

Analysis of the influence of profitability on company value with dividend policy as an intervening variable

Subjects
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ABSTRACT

Purpose: This study aims to determine the effect of profitability on firm value with dividend policy as an intervening variable in manufacturing companies on the Indonesia Stock Exchange for the 2015-2019 period.

Methods: This study took a population of manufacturing companies listed on the IDX during 2015-2019. Using the purposive sampling method, this study resulted in a sample of 21 companies with a total of 105 data analyzed. The analysis method used is descriptive statistics and path analysis techniques with the help of AMOS software.

Findings: The results showed that profitability has a significant positive effect on firm value, profitability has a significant positive effect on dividend policy, dividend policy has no impact on firm value, and dividend policy is unable to mediate the relationship between profitability and firm value.

Practical Implications: This study shows that profitability plays an important role in influencing firm value and dividend policy. However, dividend policy does not have a significant effect on firm value and does not serve as a mediator between profitability and firm value. Thus, companies are advised to prioritize increasing profitability as the main strategy and evaluate dividend policy so as not to hinder the growth of firm value, even though the dividend policy does not directly affect the value generated.

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Abstrak

Tujuan: Penelitian ini bertujuan untuk mengetahui Pengaruh profitabilitas terhadap nilai perusahaan dengan kebijakan dividen sebagai variabel intervening pada perusahaan manufaktur di Bursa Efek Indonesia Periode 2015-2019.

Metode: Penelitian ini mengambil populasi dari perusahaan manufaktur yang terdaftar di BEI selama tahun 2015-2019. Menggunakan metode purposive sampling, penelitian ini menghasilkan sampel 21 perusahaan dengan total 105 data yang dianalisis. Metode analisis yang digunakan adalah statistik deskriptif dan teknik analisis jalur (path analysis) dengan bantuan software AMOS.

Hasil: Hasil penelitian menunjukkan bahwa profitabilitas berpengaruh signifikan positif terhadap nilai perusahaan, profitabilitas berpengaruh signifikan positif terhadap kebijakan dividen, kebijakan dividen tidak berpengaruh terhadap nilai perusahaan dan kebijakan dividen tidak mampu memediasi hubungan profitabilitas dengan nilai perusahaan.

Implikasi Praktis: Penelitian ini menunjukkan bahwa profitabilitas berperan penting dalam memengaruhi nilai perusahaan dan kebijakan dividen. Meskipun demikian, kebijakan dividen tidak memberikan pengaruh yang signifikan terhadap nilai perusahaan dan tidak berfungsi sebagai mediator antara profitabilitas dan nilai perusahaan. Dengan demikian, perusahaan disarankan untuk memprioritaskan peningkatan profitabilitas sebagai strategi utama serta mengevaluasi kebijakan dividen agar tidak menghalangi pertumbuhan nilai perusahaan, meskipun kebijakan dividen tersebut tidak secara langsung mempengaruhi nilai yang dihasilkan.

Kata Kunci : Nilai perusahaan, profitabilitas, kebijakan dividen

1. Introduction

The increasingly tight economic conditions of the business world require companies to have the ability to survive. In the face of intense competition, companies must implement various strategic policies aimed at creating efficiency and effectiveness so as to maintain their existence. Not only profit-oriented, companies also need to focus on increasing value in order to provide welfare for shareholders, as stated by (Afifatul Azhar & Wijayanto, 2018). Before investing, it is important to assess the issuer to ensure that the information obtained is accurate and reliable to prevent information manipulation (Ayuningtias, 2013).

An increase in firm value is a reflection of shareholder prosperity, where return on investment per share reflects that prosperity. The value of a company can be measured by its stock market price; shares that have a high value reflect the company's good performance (Puspitaningtyas, 2017). In this context, profitability is an important factor affecting firm value because the higher the profitability, the higher the firm value (Puspitaningtyas, 2017). The dividend policy is also of particular interest to investors, as this policy reflects the company's ability to pay dividends to shareholders.

Based on previous research, the relationship between profitability and firm value is often considered, but the results are inconsistent. (Afifatul Azhar & Wijayanto, 2018) and (Ayuningtias, 2013) emphasize the important role of dividend policy in this relationship. Recent research also shows that many companies do not distribute all profits as dividends, and this decision must be made taking into account the need for reinvestment for sustainable growth. In this regard, a clear understanding of the relationship between profitability, dividend policy, and firm value is still very much needed.

Although many studies have been conducted, there is still a gap in information regarding the complex relationship between profitability, dividend policy, and firm value. Some previous studies do not go into depth about how dividend policy can serve as an intervening variable and the specific role it takes in different industry contexts. The current research seeks to fill this void by further analyzing the effect of dividend policy on profitability and firm value and explaining the advantages and disadvantages of existing approaches.

By filling this information gap, this research aims to provide a stronger understanding of how dividend policy can mediate the relationship between profitability and firm value. The benefits of this study include providing practical insights for company management in formulating an optimal dividend policy as well as strategies to increase profitability. The practical contribution of this research will also assist investors in making better investment decisions based on a deeper understanding of the link between profitability, dividend policy, and firm value.

2. Theoretical Background & hypotheses

Theoretical Backgrounds

Profitability

According to (Kasmir, 2012) profitability is a ratio used to assess the company's ability to generate profits. This ratio reflects how effective the company is in its operations, which in turn is able to provide profit. Profitability shows the company's ability to earn profits related to sales, total assets, and own capital (Sartono, 2010) One of the objectives of financial managers is to maximize profit by minimizing risk. By creating optimal profits, the company can achieve high value and prosperity for owners and shareholders (Mustafa, 2017)

The value of the company

Market value is the value of shares circulating in the market (Puspitaningtyas, 2017; Wiyono Gendro & Kusuma Hadri, 2017) explain that company value reflects the quality of management in managing its wealth, which can be measured through financial performance. Furthermore, (Sartono, 2010) states that firm value is the selling value of the company as an operating entity. Corporate theory emphasizes that the main goal is to maximize wealth or firm value (Salvatore, 2011). Efforts to maximize firm value are very important because they contribute to shareholder prosperity, which is the main goal that management wants to achieve (Brigham, 2010).

Dividend policy

Dividends are one of the most expected forms of reward by investors and are an indication that the company has a high level of profitability (Nofrita, 2013). (Wiyono Gendro & Kusuma Hadri, 2017) explain that dividend policy is the result of management activities that aim to seek profits through the effectiveness and efficiency of financing. In the view of (Horne & Wachowicz, 2013) dividend policy is an integral aspect of corporate funding decisions. This decision relates to whether the current year's profit will be distributed to shareholders as dividends or retained to increase capital for future investment purposes (Harjito & Martono., 2014)

Hypotheses

Relationship of profitability to firm value

The profitability generated by the company reflects the company's ability to generate profits. When a company announces an increase in profitability, the stock price tends to react positively to the information (Wiyono Gendro & Kusuma Hadri, 2017). One commonly used measure of profitability is Return on Equity (ROE), which serves as a variable to assess financial

performance. ROE measures the company's effectiveness in generating profits by utilizing its total equity. An increase in ROE not only increases the share price in the capital market but also improves the value of the company, giving a positive signal to investors to invest in order to get a return. Thus, the return value received by investors is a representation of the value of the company itself, which is in line with the findings in the research of (Nofrita, 2013) and (Afifatul Azhar & Wijayanto, 2018). Based on the description above, one hypothesis is taken, namely:

H1: Profitability has an effect on firm value

Relationship of profitability to dividend policy

The relationship between profitability and dividend policy is explained through signaling theory, where increased profitability provides information to investors that the company may pay higher dividends (Natalia, 2013) The company's ability to pay dividends depends on the profits earned; companies with large profits tend to distribute higher dividends (Mahendra, 2011). Managers are not only entitled to receive dividends but also have greater power in determining company policy. Corporate earnings growth contributes to dividend policy, allowing for increased dividend payments when earnings increase (Barclay & Clifford, 1989). This finding is consistent with research by (Afifatul Azhar & Wijayanto, 2018) and (Hairudin et al., 2020) Based on the description above, one hypothesis is taken, namely: Based on the description above, one hypothesis is taken, namely:

H2: Profitability has an effect on Dividend Policy

The Relationship of Dividend Policy to Firm Value

The effect of dividend policy on firm value is supported by the bird in the hand theory, which states that firm value will be maximized by a high dividend payout ratio, where dividends will affect firm value. Most investors are risk averse because they assume that the risk of dividends is not as great as capital gains (future profits) (Alzomaia & Al-Khadhiri, 2013), so they prefer profits in the form of dividends. However, this study contradicts the theory of dividend irrelevance, where dividend policy does not affect firm value or cost of capital. This is in line with research conducted by (Nofrita, 2013)(Afifatul Azhar & Wijayanto, 2018) and (Hairudin et al., 2020) Based on the description above, one hypothesis is taken, namely:

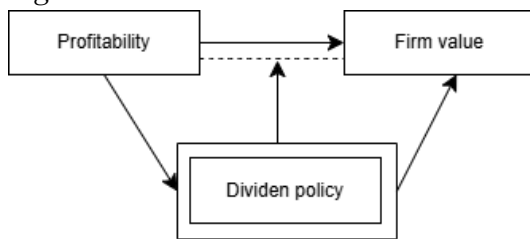
H3: Dividend Policy Affects Firm Value

Profitability Relationship to Firm Value Intervened by Dividend Policy

Several previous studies regarding the effect of profitability on firm value have inconsistent results, which indicates that other factors also influence the relationship between profitability and firm value, such as investors being entitled to enjoy cash received by the company through dividends. In this case, dividend policy is expected to be an intermediary variable that mediates the relationship between profitability and firm value. The magnitude of the profit rate will increase the value of the company, which can also affect the level of dividend payments distributed to shareholders. This is in line with research conducted by (Atmikasari et al., 2020). Based on the description above, one hypothesis is taken, namely:

H4: Profitability has an effect on Firm Value mediated by Dividend Policy

Figure 1. Framework



3. Methods

Sample and procedurs

This study uses a causative approach to analyze the relationship between profitability, firm value, and dividend policy. It examined 196 manufacturing companies listed on the IDX from 2015 to 2019. Samples were selected using a purposive sampling technique based on certain criteria, such as publishing complete financial statements for five years, positive ROE, and consistency in dividend distribution.

Variable measurement

Independent Variable

The independent variable in this study is Profitability, which results from various policies and decisions made by the company (Atmikasari et al., 2020). The profitability ratio indicates the combined effect of asset management, liquidity, and debt on operating results. Return on Equity (ROE) measures the income available to the company's owners from the capital they invest.

$$\text{ROE} = \frac{\text{Laba Bersih setelah Pajak}}{\text{Ekuitas}} \times 100\%$$

Dependent Variable

The dependent variable in this study is the firm's value, reflecting the selling value of the company as an operating business (Atmikasari et al., 2020). The firm's value is measured using PBV (Price Book Value), which compares the stock price per share to the book value per share.

$$\text{PBV} = \frac{\text{Harga per lembar saham}}{\text{Nilai buku per lembar saham}} \times 100\%$$

Intervening Variables

The intervening variable in this study is the dividend policy, which determines the distribution of profits between payments to shareholders and the company's reinvestment. Retained earnings are a key source of funding for company growth, while dividends represent cash flows allocated to shareholders. The dividend policy is measured using the dividend payout ratio (DPR), which compares dividends per share to earnings per share.

$$\text{DPR} = \frac{\text{Dividen}}{\text{Laba Bersih}} \times 100\%$$

Data Analysis Method

In this study, data processing uses the AMOS (Analysis of Moment Statistics) application which is presented in tabular form. The data analysis method used in this research is descriptive analysis method. Data analysis in this study uses path analysis in order to analyze how much a causal variable affects the effect variable (Nofrita, 2013)

4. Results and Discussion

Descriptive analysis

In the results that Table 1 shows. The profitability variable (ROE) in this study shows a minimum value of 1.85, which is represented by the company with the lowest level of profitability, namely Chitose International Tbk. In contrast, the maximum value of 139.97 comes from Unilever Indonesia Tbk, indicating that this company has the highest profitability. The average profitability over the five years is recorded at 19.26 with a variance of 688.33, which indicates a significant data diversity and a fairly large data range, namely 138.11.

Tabel 1. Descriptive analysis

	Profitability	Firm value	Deviden policy
Average	19.26	3.03	54.53
median	12.20	1.83	46.98
Standard Deviation	26.24	3.30	31.98
Variance	688.33	10.88	1022.55
Kurtosis	13.95	5.78	1.51
Skewness	3.76	2.35	1.27
Range	138.11	16.22	169.21
Minimum	1.85	0.27	7.47
Maximum	139.97	16.49	176.68
Lots of Data	105	105	105

For the firm value variable (PBV), the minimum value is recorded at 0.27, pointing to Indal Aluminum Industry Tbk. as the company with the lowest value, while the maximum value of 16.49 is obtained by Unilever Indonesia Tbk, which indicates the highest company value. The average company value for five years is 3.03 with a relatively small variance, which is 16.22, indicating that the data diversity is not too large in terms of company value, so the range is only 16.49. As for the dividend policy variable (DPR), the minimum value is 7.47 from Impack Pratama Industri Tbk, while the maximum value reaches 176.68 in Indocement Tunggul Prakasa Tbk, which indicates the highest dividend policy. The average DPR during the period is 54.53, and the variance reaches 1022.55, indicating that the dividend policy data has a very diverse diversity and that the range is also large namely 169.21.

Hypotheses testing

Based on the table 2 above, the dividend policy path with firm value accepts H0 because the P-value is $0.441 > 0.05$, so there is no significant influence between dividend policy and firm value. Meanwhile, the path of profitability with dividend policy and profitability with firm value rejects H0 because the P-value is $0.00 < 0.05$, so there is a significant influence between profitability on dividend policy and profitability on firm value. The critical ratio (CR) value in the AMOS output above is positive and is in the H0 rejection area, so profitability has a positive influence on dividend policy and firm value.

Tabel 2. Estimation of AMOS Output Output Parameters

	Estimate	S.E.	C.R.	P	Label
Dividen policy <--- Profitability	0,485	0,093	5,234	0,00	par_2
Firm value <--- Profitability	0,534	0,099	5,385	0,00	par_1
Firm value <--- Dividen policy	0,076	0,099	0,771	0,441	par_3

$$z = \frac{ab}{\sqrt{h^2\sigma_F^2 + a^2\sigma_F^2}} = \frac{0,485 \times 0,076}{\sqrt{0,485^2 \times 0,093^2 + 0,076^2 \times 0,099^2}} = 0,806$$

The results shown in Table 2 indicate an important analysis to understand the relationship between profitability and firm value. According to Ghozali (2018), mediation or indirect influence can be identified if the Zsobel value is greater than the Ztabel, where the Ztabel for a significant level of 5% is 1.96. In the calculations carried out, the Zsobel value is 0.806, which is smaller than the Ztabel 1.96. Thus, H0 is accepted, so it can be concluded that dividend policy is unable to mediate the relationship between profitability and firm value.

R-Squared Value Test Results

The R-Square value is used to see how much influence the independent variable has on the dependent variable.

Tabel 3. R-Squared Output AMOS

	Estimate
Dividen policy	0,235
The value of the company	0,331

Based on the Table 3 above, it can be seen that profitability can affect 23.5% of dividend policy, and profitability through dividend policy can affect 33.1% of firm value.

Discussion

The conclusion of this study shows that profitability has a significant positive effect on firm value. This indicates that any increase in the level of profitability will potentially increase the value of the company, where a high level of profitability reflects the company's good prospects. As a result, investors will respond to this positive signal and participate in increasing firm value. In addition, profitability also acts as a significant factor in determining dividend policy, indicating that the level of profitability strongly influences the company's decision to pay dividends. In other words, the dividends paid by the company to shareholders depend on the profitability obtained. However, this study found that dividend policy has no significant impact on firm value. This means that the company's ability to pay dividends does not contribute directly to the increase in firm value. Shareholders tend to focus more on short-term gains through capital gains than on the current small dividend income. In addition, the results of the analysis show that dividend policy is also unable to mediate the relationship between profitability and firm value. This underscores the fact that even though the firm has a high level of profitability, the ability to distribute dividends to shareholders is not enough to increase firm value. This may be because the benefits resulting from the increase in share price caused by dividend payments will be offset by the decrease in share price due to the issuance of new shares.

5. Conclusion

The results of this study indicate that profitability has a significant positive effect on firm value, where any increase in profitability contributes to an increase in firm value, reflecting good prospects that are welcomed positively by investors. In addition, profitability also has a significant effect on dividend policy, with high profits allowing companies to distribute larger dividends to shareholders. However, dividend policy does not have a substantial impact on firm value, as shareholders tend to be more interested in potential capital gains than short-term gains from dividends. More importantly, dividend policy is unable to mediate the effect of profitability on firm value, with the research suggesting that despite high profitability, a good dividend policy

does not guarantee an increase in firm value, mainly because the potential profit from dividend payments can be offset by a decrease in share price due to new share sales. Nonetheless, this study has some limitations, such as the restriction on the use of only two variables, namely profitability and dividend policy, which limits conclusions about other factors that may affect firm value, as well as the period of analysis that only covers the years 2015 to 2019 which is not enough to summarize the effects of variables in the long run. Data limitations are also an obstacle because the 2020 financial statements have not been published on the Indonesia Stock Exchange, making data processing hampered. This study also only uses published data without direct observation, so contextual understanding of the overall condition of the company is limited. For future research, it is recommended to expand the variables considered in order to produce a more comprehensive analysis, use more recent data over a longer period to capture clearer dynamics and apply a more in-depth approach, such as direct surveys or interviews, to get a holistic picture of the condition of the company and the factors that affect company value.

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