables are considered dependable because they all have values over 0.6 in the table above.
Outer Model Test

Table 4 Coefficient Determination

<table>
<thead>
<tr>
<th>Variabel</th>
<th>R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Book Value (Y)</td>
<td>0.902</td>
</tr>
</tbody>
</table>

Source: Smart PLS Output 3.3

Table 5 above is known R-Square value = 0.902 or 90.2%, indicates that all variable x (dependent) and z (moderating) can explain the dependent variable of firm value by 90.2%, while 9.8% be affected other variable outside this research.

Hypothesis testing

Table 5 below shows the outcome of testing the hypothesis by examining at the T statistics and P-value

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path</th>
<th>T Statistics</th>
<th>P Values</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>DPR -&gt; PBV</td>
<td>2,356</td>
<td>0.048</td>
<td>Supported</td>
</tr>
<tr>
<td>H2</td>
<td>DER -&gt; PBV</td>
<td>4,997</td>
<td>0.039</td>
<td>Supported</td>
</tr>
<tr>
<td>H3</td>
<td>GO -&gt; PBV</td>
<td>5,604</td>
<td>0.026</td>
<td>Supported</td>
</tr>
<tr>
<td>H4</td>
<td>DPR*GO -&gt; PBV</td>
<td>2,746</td>
<td>0.042</td>
<td>Supported</td>
</tr>
<tr>
<td>H5</td>
<td>DER*GO -&gt; PBV</td>
<td>0,279</td>
<td>0.806</td>
<td>No Supported</td>
</tr>
</tbody>
</table>

Source: Smart PLS Output 3.3

The first hypothesis’s has a T statistic of 2.356, as can be shown in table 5 above. The P value for the initial theory is 0.048. As a result, the t statistical value exceeds the t table with a P value below 0.05. If the divided policy (DPR) on impact on the company worth (PBV), this confirms the first hypothesis. The T statistic for the second hypothesis on impact of monethory structure (DER) on firm value (PBV) is 4.997. The P value for the second theory is 0.039. As a result, the t statistical value exceeds the t table with a P value below 0.05. This corroborates the second theory, according to which capital structure (DER) influences corporate value (PBV). T statistic for the third
hypothesis on the impact of growth potential (GO) on company value (PBV) is 5.604. The third theory is known from shown in table 5 above P value of 0.026. Consequently, the t statistical value of t surpasses t table with P-value under 0.05. The final hypothesis that expansion potential influences business value is supported by this information. The fourth hypothesis, which has a T statistic of 2.746, is the divided policy on firm value with growth opportunity as a moderating component. P value for the fourth hypothesis is 0.042. As a result, T statistical value exceeds the t table with a P value below 0.05. This corroborates the fourth theory, according to which the presence of growth opportunities enhances the impact of differentiated policy on business value. With growth potential acting as a moderating variable, fifth hypothesis capital structure (DER) on company worth (PBV) hypothesis gives a T statistic of 0.279. The P value for the fifth theory is 0.806. Therefore, Consequently it can be said that statistical t value exceeds t table when there is a P value more than 0.05. If capital structure has no impact on company value and growth opportunity acts as a moderating factor, the fifth hypothesis is not supported.

Discussion

Impact Dividend Policy on Company Worth

Testing the first hypothesis that dividend policy impact of the company worth. After the research was conducted, the P value was calculated to be 0.048 less than 0.05 with a T statistic of 2.356, exceeding the critical value of 1.96. This shows that H1 is accepted, meaning that dividend policy impact company worth.

According to this research, dividend policy get result negative relationship with company worth, hence a low dividend policy will raise firm value and vice versa. These findings are also consistent with the clientele effect idea, which postulates that some shareholders prefer that their company keep some of its profits because they don’t actually need the money right now. This can boost the company's profit balance. The company will have the chance to grow as a result of its large profit balance, luring investors to purchase stock. The demand for the company's shares will rise if numerous investors purchase them. According to demand theory, prices increase as demand increases. The worth of company will rise as a result of rising stock prices, which will increase the interest of prospective investors in investing. According to the circumstances at PT. Distribusi Voucher Nusantara Tbk in 2020, which has a corporate value of 0.891 and the lowest dividend policy variable value of 0.00 in the same year, 2020, this is acceptable. According to earlier studies by Ulfah Setia Iswara et al. (2022), Danik Sukmana et al. (2021), and Muhammad Andri Dwi Aprianto et al. (2021), dividend policy impact on company’s worth.

Impact of Monetary Structure on Company’s Worth

Testing the second hypothesis that monetary structure affects company’s worth. After conducting the research, it was obtained that the P value was calculated 0.039 less than 0.05 with a T statistic of 4.997, exceeding the critical value of 1.96. This shows that H2 is accepted, meaning that monetary structure impact company’s worth. According to this study, the relationship between monetary structure and company’s worth is positive, therefore the greater the level of the monetary structure, the higher the business worth. This is because a company’s working capital is its primary means of executing operational tasks necessary to realize its objectives. Because shareholders are not obligated to collect their share of earnings while the firm is doing well & debt holders receive a set return, wise monetary structure decisions can reduce the cost of capital issued by the company. If the company uses debt, it will also benefit from tax benefits related to interest deductions, which will lower the effective cost of debt. The chance for organizations to grow increases with the monetary structure ratio, which can favorably affect profitability ratios and raise company’s worth, which is measured by price book value. This outcome is consistent with how PT FKS Multi Agro Tbk performed in 2019, when its capital structure level was 2.65 and its corporate value level was at an elevated 0.88. According to earlier research by Nike Apriliya Agatha, Moch Irsad, and Endang Wahyuni and Endang Purwaningsih (2021), capital structure effect on a company's worth.
Impact of Growth Opportunity on Company Worth
Testing number three hypothesis that growth opportunity affects company’s worth. After conducting the research, it was obtained that the P value was calculated 0.026 less than 0.05 with a T statistic of 5.604, exceeding the critical value of 1.96. This shows that H3 is accepted, meaning that growth opportunity affects firm value. Findings of this research demonstrate a negative among growth potential & business worth, meaning that the more growth opportunity, the lower the company’s worth. This is due to the fact that businesses with strong development potential will require more funding in the future, particularly from outside sources, in order to meet their needs for growth financing or investments. This indicates that external financing (debt) will be needed to finance expansion. If a growth in debt is seen by outsiders as indicating the worth’s ability to pay obligations in future or having a high business risk, the market will respond negatively and the worth of company’s will decline. According to the signaling theory, which contends that high-quality businesses will purposefully send signals to the market, consumers should be able to tell good businesses from low-quality ones. This outcome is consistent with PT Hexaindo Adiperkasa Tbk's performance in 2020, which saw a tiny business value of 0.11 and a high growth potential rate of 1.98.

Growth opportunities have an impact on business value, according to earlier study by Ati Retnasari et al. (2021), Nahda Nabilah & Saiful Anwar (2022), and Rafly Zidane & Titiek Suwarti (2022).

Impact of Dividend Policy on Company Worth with Growth Opportunity as a Moderating Variable
Testing the fourth hypothesis that dividend policy with growth opportunity as a moderating variable impact company’s worth. After conducting the research, it was obtained that the P value was calculated 0.042, less than 0.05 with a T statistic of 2.746, exceeding the critical value of 1.96. This shows that H4 is accepted, meaning that dividend policy affects firm value with growth opportunity as a moderating variable. Dividend policy, which is restrained by growth potential in this study, has a negative trend. This is so that the company will have enough cash for its operational activities if it has a low dividend policy coupled with a low growth opportunity rate. A low dividend policy indicates that the company preserves its profits as retained earnings, which will enhance the company's profits in the following period and its expansion potential, which will raise the company's worth in investors' eyes. A low level of growth opportunity suggests that future funding will also be small or low, encouraging investors to invest due to the low level of risk and also offering lucrative prospects, namely a high rate of return, so that more and more investors will invest, driving up the earnings price raising the worth of the company. Research on dividend policy and growth opportunities is consistent with research (Setiyawati et al., 2017) showing that dividend policy impact company’s worth with growth opportunities as a moderating variable.

Impact of Monetary Capital on Company Worth with Growth Opportunity as a Moderating Variable
Examining the fifth hypothesis that the availability of expansion opportunities influences Company’s worth. Following the completion of research, it was discovered that P value was calculated 0.806 exceeded 0.05 and the T statistic was 0.279, exceeding the critical value of 1.96. With growth potential acting as a moderating component, this demonstrates that H5 is rejected, it asserts that the worth of company’s is unaffected by monetary structure. This due to the fact that the business will employ external funding for its funding activities, as well as internal and external investment for business expansion that tries to raise the company's worth. Consequently, it is anticipated that the organization would grow even more. The upshot of this episode is that investors are less likely to invest their money since the amount of debt a firm has increases its interest expense, which lowers the amount of profit the company can expect to make. This outcome is consistent with the signaling hypothesis, which holds that a high level of funding will encourage stakeholders to reduce their debt loads to improve monetary structure of the company’s
management & effectiveness. Since the monetary structure of a corporation is only one component of its financial structure, investors feel that a worth’s debt is normal as long as it can balance the debt with profits it generates.

This is in line with earlier studies by Utomo and Christy (2027), Uttari and Yadnya (2018), and Ni Putu Ayu Yuniastri et al. (2021), which growth opportunity as a moderating capital structure not impact on company’s worth.

References


