FACING GLOBAL DIGITAL REVOLUTION

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The Effect of Intellectual Capital and Dividend Policies on a Company's Value with Free Cash Flow As a Moderation Variable: Evidence from Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX)

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ABSTRACT: This study aimed to analyze the effect of intellectual capital (IC) and dividend policies on company values using free cash flow (FCF) as a moderating variable. The companies studied included 132 manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2014–2016. The data used were secondary data. Researchers determined these samples using a purposive sampling technique. The data analysis comprised multiple linear regression using the EVIEWS program. The results of the study showed that IC and dividend policies do not significantly impact corporate value, while FCF has a positive and significant effect on firm value. Free cash flow as the moderating variable significantly influences IC, and dividend policies have a negative impact on firm value.
KEYWORDS: Intellectual capital, dividend policies, free cash flow, company value

1 INTRODUCTION

The development of business encourages many sectors to expand and compete globally. The value of companies that go public serves as a benchmark for investors. If the stock price is getting higher, then the value of a company will also increase, because the high stock value indicates high shareholder prosperity as well. The value of a company can be measured in several aspects: Tobin's Q Price Book Value (PBV), the price earning ratio (PER), the dividend yield ratio, the dividend payout ratio (DPR), and the market-to-book value of equity (MBVE). This study used Tobin's Q because the measurement describes how investors appreciate the company.

Many factors lead to a decrease in company value; according to Stewart (1997),a decrease in company value can occur because companies tend to focus more on hard or real assets than on intangible assets. Intangible assets that can increase the value of a company are known as *intellectual capital* (IC) (Guthrie and Petty, 2000). In Indonesia, IC developed after the advent of PSAK Number 19 about intangible fixed assets, which are identifiable nonmonetary assets that have no physical form and that are used to generate or deliver goods or services, leased to other parties, or serve administrative purposes. Therefore, companies need resources with good IC. Research conducted by Halim et. all (2016) suggests that IC positively affects company value. The higher the IC of a company, the higher that company's value.

One corporate financial function consists of dividend policies, which are policies whereby a company can establish the proportion of the profit received, then pay investors in accordance with the shares they own. Although the amount of dividends paid can provide assurance ofa company's value to investors, the company also needs to consider the funds needed for corporate development. The company's growth and dividend distribution are both necessary, but they are two different things involving different interests. The company can take a step to get funding through stock sheet offers by listing its shares on the Indonesia Stock Exchange

(IDX). The dividend policies allocated to shareholders make the company's value continue to increase. Ayem and Nugroho (2016) indicate that dividend policies positively affect company value.

This research examined the influence of IC and dividend policies on company value with free cash flow (FCF) as a moderating variable. The moderation variables in this study serve to strengthen investor confidence in the performance of IC disclosures and dividend policies that will affect corporate value.

2 LITERATURE REVIEW

Agency Theory

Agency theory exposes the behavior of corporate parties, such as managers and investors, where they have different interests. Agency theory contends that a company manager does not always act for the benefit of shareholders. If the financial statements reported to the shareholders are transparent, they can reduce agency problems. Agency problems occur when a company gives decision-making responsibility to an agent or to management. An investor can be a principal and a management agent or a manager of the company. Principals in this case are related to shareholders and bondholders, who are found in almost all companies.

3 RESEARCH METHOD

Population and Research Sample

The population in this research comprised manufacturing companies listed on the Indonesia Stock Exchange (IDX). The researchers employed purposive sampling based on a specific assessment (Indriantoro and Supomo, 2009). The criteria used were as follows:

1. Manufacturing companies listed on the Indonesia Stock Exchange in the period 2014–2016 as presented on sahamok.com. Sahamok.com is a reference used by brokers and other researchers that lists active stocks(Riyadi, 2018).
2. Manufacturing companies that published their financial statements consistently in the period 2014–2016.
3. Manufacturing companies that used the rupiah currency in the period 2014–2016.
4. Companies with complete component data, especially data related to the calculation of IC, FCF, dividend policies, and company value in the period 2014–2016.

4 RESEARCH RESULTS AND DISCUSSION

The results of this research were analyzed using the EVIEWS application program with the least square estimation method and the moderation effect model, with almost similar interaction. The verification results in this research are described as follows:

The Conceptual Model of This Research

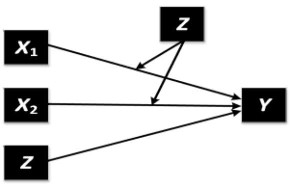

Figure 1 Research model (Source: Processed data, 2019)

Figure 1 shows groups with an exogenous or independent construct – namely IC (X_1) and dividend policies (X_2) – and a group with an endogenous construct, known as the dependent construction of the company value with a moderating variable FCF (Z).

5 DISCUSSION

Based on hypothesis testing, the researchers obtained the following results:

Table 1 Hypothesis test results

Relation	Regression Coefficient	P-value	Summary
IC → NP	−0.009405	0.0976	Not significant forα = 5%, Significant forα = 10%
KD → NP	0.001094	0.4607	Not significant for α = 5%
FCF → NP	17.22909	0.0000	Significant for α = 1%
IC*FCF → NP	−0.130526	0.0096	Significant for α = 1%
KD*FCF → NP	−0.027542	0.0000	Significant for α = 1%

Source: Processed secondary data, 2019

The Influence of Intellectual Capital on Company Value

Based on the research results,we can conclude that IC has no significant influence on company value. Thus the hypothesis that IC positively affects company value is rejected. These results show that a low level of IC owned by a company may not necessarily affect company value. Because of the IC measurement, no standardization can be used as a guideline; it is difficult to quantify the IC. In Indonesia, reporting IC is also voluntary (Yuskar and Novita, 2014).

This research also does not align with agency theory because the results show that the principal will not give a high price to a company based on the low level of IC. Increasing the company value is still dominated by the use of physical assets in corporate operations (Andhieka and Retnani, 2017).

The Influence of Dividend Policies on Company Value

Based on the research results, we can conclude that dividend policies have no significant influence on company value. Thus the hypothesis that dividend policies positively affect company value is rejected. The results of this research also did not align with signal theory because the results showed that investors' response to the company is not good enough; investors will not invest in company shares based solely on the magnitude of the policies. Because dividend size is not always followed by fluctuations in corporate value, the results are synchronous under Modigliani and Miller's dividend policy theory, which proves that if dividend policies are not influenced, company value is assigned only to a company's capability to gain profit from its assets.

The Influence of Free Cash Flow on Company Value

Based on the research results, we can conclude that FCF has significant influence on company value. Thus the hypothesis that FCF positively affects corporate value is accepted. The results prove that if the FCF received by a company increases, then the value of the company also increases. Management will receive high pressure from investors to increase company value due to the FCF that companies have. As such, this certainly shows whether the company can provide prosperity for investors. The results of this research are in line with signal theory.

Free Cash Flow Mediates the Relationship of Intellectual Capital to Company Value

The research results showed that FCF significantly moderates the relationship between IC and company value in a negative direction. The greater the FCF, the lower the influence of IC on corporate value.

Free Cash Flow Mediates the Relationship of Dividend Policies to Company Value

The research results showed that FCF significantly moderates the relationship between dividend policies and corporate value in a negative direction. The larger the FCF, the lower the influence of dividend policies on company value.

6 CONCLUSIONS AND SUGGESTIONS

Conclusions

Intellectual capital has no significant influence on company value. Dividend policies have no significant influence on corporate value. Free cash flow has significant influence on company value. Free cash flow significantly moderates the relation between IC and company value in a positive way.

Suggestions

Future researchers can elaborate on this study by examining other free variables that have not been described in this research that can affect the dependent variables. Upcoming researchers are also advised to focus on sectors other than manufacturing in sampling, such as property and real estate, mining, etc.

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