

Effect Of Profitability On Firm Value With Dividend Policy As A Mediation Variables In Manufacturing Companies

Gusti Agung Mas Santika Dewi¹, Nyoman Abundanti²

Faculty of Economics and Business, Udayana University (Unud), Bali, Indonesia

ABSTRACT : *The purpose of this study is to determine the effect of profitability on firm value with dividend policy as a mediating variable in manufacturing companies. This research was conducted in all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2016-2018 period. The number of samples in this study were 37 companies using the purposive sampling method. Data collection was carried out using non-participant observation methods, namely through financial report data published on the official IDX website, namely www.idx.co.id. The data analysis technique used in this study is the path analysis. The results of the analysis show that profitability has a significant positive effect on firm value. Profitability has a significant positive effect on dividend policy. Dividend policy has a significant positive effect on firm value. The dividend policy significantly mediates the effect of profitability on firm value in manufacturing companies.*

Keywords -Profitability, Dividend Policy and Firm Value

I. INTRODUCTION

The main objective of financial management is the welfare of its shareholders. Management is expected to be able to bring the firm to a good performance so that it can increase firm value and lead to the welfare of shareholders (Astuti & Yadnya, 2019). The existence of a firm value is very important because it reflects the firm's performance which can affect investors' perceptions of the firm. The firm's value can be the basis for making decisions, both short and long term. Firm value is not only attractive to stakeholders, it also determines the sustainability of the firm in the future. A firm that is able to develop corporate value in a sustainable manner will be a competitive firm than other companies. Firm management is required to manage activities and capabilities to be able to create firm value (Lestari & Armayah, 2016). Firm value creation should be prioritized to help companies increase their competitive advantage. Companies that have good corporate values will attract more investors and other parties to take part in the firm.

The value of the firm will be reflected in the stock price, where the higher the share price, the firm value and the prosperity of the shareholders will also increase. One sector that has the highest average share price growth than other sectors listed on the Indonesia Stock Exchange (IDX) is a manufacturing sector firm. Manufacturing companies are a group of industrial companies that are growing rapidly in business activities with a very large transaction value which is realized through the level of their share prices (Fitriani, et al. 2017).

There was fluctuation in stock prices throughout 2016-2018, in 2016 the average share price was 5,873.537 rupiah. Furthermore, in 2017 and 2018 there was an increase in the average share price of 6,538.111 rupiah in 2017 and 6,940.059 rupiah in 2018. There are many factors that affect firm value, one of them is profitability. Profitability shows the firm's ability to earn profits or a measure of the effectiveness of firm management. Companies that generate profits will influence the interest of potential investors in investing. Profitability is the net result of a series of management policies and decisions, therefore this ratio describes the final outcome of the firm's operational policies and decisions. Profitability is very important for a firm in order to maintain its business continuity in the long term, this is because profitability shows whether the firm has good prospects in the future or not. Companies with high profits are expected to attract investors to invest (Lestari & Armayah, 2016). Profitability is a factor that can affect firm value. The higher the firm's profitability will encourage investors to increase demand for shares, so that the stock market price will increase. An increase in the stock market price will increase the value of the firm (Ilhamsyah, 2017). Pranata & Pujiati (2015) and Mahdaleta et al. (2016) said that profitability has a positive and significant effect on firm value. Different results were found by Yastini & Mertha (2015) and Faraz et al (2017) which stated that profitability has a negative and significant effect on firm value.

Another factor that influences firm value is dividend policy. Dividend policy is a very important decision in the firm. Dividend policy is basically determining the portion of profits that will be distributed to shareholders. Dividend payout decision policy is important, because it relates to whether cash flows will be paid

to investors or will be retained for reinvestment by the firm. The amount of dividends to be distributed depends on the dividend policy of each firm. The proportion of net income after tax that is distributed as dividends is usually expressed in the dividend payout ratio (DPR). Dividend payout ratio is a financial ratio that is used to see how much the percentage of the firm's net income will be distributed as dividends to shareholders, if the dividends paid are large it will increase the stock price which also results in an increase in firm value. (Lumapow, 2019). The amount of dividends distributed by the firm can affect the stock price because investors prefer returns from dividends to capital gains or in other words investors prefer profits in the form of dividends than expected profits from the increase in capital value (Sudiani & Wiksuana, 2018).

Companies that can pay high dividends will also get a high value of confidence from investors, because investors prefer certainty about their investment returns and anticipate the risk of uncertainty about firm bankruptcy. High dividends will attract investors, thereby increasing the demand for stocks. The high demand for shares will make investors appreciate the value of shares greater than the value recorded on the firm's balance sheet (Purnama, 2016). Research conducted by Pranata & Pujiati (2015) and Fajriati, *et al.* (2018) showed that dividend policy has a significant effect on firm value. Sa'eed & Mo'taz (2018) also found the same thing, namely that dividend policy has an effect on firm value. According to Mrabet & Boujjat (2016), dividend policy is an important factor affecting firm performance. The relationship between dividend policy and firm performance is also strong and positive, this shows that dividend policy is relevant.

This study uses dividend policy as a mediating variable because the firm's ability to pay cash dividends is closely related to the firm's ability to earn profits in a given period. If the firm's ability to earn high profits, it is predicted that the firm's ability to pay dividends will also be high, thus encouraging an increase in firm value (Astuti & Yadnya, 2019). The amount of cash dividends distributed to shareholders can affect the firm's value, which is represented by the share price in a given period. Dividends can be used as a full signal and can inform investors about the firm's earnings and prospects. Any change in the dividend rate (increase or decrease) can be associated with changes in profitability and can affect firm value (Lotfi, 2018). Research conducted by Astuti & Yadnya (2019) found that dividend policy is able to mediate the effect of profitability on firm value. In contrast to research conducted by Fitriani (2017) who found that dividend policy was not able to mediate the effect of profitability on firm value.

II. HYPOTHESIS DEVELOPMENT

Profitability is the main factor for companies to attract investors. Profitability is the firm's ability to generate profit or revenue for one year which is expressed in the ratio of operating profit and sales from year-end income statement data. High profits reflect the firm's excellent prospects, which attract investors to increase demand for the firm. A higher demand for firm shares can increase firm value (Mangesti *et al.*, 2019). Pranata & Pujiati (2015), Mahdaleta & Gusnardi (2016) and Sari & Sedana (2020) found that profitability has a positive effect on firm value. Based on the description above, the hypothesis can be drawn:

H1: Profitability has a significant positive effect on firm value.

Dividends are part of the firm's net profit, meaning dividends will be distributed to shareholders if the firm earns a profit. It can be said that firm profits will greatly affect the level of dividend payments. Increasing profitability will increase the firm's ability to pay dividends to its shareholders. Research conducted by Ginting (2018) and Perwira & Wiksuana (2018) show that profitability has a positive effect on dividend policy. Based on the description in this study, the hypothesis can be formulated as follows:

H2: Profitability has a significant positive effect on dividend policy.

Putra & Lestari (2016) stated that dividend policy has a positive and significant effect on firm value. If the dividend policy increases, the firm value will also increase. This proves that a firm that distributes dividends to shareholders will attract investors to invest in the firm. Pranata & Pujiati (2015), Tamrin *et al.* (2017) and Fajriati *et al.* (2018) also stated that the DPR (dividend-payout ratio) has a positive and significant effect on firm value. Based on the description in this study, the hypothesis can be formulated as follows:

H3: Dividend policy has a significant positive effect on firm value.

According to Ginting (2018), the higher the profit of a firm, the greater the dividends distributed to shareholders. The greater the profit distributed to shareholders, the greater the interest of investors in the firm, thereby increasing the value of the firm (Purnama, 2016). Research conducted by Sriwahyuni & Wihandaru (2016) found that dividend policy is able to mediate the effect of profitability on firm value. Based on the description above, the following hypothesis can be drawn:

H4: Dividend policy mediates the relationship between profitability and stock prices.

III. METHODS

This research was conducted on the Indonesia Stock Exchange (IDX) through the internet media by accessing the website www.idx.co.id. IDX was chosen as the research site because IDX was the first stock exchange in Indonesia, which was considered to have complete data and was well organized. The research

object is a variable or what is the point of attention of a study. The objects in this study are firm value (PBV), profitability (ROA), and dividend policy (DPR). This study uses independent variables, namely profitability, the dependent variable, namely firm value, and the mediating variable, namely dividend policy. This research was conducted in manufacturing companies listed on the IDX in the 2016-2018 period.

The population in this study were all companies in the manufacturing business that paid dividends consecutively in the 2016-2018 period listed on the IDX. The sampling method used in this study is saturated sampling (census), namely the technique of determining the sample with all members of the population as the sample so that there are 37 companies that meet the requirements to be sampled in this study. The data collection method used in this research is non-participant observation sampling method by obtaining the firm's annual financial report data that has been audited and has been issued by the firm. The type of data used in this study is secondary data that is quantitative in nature obtained from the official website owned by the IDX, namely www.idx.co.id in the form of annual financial reports that have been published in 2016-2018. The research instrument used in this research is in the form of financial reports published by manufacturing companies on the IDX and the analysis technique used is path analysis

IV. RESULTS AND DISCUSSION

The results of descriptive research data from the profitability variable, dividend policy on firm value in the manufacturing sector listed on the Indonesia Stock Exchange for the 2016-2018 period are presented in Table 1.

Table 1. Descriptive Statistical Test Results

Variable	N	Min.	Max.	Mean	Std. Deviation
Profitability	111	0,32	52,67	8,6160	6,91424
Dividend Policy	111	6,80	100	42,1780	23,29372
Firm Value	111	0,01	16,13	3,1083	2,77900

Source: Primary Data Processed, 2020

On Table 1, it can be seen that the profitability variable (X) has a minimum value of 0.32 percent, a maximum value of 52.67 percent, an average level of profitability of 8.6160 percent, with an average variation of profitability of 6.91424. The dividend policy variable (M) has a minimum value of 6.80 percent, a maximum value of 100 percent, an average dividend policy rate of 42.1780 percent, with an average variation of the dividend policy of 23.29372. The firm value variable (Y) has a minimum value of 0.01 percent, a maximum value of 16.13 percent, an average level of firm value of 3.1083 percent, with an average variation of firm value of 2.77900.

Table 2. Result of Structural Regression Path Analysis I

Variable	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig
(Constant)	26,135	2,966		8,813	0,000
Profitability	1,862	0,269	0,553	6,924	0,000
R Square	= 0,305		F Count	= 47,491	
Adj. R Square	= 0,299		Sig F	= 0,000	

Source: Primary Data Processed, 2020

Table 3. Results of Structural Regression Path Analysis II

Variable	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig
(Constant)	0,493	0,445		1,108	0,270
Profitability	0,191	0,037	0,476	5,175	0,000
Dividend Policy	0,023	0,011	0,192	2,086	0,039
R Square	= 0,365		F Count	= 31,002	
Adj. R Square	= 0,353		Sig F	= 0,000	

Source: Primary Data Processed, 2020

In Table 2 and Table 3, then the standard error can be calculated with the following calculations:

$$e_1 = \sqrt{1 - R^2} \dots\dots\dots(1)$$

$$e_1 = \sqrt{1 - R^2} = \sqrt{1 - 0,093} = 0,907$$

$$e_2 = \sqrt{1 - R^2} = \sqrt{1 - 0,133} = 0,867$$

then the regression equation for structure I and structure II can be made as follows:

Structure I

$$DPR = P_1ROA + e_1 \dots\dots\dots(2)$$

$$DPR = 0,553ROA + 0,907$$

Structure II

$$PBV = P_2ROA + P_3DPR + e_2 \dots\dots\dots(3)$$

$$PBV = 0,476ROA + 0,192DPR + 0,867$$

The value of the coefficient of direct influence (PL), indirect effect (PTL) and the total effect (PT). The direct effect of the profitability variable on firm value is 0.476; the indirect effect of the profitability variable on firm value through dividend policy is $0.553 \times 0.192 = 0.106$; so that the total amount of influence generated is $0.476 + 0.106 = 0.582$. The variation of data influenced by the model is 38.17%, so it means that 38.17% of the information contained in the data can be explained by the model, while the remaining 61.83% is explained by other variables outside the model. The results of a significance value of 0.000 which is smaller than the level of $\alpha = 0.05$, so that it shows that the variables of profitability and dividend policy simultaneously influence firm value. Based on these results, it can be concluded that this model is feasible to test and hypothesis testing can be done.

The significance value of t is 0.000 smaller than the real level $\alpha = 0.05$ and the beta value on the standardized coefficient of the profitability variable on firm value is 0.476 which indicates a positive direction, meaning that the higher the profitability obtained by the firm, the more the firm value will increase. Based on this explanation, it can be concluded that the first hypothesis is accepted. Based on Signaling Theory, increased profitability shows an increase in the firm's ability to earn profits for its shareholders (Zuhroh, 2019). The higher the ROA, the better the firm's ability to generate profits by managing its assets (Markonah & Franciska, 2020). With a high level of profit, the level of investor confidence will increase so that it has an impact on increasing firm value (Markonah, *et al.* 2020).

The significance value of t is 0.000 smaller than the real level $\alpha = 0.05$ and the beta value on the standardized coefficient of the profitability variable on dividend policy is 0.553 which indicates a positive direction, meaning that the higher the profitability provided by the firm, the better the dividend policy. Based on this explanation, it can be concluded that the second hypothesis is accepted. The management will try to get the maximum profit in order to increase the ability to pay dividends (Ginting, 2018).

The significance value of t is 0.039 which is smaller than the real level $\alpha = 0.05$ and the beta value of the standardized coefficient variable of dividend policy on firm value is 0.192 which indicates a positive direction, meaning that the better the dividend policy provided by the firm, the more the firm value increases. Based on this explanation, it can be concluded that the third hypothesis is accepted. Based on signaling theory, dividend policy is often seen as a signal for investors in assessing the merits of a firm. Dividend policy affects firm value, because dividends can attract investors to invest which will have a positive impact on the increase in stock prices which will cause the firm value to increase. According to the bird in the hand theory, which states that if the dividends distributed by the firm are higher, the firm's stock market price will also be higher and vice versa. This is because dividend distribution can reduce investor uncertainty, investors are more confident if they receive dividends than if they receive capital gains from retained earnings. (Dewi & Rahyuda, 2020). Hauser & Thornton Jr (2017) also states the same thing, that dividend policy has a positive and significant effect on firm value.

Based on the results of the single test, the value of Z is 1.9827, which is greater than the t table with a significance level of 0.05, which is 1.96 ($1.9827 > 1.96$), this means that there is a significant mediation effect. The results of the mediation in this study are partial, which means that dividend policy can mediate the indirect effect of profitability on firm value. However, profitability positively has a significant direct effect on firm value without the dividend policy as a mediator variable. Dividend policy acts as a mediation which strengthens the effect of profitability on firm value. Based on the signaling theory, high profitability shows an increase in the firm's ability to earn profits for its shareholders. High profit shows the firm's ability to pay higher dividends, the high level of dividend payments will increase the value of the firm (Zuhroh, 2019).

Dividend payment shows that the firm has good corporate performance. According to Bird in the hand theory, if the dividends distributed by the firm are higher, the firm's stock market price will also be higher and vice versa. A high dividend payout ratio will strengthen the effect of profitability on firm value. The results of this study have an impact on investors to be able to make investment decisions by considering firm performance and dividend policy. The firm can make a decision to make a policy in determining how much firm profit that can be given to investors or withheld so that the firm can save the firm's profits and cash. The funds can be used by the firm for other purposes. Like business development, debt payments that are due immediately or are used for payment of other things.

However, this study has several limitations, namely the firm's performance is only measured in terms of profitability and dividend policy, so that the coefficient of determination becomes small, which indicates that the ability of the variable profitability and dividend policy is limited in explaining firm value. The location of this study only uses manufacturing companies and only examines firm value. The study involved limited subjects, namely 37 companies with a limited period, namely 2016-2018, so the results could not be generalized to a large number of subject groups.

V. CONCLUSION

Profitability has a positive and significant effect on firm value. This means that any increase in profitability will determine the value of the firm. Profitability has a positive and significant effect on dividend policy. This means that if profitability increases, the dividends distributed by the firm will also increase. Dividend policy has a positive and significant effect on firm value. A high dividend policy can increase firm value. Dividend policy significantly mediates the effect of profitability on firm value. High profitability will encourage high dividend payments, thus increasing firm value.

Manufacturing companies are advised to improve firm performance, which is reflected in the amount of profitability and dividend payments made by the firm each year in order to be able to compete in gaining investor confidence. For investors who want to do business with companies in the manufacturing sector with the aim of gaining profits based on firm value, factors such as profitability (ROA) and dividend policy (DPR) can be considered, because based on the results of this study these variables have a significant influence to firm value (PBV).

REFERENCES

- [1] Astuti, N. K. B., & Yadnya, I. P. (2019). Pengaruh Profitabilitas, Likuiditas, Dan Ukuran Perusahaan Terhadap Nilai Perusahaan Melalui Kebijakan Dividen. *E-Jurnal Manajemen Universitas Udayana*, 8(5), 3275–3302.
- [2] Dewi, K. Y., & Rahyuda, H. (2020). Pengaruh Profitabilitas, Likuiditas Dan Kebijakan Dividen Terhadap Nilai Perusahaan Sektor Industri Barang Konsumsi Di Bei. *E-Jurnal Manajemen Universitas Udayana*, 9(4), 1252–1272. <https://doi.org/10.24843/ejmunud.2020.v09.i04.p02>
- [3] Faraz, Z., Ishfaq, S., & Khan, A. (2017). Dividend Policy and Shareholder ' S Wealth : Evidence From Cement Sector of Pakistan. *International Journal of Information, Business and Management*, 9(3), 27–40.
- [4] Fitriani, K. L., Sanusi, F., & Utami, I. (2017). *Peran Kebijakan Dividen Dalam Memediasi Nilai Perusahaan Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2010-2015. EKONOMIKA*, 12(1), 1-20
- [5] Ginting, S. (2018). Pengaruh Likuiditas, Profitabilitas Dan Leverage Terhadap Kebijakan Dividen Pada Perusahaan LQ45 Yang Terdaftar Di Bursa Efek Indonesia Periode 2012-2016. *JWEM STIE MIKROSKIL*, 8(2), 195–204.
- [6] Hauser, R., & Thornton Jr, J. . (2017). Dividend policy and corporate valuation. *Managerial Finance*, 43(6), 663–678. <https://doi.org/https://doi.org/10.1108/MF-05-2015-0157>
- [7] Ilhamsyah, F. L. (2017). Pengaruh Kebijakan Dividen, Keputusan Investasi, Dan Profitabilitas Terhadap Nilai Perusahaan. *Jurnal Ilmu Dan Riset Manajemen*, 6(2), 1–20.
- [8] Lestari, S. A., & Armayah, M. (2016). Profitability and Company Value: Empirical Study of Manufacture Companies in Indonesia Period 2009. *Information Management and Business Review*, 8(3), 6–10.
- [9] Lotfi, T. (2018). Dividend Policyin Tunisia: A Signalling Approach. *International Journal of Economics and Finance*, 10(4), 84–94.
- [10] Lumapow, L. S. (2019). The Effect of Investment and Non-Monotonic of Managerial Ownership on Corporate Value. *International Journal of Applied Business and International Management*, 4(1), 71–82. <https://doi.org/10.32535/ijabim.v4i1.384>
- [11] Mahdaleta, E., Iskandar, M., & Gusnardi, M. N. (2016). Effects of Capital Structure and Profitability on Corporate Value with Company Size as the Moderating Variabel of Manufacturing Companies Listed on Indonesia Stock Exchange. *Academic Journal of Economic Studies*, 2(3), 30–43.
- [12] Mangesti, R. S., Suhadak, & Saifi, M. (2019). The reciprocal relationship between profitability and capital structure and its impacts on the corporate values of manufacturing companies in Indonesia. *International Journal of Productivity and Performance Management*, 69(2), 236–251. <https://doi.org/https://doi.org/10.1108/IJPPM-05-2018-0196>
- [13] Markonah, S., & Franciska, J. (2020). Effect Of Profitability, Leverage, And Liquidity To The Firm Value. *Dinasti International Journal Of Economic, Finance and Accounting*, 1(1), 1–20.
- [14] Mrabet, R., & Boujjat, W. (2016). The Relationship Between Dividend Payments And Firm

- Performance: A Study Of Listed Companies In Morocco. *European Scientific Journal*, 12(4), 1857 – 7881.
- [15] Perwira, A. A. G. A. ., & Wiksuana, I. G. B. (2018). Pengaruh Profitabilitas Dan Pertumbuhan Aset Terhadap Kebijakan Dividen Dan Nilai Perusahaan. *E-Jurnal Manajemen Unud*, 7(7), 3767–3796.
- [16] Pranata, D., & Pujiati, D. (2015). The Effect of Liquidity, Profitability, Sales Growth, and Dividend Policy on Stock Prices after The Implementation of IFRS. *The Indonesian Accounting Review*, 5(2), 169–178.
- [17] Purnama, H. (2016). Pengaruh Profitabilitas, Kebijakan Hutang, Kebijakan Dividen, Dan Keputusan Investasi Terhadap Nilai Perusahaan (Studi Kasus Perusahaan Manufaktur Yang Go Publik Di Bursa Efek Indonesia) Periode 2010 - 2014. *Jurnal Akuntansi*, 4(1), 1–2.
- [18] Putra, A. A. N. D. A., & Lestari, P. V. (2016). Pengaruh Kebijakan Dividen, Likuiditas, Profitabilitas dan Ukuran Perusahaan terhadap Nilai Perusahaan. *E-Jurnal Manajemen Unud*, 5(7), 4044–4070.
- [19] Sa'eed, A., & Mo'taz, A. (2018). The Impact of Ownership Structure and Dividends on Firm's Performance: Evidence from Manufacturing Companies Listed on the Amman Stock Exchange. *Australasian Accounting Business & Finance Journal*, 12(3), 107–126.
- [20] Sari, I. A. G. D. M., & Sedana, I. B. P. (2020). Profitability and liquidity on firm value and capital structure as intervening variable. *International Research Journal of Management, IT and Social Sciences*, 7(1), 116–127.
- [21] Sriwahyuni, U., & Wihandaru. (2016). Pengaruh Profitabilitas, Leverage, Kepemilikan Institusional, Dan Investment Opportunity Set Terhadap Nilai Perusahaan Dengan Kebijakan Dividen Sebagai Variabel Intervening Pada Perusahaan Manufaktur Yang Terdaftar Di BEI. *Jurnal Manajemen Fakultas Ekonomi Universitas Muhammadiyah*, 7(1), 84–109.
- [22] Sudiani, N. K. A., & Wiksuana, I. G. B. (2018). Capital Structure, Investment Opportunity Set, Dividend Policy And Profitability As A Firm Value Determinants. *RJOAS*, 9(81), 1–10.
- [23] Tamrin, M., Mus, H. R., & Sudirman, Arfah, A. (2017). Effect Of Profitability And Dividend Policy On Corporate Governance And Firm Value: Evidence From The Indonesian Manufacturing Sectors. *Journal of Business and Management*, 9(10), 66–74.
- [24] Yastini, N. P. Y. A., & Mertha, I. M. (2015). Pengaruh Faktor Fundamental Terhadap Nilai Perusahaan Di Bursa Efek Indonesia. *E-Jurnal Akuntansi Universitas Udayana*, 11(2), 1–10.
- [25] Zuhroh, I. (2019). The Effects of Liquidity, Firm Size, and Profitability on the Firm Value with Mediating Leverage. *KnE Social Sciences*, 3(13), 203–230.