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DOES DIVIDEND POLICY, AUDIT QUALITY, CAPITAL STRUCTURE AND PROFITABILITY AFFECT FIRM VALUE?

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Abstract

This study examines how dividend policy, audit quality, capital structure, and profitability affect firm value. The purposive sampling method was used to take samples from banking companies' annual reports for the period 2019 to 2022, with multiple linear regression as data analysis. We find that companies with higher dividend and profitability linear with firm value. This study successfully the support view of signaling theory. Furthermore, the result show audit quality effected on firm value positively. This caused audit quality to make an important contribution the credibility of financial statements and reduce the opportunistic behavior of a manager. In addition, companies with larger external capital structures will increasing of firm value, thus supporting the view of trade off theory. We conclude that using balance and efficient capital structure accompanied by the effective implementation of corporate governance, maximum profits will be created, thereby increasing the firm value. Therefore, we suggest to managers that increasing firm value can be done by increasing profits through a balanced capital structure, accompanied by increasing transparency.

Keywords: Dividend policy, audit quality, capital structure, profitability, and firm value

APAKAH KEBIJAKAN DIVIDEN, KUALITAS AUDIT, STRUKTUR MODAL, PROFITABILITAS MEMENGARUGI NILAI PERUSAHAAN?

Abstrak

Penelitian ini menguji pengaruh kebijakan dividen, kualitas audit, struktur modal dan profitabilitas terhadap nilai perusahaan. Metode purposive sampling digunakan untuk mengambil sampel terhadap laporan keuangan tahunan perusahaan perbankan periode 2019 sampai 2022, yang dianalisis dengan metode regresi linier berganda. Kami menemukan bahwa kebijakan dividend dan profitabilitas berpengaruh terhadap nilai perusahaan. Hasil studi ini mendukung pandangan signaling theory. Selanjutnya, hasil penelitian menunjukkan bahwa kualitas audit berpengaruh positif terhadap nilai perusahaan. Hasil ini menunjukkan kualitas audit memberikan kontribusi penting terhadap kredibilitas laporan keuangan dan mengurangi perilaku oportunistik seorang manajer. Selain itu, perusahaan dengan struktur modal eksternal yang lebih besar akan meningkatkan nilai perusahaan, sehingga mendukung pandangan trade off theory. Kami menyimpulkan bahwa melalui penggunaan struktur modal yang seimbang dan efisien disertai dengan penerapan tata kelola perusahaan yang efektif, akan tercipta keuntungan yang maksimal sehingga meningkatkan nilai perusahaan. Oleh karena itu, kami menyarankan kepada para manajer bahwa peningkatan nilai perusahaan dapat dilakukan dengan meningkatkan laba melalui struktur modal yang seimbang, disertai dengan peningkatan transparansi.

Kata kunci: Kebijakan dividen, kualitas audit, struktur modal dan profitabilitas terhadap nilai perusahaan

INTRODUCTION

The banking industry plays an important role in supporting the Indonesia economy. The distribution of credit helps increase investment and economic growth. The banking industry experienced growth as the COVID-19 pandemic ended. The results of the Bank Indonesia Banking Survey show that new credit distribution in the first quarter of 2023 grew positively with a Weighted Net Balance (WBT) value of new credit of 63.7%. In the second quarter of 2023, new credit distribution is predicted to grow higher, as indicated by the WBT forecast for new credit distribution of 99.7%. These results show optimism regarding future credit growth. For businesspeople, this information is important information, including for investors. This growth reflects the improving economy, thereby triggering business activity, including the placement of funds by investors in the banking sector. This is done on the grounds that investment in the banking sector has the opportunity for high stock returns. Investors expect dividends as stock return rather than capital gains because shareholders can receive and enjoy cash directly without having to reduce or lose ownership of the company. The distribution of dividends to shareholders shows profits and operational success, which directly increase the firm value. However, the growing condition of the banking industry is not in line with investor' expectations regarding expected stock return, namely in the form of dividends. Referring to the annual report of banking companies for the period 2019 to 2022 of the 46 banks listed on the Indonesian Stock Exchange, 18 of them did not distribute dividends and 15 of them experienced losses, so only 28% of banking companies were able to distribute dividends. This condition illustrates that the growth of the banking industry is not fully occurring in all banks.

Dividends are an interesting discussion in research that has been carried out by several researchers. One of the things that makes dividends attractive lies in the relationship between distribution of dividend and the firm value. An interesting question is whether dividends and company value have a unidirectional relationship or the opposite, perhaps even none at all. Arsal, (2021); Aprilyani *et al*., (2021); reveals that it is not relevant to company value, while other studies state its correlation to company value (Iswara et al., 2022); (Agung, 2021) and (Hermawan, 2020). The inconsistency of the research results shows that current research is not conclusive, so further research is needed. In addition, the inconsistency in research results between dividends and company value may be influenced by factors that have the potential to influence the assessment of company equity, thus leading to previous research testing the benefits of financial statements. Referring to it, Financial Accounting Standards that financial information is relevant when it provides users with the ability to change their user decisions. Therefore, it is important for companies to convey reliable financial statements information, which is controlled by the level of audit quality (Jihene & Moez, 2019). According to King & Mckennie, (2023) and Siregar *et al*., (2023), quality information is produced by higher audit quality, so that financial report information can be relied on by financial report users in predicting or estimating value.

In addition, previous research Abba & Sadah, (2020) and Kristilestari & Andesto, (2023) states that better quality of audit increasing on company value, this is because they are able to guarantee the availability of financial reports that reflect existing economic conditions. Furthermore, DeAngelo & W Masulis, (1980) and Watts & Zimmerman, (1981), revealed that external auditors play an important role in guarantee that the information reported is free from significant misstatements, and therefore the presence of high-quality auditors contributes to the credibility of the reported information, so as to suppress differences in interests between companies and stakeholders. Thus, their presence increases the firm value.

Refers to view of resources dependency theory which explain that the company's success is determined by the quality of the resources. Therefore, in order to follow the view of creating quality financial information, management uses quality auditor. Jeong, (2020) stated that a quality audit has implications for the quality of financial report, resulting in accuracy and reliability of analysis in forecasting profit of the firm. According to Agyei-Mensah, (2018); Molik, (2015), believes that qualified audit has a positive effect on financial reporting transparency. Furthermore King & Mckennie, (2023) finds that financial reporting transparency is in line with better audit quality. Therefore, from the perspective of signal theory, increasing transparency is related to audit quality, thereby influencing the increase in dividend signals, which in turn can increase company valuation. In this way, audit quality is able to increase transparency and mitigate information asymmetry, including the reliability and quality of financial reports, as a result, dividend payment will increase, as will firm value.

In order to improve its operations, the Company considers its capital structure. Referring to the view from trade off theory, choosing an optimal capital structure can increase firm value. However, several previous studies showed varying result. Ngatno *et al*., (2021); Natsir & Yusbardini, (2020) and Margono & Gantino, (2021) argue that capital structure has a positive influence on profitability. This results mean that the dominance of external funding sources has a positive effect on performance of the company. In contrast, capital structure has a negative impact on profitability (Evbayiro-osagie & Enadeghe, 2022) and (Winful *et al*., 2022). Alfisah & Zulfikar, (2020) and Wijaya, (2020) also found evidence that the capital structure and firm value has no relationship.

Shareholders establish companies with the main aim of maximizing profits, as a result of which profitability and firm value have a significant influence. Because investors will be motivated to place their fund in profitable companies. As is view from signal theory which explains the importance of conveying financial information to the public in order to provide signals to its users. Furthermore, if there is information asymmetry between management and company stakeholders, reducing this information asymmetry can increase firm value. Several previous studies show different results the relationship profitability on firm value. Harapa *et al*., (2020) found that profitability as proxy by return on equity has a negative effect on firm value, however net profit margin has a positive effect on company profitability. Furthermore, (Amalia, 2019) found evidence that return on assets and return on equity as measures of financial performance are directly proportional to firm value. The Company's assets capability shows the level of financial health.

As discusse above, this research analyzes the influence of dividend policy and audit quality on firm value in Banking Companies in Indonesia. Apart from that, the are inconsistency in the results of previous studies has not provided sufficient evidence regarding the influence of dividend policy on firm value in Indonesia. Besides that, we also analyze the causal relationship between capital structure, profitability on firm value. Furthermore, this research uses three main theoretical approaches for analyzing relationships between variables consisting of signaling theory, trade-off theory and resource dependency theory, with the hope that the results will be able to provide new evidence whether in line with or contrary the theses theories.

This research consists of dividend policy as independent variable. The dividend payout ratio is used as a measure of dividend policy. Dividend distribution consider by the Company in order to reflect the success of its asset management. Furthermore, the firm value measure of price to book value. A part from that, this study uses another independent variable namely audit quality, which is measured using dummy variable which has a value of 1 if the company is audit by big 4 and 0 if not. A company is considered to use qualified auditor to play an important role in increasing credibility of financial statement and reducing the opportunistic behavior of a manager. Furthermore, this study included capital structure and profitability as independent variable that measure using debt to equity and return on asset, respectively.

This study aims to fill the gaps in previous research, thus that it is hoped that the results of the research can contribute accounting knowledge through the development of theoretical understanding through the variables in the study and being able to provide positive managerial implications by paying attention to the factors that have an influence on firm value. The study findings provide input to we suggest to managers that increasing firm value can be done by increasing profits through a balanced capital structure, accompanied by increasing transparency.

Hypothesis development

Empirical evidence on dividend and firm value relationship

Dividend policy is management decision in relation to determining whether profits during the year will be shared to shareholders or used for company investment. Management's decision to distribute some of its profits to shareholders can increase investors' confidence and trust in management's performance. This decision is able to provide a signal to shareholders, so that they can provide confidence in the company’s performance, as a result there is an increase in share prices. Apart from that, most investors pay more attention to dividend growth, this means that investors really expect dividend distribution every year and even show an increase every year. According to the view of signal theory, dividend payments are positive information that can have an impact on increasing the market, as a result the company value will increase.

Previous research show that dividend policy and firm value has positive relationship (Arsal, 2021); (Agung, 2021); (Iswara *et al*., 2022); and (Hermawan, 2020). The rational investor's critical assumption regarding the irrelevance of dividends only applies if the market is perfect. Therefore, reveals that dividends affect company value, this is due to investors' preference for this element rather than capital gains, thus affecting the company's shares. Thus, we formulate the hypothesis as follows:

H1: *Dividend policy has a significant on firm value.*

The relationship between audit quality and firm value

The inconsistency of previous result of study is one of the motivations for the need to carry out research again on audit quality and company value. Audit quality has an important role in increasing the credibility of financial reports also financial information, mitigating funding costs, and reducing the opportunistic behavior of a manager (Jihene & Moez, 2019);(Abba & Sadah, 2020; Molik, 2015). Quality audits are able to reduce information asymmetry, while also encouraging better transparency (King & Mckennie, 2023) and (Agyei-Mensah, 2018). Furthermore, audit quality is one of the corporate governance mechanisms that is able to minimize and prevent manipulation and fraud in accounting practices (Sihono & Munandar, 2023); and (DeAngelo & W Masulis, 1980). In addition, the companies audited by the big four distributed larger dividends than non-big four (Sihombing et al., 2023); (Thi & Trang, 2012) (Boonyanet, 2020). According to signal theory, analogy can be used that a company being audited by the Big Four is a signal to determine the firm value, it is a better prediction of the picture of future profits for investors. Apart from using signal theory, the relationship audit quality on value of the firm can be explained using resources dependency theory. To increase the quality also transparency of financial reporting which expected to encourage increased company value, management uses quality audits. Thus, the adaptation of signaling theory and resource dependency theory in predicting company value uses audit quality where audit quality can have effect on company value.

Abba & Sadah, (2020) argue that specialist auditor has better understanding of complexities within the business nature thereby able increase company value. Wijaya, (2020) in his study of manufacturing companies argue that there is a positive influence of audit quality on the value of the firm. In addition, audit quality affected accounting conservatism, so will be increase the quality of financial statement and positive affect on the success of business companies (Siregar *et al*., 2023). Some other studied also find the positive impact audit quality on firm value (Darmawan, 2020; Kamal et al., 2022; Nuryono et al., 2019). In the end, based

on the previous research, we argue that audit quality is has positive impact on firm value. Based on this discussion, the formulation of the hypothesis is as follow:
H2: *Audit quality have a positive effect on firm value.*

Empirical evidence on capital structure and firm value relationship

Capital structure can be explained by the balance between total of debt and share capital from shareholders (Putri & Firmansyah, 2023). Moreover, capital structure can be interpret that the condition of how finances the company's overall operations (Siregar et al., 2023), whether it comes from internal, external or a combination of both. Financial structure reflects how an asset is financed. Capital structure is reflected in the amount of liabilities and equity. Furthermore, structure of capital reflects the value of long-term liabilities, as well as shareholder equity in the form of shares, both preferred and ordinary shares. Capital structure and company value have a linear relationship, meaning that differences in debt level effect on company value. Discussing capital structure results in two possibilities, namely that an increase in the amount of debt has a positive impact on the firm value or conversely, an increase in the amount of debt has an impact on decreasing the value of the company. (Modigliani & Miller, 1963) in Trade-off Theory states that an optimal capital structure accompanied by a balance between the benefits of extending debt can increase company value. Based on this view, it can be concluded that funding through debt is able to have a positive impact on company value, rather than the opposite. The value of shares can be seen from the share price, so that the higher the funding through debt is in line with the increase in the value of the company's share price. In addition, from an agency theory perspective, a high debt ratio can be used as a tool to reduce the use of cash flow by managers for debt payments and interest expenses. This motivates managers to try their best to get company profits, so they can pay off the debt. Thus, the company's debt structure in line with company value.

Firm value and capital structure is linear function. (Natsir & Yusbardini, 2020); (Margono & Gantino, 2021); (Aprilyani et al., 2021) argue that positive relationship between capital structure and firm value. They explain that increasing leverage occurs in the context of acquiring assets, because of which the company's productivity will increase. In addition, the increase of debt linear with trust of investor to investment in the company, that the company can be competitive in the industry to maximize and generate the income, thereby increasing the value of the firm. Thus, the hypothesis formulated as follows:
H3: *Capital structure have a positive effect on firm value.*

Empirical evidence on profitability and firm value relationship

According to theory, it is revealed that the higher the company's profits, the greater the dividends distributed to shareholders, which is an attraction for investors. High investor interest can increase company value which is reflected in share prices. Profitability is an indicator used by investors in the context of where they place their funds, because by investing in companies with good performance, investors hope to get greater returns on their investment. These conditions encourage company management to make maximum efforts to increase its profitability, because the more profitable it is, the more guaranteed its business continuity will be. Based on the signal theory view, information regarding profitability is a good signal for investors (Nahdhiyah & Alliyah, 2023), indicating successful management of their resources, so that this will have a positive impact on shareholder welfare. Thus, we argue that the higher the company's profitability, the higher the company value.

(Aprilyani et al., 2021); (Iswara et al., 2022); (Listyawati & Kristiana, 2020) found that profitability is positively correlated with firm value. They argue that increasing profitability is a reflection of increasingly effective and efficient asset management which will increase firm value. In addition, will influence investor's investment decision and success in generating net

profit, and the company creates value. Therefore, the high profit impacts in shareholders return, thereby increasing the value of the firm. Thus, we proposed hypothesis as follows:
H4: *Profitability has a significant on firm value.*

RESEARCH METHOD

The purposive sampling method was used to take samples based on criteria of companies in declared dividend during the observation period. The relationships between variables are analyzed, 52 banking industry company data were used for 2019-2022 which were listed on the Indonesia Stock Exchange. Data was obtained from annual financial reports of the banking companies that are publicly available on the Indonesian Stock Exchange. This research analyzes the influence of dividend policy, audit quality, capital structure, profitability on firm value. Below is information regarding the measurement of the variables of this research.

Tabel 1. Variable Measurement

Variable	Measurement	Previous research
Firm value	Price to book value	(Iswara et al., 2022); (Astuti et al., 2022); (Listyawati & Kristiana, 2020); (Hidayat, 2022)
Dividend	Dividend payout ratio	(Iswara et al., 2022); (Agung, 2021); (Aprilyani et al., 2021)
Audit quality	Take the value of “1” if firm audited by Big 4 and “0” otherwise	(Sihono & Munandar, 2023); (Jeong, 2020); (Siregar et al., 2023)
Capital Structure	Debt to equity	(Listyawati & Kristiana, 2020); (Aprilyani et al., 2021)
Profitability	Return on assets	(Iswara et al., 2022); (Astuti et al., 2022); (Listyawati & Kristiana, 2020); (Sihono & Khairiyahtussolihah, 2023)

The following model are used for analyzing the relationship of independent variable and dependent variable, with multiple regression analysis presented below:
$PBV = \beta_0 + \beta_1 DPR + \beta_2 AQ + \beta_3 DER + \beta_4 ROA + \varepsilon$

Where:
PBV: *Price to Book Value*; β_0: Constant; β_1- β_1: Coefficient of Regression; DPR: Dividend Policy; AQ: Audit Quality; DER: Capital structure; ROA: Return on asset; ε: Error.

RESULT AND DISCUSSION

Descriptive statistics

Table 2 showing the result of descriptive analysis of the 52 sample research variables. The company’s Price to Book Value (PBV), which is a measure of firm value which is the dependent variable, indicate an average value of 1.47. It can be concluded that the share prices of banking companies are overvalued. Dividend policy as a proxy for Dividend Payout Ratio (DPR) show an average of 0.41, which mean that Banking companies have a dividend policy distributed to shareholder is 41% of earning per share. Mean value of audit quality show of 0.61, which mean the big-four dominated audited for banking companies until 61%, compare with non-big four only 49%. The capital structure as a DER shows an average of 5.40, which

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means that the company's debt is 5.4 times from total equity, it means the financing of banking company’s majority from third parties. Profitability as measured by return on assets shows an average of 0.01, it means average Banking Companies obtain a net profit of 1% of total asset.

Table 2. Descriptive statistics

Variable	Minimum	Maximum	Mean
Firm Value	.11	4.77	1.47
Dividend Policy	.03	1.68	.41
Audit Quality	.00	1.00	.61
Capital Structure	1.67	10.72	5.40
Profitability	.00	.03	.01

(Source: Processed data, 2023)

Discussion

The Effect of Dividend Policy on Firm Value

The research show that dividend policy has a positive influence on firm value. This results showing that dividend policy able to increase firm value. This condition presented that distribution dividend is expected to be signal for investors. Furthermore, most investors pay more attention to dividend growth, thus companies must make maximum efforts to increase dividend payments every year. A high dividend payment ratio can increase company value, because investors prefer to get stock returns in the form of dividends rather than capital gains. Signal theory reveals that information conveyed by management will be captured by investors whether the information is good news or vice versa. In line with signal theory, information regarding dividend payments shows the company's success in creating profits so that it becomes positive information for market players, thereby increasing the company's value. This study shows that the greater the dividend, increase the value of the firm. The result of this study are in line with those (Agung, 2021; Arsal, 2021; Hermawan, 2020; Iswara et al., 2022).

Table 3. Results of Data Analysis

	Coef.	t-Value	Sig.
Dividend Policy	.217	2.021	.049*
Audit Quality	.343	3.130	.003*
Capital Structure	.266	2.384	.021*
Profitability	.593	5.940	.000*
N	52		
Adjusted R2	.496		
F-Test	13.532		
P-value	.000		

* 5% level significance

The Effect of Audit Quality on Firm Value

Table 3 of result data of data analysis show that audit quality has a significant positive effect on firm value. This result indicated that qualified auditor would give a positive reaction in stock price, which increase firm value. This caused audit quality makes an important contribution in increasing the credibility of financial reports and financial information, mitigating funding costs, and reducing the opportunistic behavior of a manager (Jihene & Moez, 2019); (Abba & Sadah, 2020; Molik, 2015). Besides that, quality audits have an impact on reducing information asymmetry also increase transparency. Moreover, investors have the view that quality external auditors can provide guarantees for the quality of the company's financial statements, including the fairness of information disclosure, thus they have a role in the continuity of good bookkeeping practices. As a result, investors have no qualms about paying for assets higher than their book value. Therefore, this study supported view of resources dependence theory and signaling theory. This study in line with (Siregar et al., 2023);(Kamal et al., 2022); (Darmawan, 2020); (Nuryono et al., 2019); (Wijaya, 2020) , which found a positive impact audit quality on firm value.

The Effect of Capital Structure on Firm Value

The results of data analysis show that capital structure proxied by debt to equity has a significant positive effect on firm value. In summary, capital structure theory can be concluded that company value will be maximized when the company is able to maintain a balance between funding through debt and equity. For companies, debt is the main source of funding where it has a direct and indirect influence on company value. Trade off theory reveals that debt levels are in line with company value because agency costs can be reduced using debt by controlling free cash flow. Debt payment commitments which must be prioritized because of external funding can reduce agency problems with free cash flow. In addition, to avoid excessive investment due to free cash flow, companies can provide attractive compensation to managers so that they are motivated to efficiently use free cash flow. Furthermore, the increase in the amount of debt for the banking industry is a form of public trust in companies, so that banks have excess resources to run their business, namely distributing credit to debtors. Thus, increasing credits is positively correlated with profits which can increase firm value. This opinion supports the trade-off theory, where the balance use of debt can increase company value. The results of this research are in line with (Aprilyani et al., 2021; Margono & Gantino, 2021; Natsir & Yusbardini, 2020).

The Effect of Profitability on Firm Value

Table 3 show that profitability measured with return on asset has a significant positif effect on firm value. Return on Assets explains the ability of the company's generate profits using the assets. Furthermore, a high return on assets reflects the level of efficiency in managing assets to generate profits. Thus, a unidirectional relationship is demonstrated between profitability and firm value, meaning that the company was founded to provide welfare to shareholders. As a result, the company's success in gaining profits becomes a motivation for investors to place their fund in the company. Regarding signaling theory provides an explanation of the reasons why companies convey financial statements information to the public, it means the capital market, including how companies provide signals that will be received by users of financial reports. Therefore, information about company performance which is reflected in profitability has a direct influence on firm value. This can be interpreted as high profitability, the more it is in line with the firm value, thus is in line with the view of signal theory, where profitability is good news for investors, which triggers their interest in the company, so that it can directly increase the company's value. This study shows that profitability is directly proportional to company value. The finding of this research are supported by (Aprilyani et al., 2021; Iswara et al., 2022; Listyawati & Kristiana, 2020).

CONCLUSION

This research analyzes the relationship of dividend policy, audit quality, profitability and capital structure, on value of the firm. The result showing dividend policy and profitability has significant impact on firm value in positive relationship, thus supporting the view of signaling theory. Furthermore, the study effect of audit quality on and firm value, show the positive relationship. These results support the view of resource dependence and signaling theory. This paper also success to provided evidence the relationship of capital structure and firm values, that in line with view of trade-off theory.

The implications from the results of this study for investor must have the ability to analyze financial ratios, especially paying attention to the company's dividend policy before placing their fund in the company, since this in line with increasing the company's value. Furthermore, the result of the research show that the audit quality has a positive effect on firm value, this motivates all auditor to provide quality services, both big-four and non-big four, because both use the same audit standards. Third, this study provides we suggest to managers that increasing firm value can be done by increasing profits through a balanced capital structure, accompanied by increasing transparency.

This research is not free from limitations that need to be corrected. First, during the research period several banking companies experienced losses and did not distribute dividends, resulting in a limited number of samples, thus other industries can be used for further research where the majority are in a profitable condition and distributed dividends during the research period. Furthermore, l this study for each variable only uses one of measurement, therefore future studies are expected to use more than one variable to test consistency results.

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