

The Effect of Profitability on Company Value with Dividend Payout Ratio as Moderation Variable

Ni Putu Dian Artini¹, Ketut Alit Suardana²

^{1,2}(Faculty of Economics and Business, Udayana University (UNUD), Bali, Indonesia)

ABSTRACT: The company's goal in general is to maximize profits. In addition to maximizing profits, increasing company value is an important goal in the company. Increasing the value of the company is a good thing because it reflects the company's ability to prosper its shareholders. This study aims to obtain empirical evidence regarding the Dividend Payout Ratio as a moderating effect of profitability on firm value. Purposive sampling is used in the method of determining the sample in this study. This research was conducted on the LQ-45 Index company for the 2017-2019 period on the Indonesia Stock Exchange. The sample in this study were 26 companies that were observed for 3 observation periods in order to obtain 78 research objects. The data analysis technique used is Moderated Regression Analysis (MRA). Based on the research results, it can be concluded that profitability, which is proxied by ROE, has a positive effect on company's value. Dividend Payout Ratio is able to moderate the effect of profitability on firm value. This shows that the dividend payout ratio is able to strengthen investors assessment of the company when the company's profitability has increased.

KEYWORDS: *profitability, dividend payout ratio, company value*

I. INTRODUCTION

Company is any form of business entity that carries out production activities and has clear objectives. In general, the company's goals are divided into two, namely short-term and long-term goals. The short-term goal the company wants to achieve is to obtain maximum profit with existing resources, while the long-term goal of the company is to increase firm value. The value of the company is directly proportional to the company's goal of increasing profits from time to time as a measure of company performance and as a means of influencing investors' perceptions of the company (Diani, 2015).

Indonesia's economic growth in this globalization era is running very rapidly, so it resulting in increasingly fierce competition in the business world. Competition requires companies to place themselves in a stable position and ready to compete, therefore they can increase company value and can be a consideration for investors in investing their capital (Mirah et al., 2014). Economic growth is an increase in the ability of an economy to produce goods or services. In the period 2017 to 2019, economic growth in Indonesia went so fast, and one of the factors that influenced this economic growth was the large number of investors investing in companies from various sectors listed on the Indonesia Stock Exchange. Investors will analyze whether the investment company has a positive return to them. In a company, managers must be able to manage the company properly and appropriately to generate high company value so that it attracts investors.

Several previous studies stated that the dividend payout ratio strengthens the relationship between profitability and firm value. Previous researches (Aldi et al., 2020) (Anggraeni & Sulhan, 2020) and (Mery et al., 2014) states that the dividend payout ratio strengthens the relationship of profitability to firm value. Meanwhile, other researches (Astakonmi et al., 2019) and (Sisca, 2016) state that profitability does not moderate the effect of profitability on firm value.

Research on firm value has been carried out by several researchers. Research on the effect of profitability on firm value found inconsistent results which were suspected due to other factors that influenced the relationship between the independent variable and the dependent variable. Govindarajan (1986) states that there may not be a single unit of research results depending on certain factors or contingent factors. Because there are different phenomena and inconsistencies in the results of previous studies, the research on the effect of profitability on firm value is added with a moderating variable, namely the dividend payout ratio. The moderating variable is used because previous research with the same theory but has different research results, it is suspected that there is a moderating variable. Conceptually and empirical research results, there are several

variables that are thought to play a role in moderating the effect of profitability on firm value, namely the dividend payout ratio. This study will use companies with the LQ-45 stock index for the period 2017-2019. The LQ-45 stock index is used because it has a high level of liquidity and a large market capitalization. The stocks in the LQ-45 index are also the stocks most attractive to investors in the Indonesian capital market, as well as being used as a benchmark for the ups and downs of share prices on the Indonesia Stock Exchange. Used in 2017-2019 because in that year there was a phenomenon, namely the fluctuation of the LQ-45 company value on the Indonesia Stock Exchange.

II. LITERATURE REVIEW AND RESEARCH HYPOTHESIS

This research uses some of literature, there are signal theory, agency theory, company's value, profitability, and dividend payout ratio. Signal theory emphasizes the importance of the information issued by the company on investment decisions outside the company. This signal theory aims to increase the value of a company when it is selling shares. Announcement of accounting information provides a signal that the company has good prospects in the future (good news) so that investors are interested in trading stocks, thus the market will react as reflected by changes in the volume of stock trading.

Agency theory has objectives related to agency relationships, namely the separation of functions between ownership on the part of investors and control on the part of management (Jensen & Meckling, 1976). Agency problems originate from the asymmetrical problem of information. Overcoming debt is one way of minimizing agency problems in the company. Anthony and Govindarajan in (Natalia, 2013) state that the concept of agency theory is a relationship or contract between the principal and the agent. Principals employ agents to perform tasks for the interests of the principal, including authorizing decision making to the agent.

Company's value is a form that investors take to the level of success of a company they do because it is often associated with stock prices so as to increase reliable results and quality. Firm value is also an important concept for investors, because it is an indicator for the market to assess the company as a whole which is reflected in the stock price. Profitability is used to measure the level of profit that the company will generate, the higher the level of profitability, the better the management's performance in managing the company. Profitability is related to the company's ability to generate profits in accordance with the expectations of owners and investors. The company's ability to generate high returns will attract investors to invest, on the other hand, if the company's ability to generate low profits will cause investors to withdraw invested funds. Dividend policy is often considered a signal by investors in valuing companies. With high dividend distribution to shareholders, it's hoped that the company's value will also increase. An optimal dividend policy is a dividend policy that creates a balance between current dividends and future growth so as to maximize the company price (Brigham & Houston, 2011). The policy taken by the company to distribute dividends or not to distribute dividends will greatly affect the value of the company.

Profitability is the company's ability to generate profits in the future which is also an indicator of the success of a company (Mamduh M. & Halim, 2014: 37). Profitability is a ratio that can represent the company's financial performance, where an increase in the company's financial performance will increase the return that investors will get. Investors will try to find companies that have a good performance and invest in these companies. Sujoko & Soebiantoro (2007) argue that profitability is an important consideration for investors in investment decisions.

Dividend decisions are considered important by investors because this decision is a management decision that every income must be invested and part of it distributed to shareholders as dividends (Herman & Takumi, 2012). The company's ability to pay dividends has an impact on the value of the company. Dividend policy determines how much dividends will be distributed to shareholders. This policy is related to how much profit the company receives will be distributed to shareholders. Companies must be able to provide the best for shareholders, one of which is by distributing dividends as expected by shareholders.

Based on theoretical studies and previous research, there are the research hypothesis of this study:

H₁: The higher the profitability, the higher the company's value.

H₂: The higher the profitability, the higher the company's value, especially for companies with high dividend payout rates.

III. METHODS

This research was conducted at the LQ-45 Index company Indonesia Stock Exchange at 2017 to 2019. In this study, secondary data was obtained from the official IDX website (www.idx.co.id) in the form of audited financial reports for 2017- 2019. The population in this study were all LQ-45 Index companies from 2017 to 2019. Purposive sampling was carried out to determine the sample and it's obtained 78 observational samples. Company's value in this study is proxied by the market ratio, namely Price Book Value (PBV), and the way to know how many companies have obtained funds for the funds invested by shareholders can be found through Return on Equity (ROE). Dividend policy is measured by the Dividend Payout Ratio (DPR).

The classical assumption test was carried out in this study, which aims to ensure that the model has match the criteria. The classic assumption test is carried out before moderated regression analysis (MRA), which aims to see whether the moderating variable affects the effect of the independent variable on the dependent variable. The MRA model with the interaction test was used in testing the hypothesis of this study.

IV. RESULT AND DISCUSSION

Descriptive statistical analysis aims to explain the characteristics of the sample including mean, extreme value, and standard deviation. The results of descriptive statistics are presented as follows.

Table 1. Descriptive Statistics Test Results

Variable	N	Min.	Max.	Mean	Std. Deviation
ROE	78	.01	1.40	.2267	.25807
DPR	78	.04	2.84	.5573	.50861
PBV	78	.06	16.49	3.5550	3.40041
Valid (N) listwise	78	.01	1.40	.2267	.25807

Source: Research Data, 2020

The profitability variable that proxied by ROE shows that the sample in the study amounted to 78. The minimum value of the profitability variable came from PT Bank Tabungan Negara (Persero) Tbk, which was 0.01 in 2019, while the maximum value came from PT Unilever Indonesia Tbk in 2019 which was 1.40. The average of the profitability variable was 0.2267 which indicates that the average has a tendency to approach the minimum value rather than the maximum value, which means that the level of profitability of the LQ-45 company on the Indonesia Stock Exchange is still low. The deviation of the average data is indicated by the standard deviation value of 0.25807.

The dividend payout ratio variable that proxied by DPR shows that the research sample is 78 samples. The minimum value of the dividend payout ratio variable comes from PT Bumi Serpong Damai Tbk, which is 0.04 in 2017-2019, while the maximum value of the dividend payout ratio variable comes from PT Indocement Tunggal Prakarsa Tbk in 2017, which is 2.84. The dividend payout ratio variable has an average of 0.5573 which indicates that the average has a tendency to approach the minimum value rather than the maximum value, which means that the dividend payout rate of LQ-45 companies on the IDX is still low. The average data deviation is indicated by the deviation value. The standard variable dividend payout ratio is 0.50861.

The company's value variable is proxied by PBV. The result shows that the sample in this study amounted to 78 companies. The minimum value of the company value variable comes from PT Telekomunikasi Indonesia (Persero) Tbk of 0.06 in 2018, while the maximum value of the company value variable comes from PT Unilever Indonesia Tbk of 16.49 in 2017. The variable value of the company has an average value of 3.5550 which indicates that the average is closer to the minimum value than the maximum value, which means that the company value of LQ-45 is low. The average data deviation is shown in the standard deviation value of 3.40041.

The classical assumption test aims to provide certainty that the regression equation obtained has accuracy in estimation, is unbiased and consistent so as to obtain the correct analysis model. The classic assumption test in this study includes the normality test, autocorrelation test and heteroscedasticity test.

Table 2. Normality Test Results

		Unstandardized Residual
N		78
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.99455793
Most Extreme Differences	Absolute	.097
	Positive	.097
	Negative	-.056
Kolmogorov-Smirnov Z		.853
Asymp. Sig. (2-tailed)		.461
a. Test distribution is Normal.		
b. Calculated from data.		

Source: Research Data, 2020

Table 2 shows that the value of Asymp. Sig. (2-tailed) is 0.461 which means it's greater than the level of significance ($\alpha = 0.05$), so it can be concluded that the data in this study is normally distributed.

Table 3. Autocorrelation Test Results

		Unstandardized Residual
Test Value ^a		-.08408
Cases < Test Value		39
Cases >= Test Value		39
Total Cases		78
Number of Runs		27
Z		-2.963
Asymp. Sig. (2-tailed)		.304
a. Median		

Source: Research Data, 2020

Table 3 shows that the value of Asymp. Sig. (2-tailed) is 0.304, which means it's greater than the significance value, so it can be concluded that there is no autocorrelation.

Table 4. Heteroscedasticity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.558	.124		4.514	.000
	ROE	.323	.408	.133	.791	.431
	DPR	.170	.183	.138	.931	.355
	X.M	.017	.037	.092	.455	.650

Source: Research Data, 2020

Table 4 shows that the significance value of profitability is 0.431, the significance value of the dividend payout ratio is 0.355 and the significance value of the interaction between profitability and the dividend payout ratio is 0.650. These test results have a value greater than $\alpha = 0.05$, so it can be concluded that there is no heteroscedasticity in the regression model.

Table 5. Moderated Regression Analysis (MRA) Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.104	.196		5.635	.000
	ROE	3.152	.793	.239	3.976	.000
	X.M	.743	.060	.745	12.378	.000
R Square						.859
Adjusted R Square						.856
Calculated F						229.215
Sig. F						.000

Source: Research Data, 2020

Table 5 shows that the adjusted R^2 value is 0.856 or 85.6 percent of the effect of the independent variable (profitability) tested on the dependent variable (firm value). The results of hypothesis 1 testing obtained a coefficient value of 3.152 with a significance of 0.000 (<0.05) which indicates that the higher the profitability, the higher the company's value. The company's ability to generate profits will affect whether or not a company is good. This means that hypothesis 1 is accepted. The results of this study are related to the signal theory which states that high profitability is a positive signal for the company, because it triggers investors to increase demand for shares, thereby triggering an increase in company's value.

Hypothesis 2 testing obtained a coefficient value of 3.152 with a significance of 0.000 (<0.05) and the regression coefficient value of the interaction variable between profitability and dividend payout ratio of 0.743 with a significance value of 0.000 (<0.05). The results of the hypothesis test show that there is a unidirectional relationship, because both have a positive coefficient value, so it can be concluded that the dividend payout ratio variable is a moderating variable that strengthens the effect of profitability on firm value, so hypothesis 2 is accepted. This is in line with the signal theory which states that the level of profitability is able to provide a positive signal to investors on firm value and dividend policy is able to strengthen investors' assessment of the company when there is an increase in profitability. In signal theory it is also stated that high profitability and

optimal dividend policy are able to reflect good company prospects so as to increase share prices and increase company value.

V. CONCLUSION

Based on the research results, the profitability variable has a positive effect on company's value. This means that the higher the profitability, the company's value will also increase. A high level of profitability reflects the company's ability to generate profits from its capital. The ability to generate profits will have an impact on increasing share prices which is a positive response from investors. The dividend payout ratio variable strengthens the effect of profitability on firm value. The higher the dividends distributed to shareholders, the greater the company's ability to prosper shareholders. This will increase the investor's view of the company so that the company's value will also increase. The LQ-45 Index company which has high profitability will give positive signals to investors that the company has a good image, with a positive signal received by investors, the value of the company will increase. High profitability and high dividend payments will increase investor confidence in the company, this will result in good corporate value. So, a company with high profitability will have good company value, especially if the company has a high dividend payout rate.

Based on the research results and conclusion, researchers suggest that an investor, potential investor or the general public should consider profitability ratios and dividend payout ratios in investing, especially in LQ-45 Index companies, because in the study it was found that profitability and the dividend payout ratio can affect the value of a company in the future. Investors and potential investors in making investment decisions need to see the extent of the company's ability to create profits because this illustrates the extent to which the company is able to manage existing sources of funds and how the company's prospects in the future. It should also be noted that the DPR ratio, because a company that has a high dividend payout rate also pays attention to the welfare of investors and shows that the company has a good image in the eyes of both investors and potential investors.

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