ANALYZING THE INFLUENCE OF LEVERAGE, LIQUIDITY, AND PROFITABILITY ON FIRM VALUE WITH DIVIDEND POLICY AS AN INTERVENING VARIABLE

Veronika Maria Cynthia [1], Stefanus Dimas Ryan Saputro[2]

Universitas Pelita Harapan, Jl M.H. Thamrin Boulevard, Tangerang and 15811, Indonesia

ABSTRACT

This research aims to examine the effect of leverage, liquidity and profitability on company value which is mediated by dividend policy. The research was conducted using secondary data from 43 companies in Indonesia which are included in the Industrials industry category on S&P Capital IQ during the 2018-2022 period. The sample collection technique in this research used a purposive sampling method. Leverage in this study is measured by the debt to equity ratio, liquidity is measured using the current ratio proxy, profitability is measured using the return on assets proxy, company value uses the price to book value proxy, and dividend policy is measured by the dividend payout ratio proxy. This research found that liquidity has no influence on dividend policy, while profitability.

Keywords: **leverage, liquidity, profitability, company value, dividend policy**

INTRODUCTION

A firm certainly has an objective it seeks to accomplish in order to generate profit. The company's long-term objective is to optimize its stock price value. The company's worth is indicative of its stock price. When the company's valuation is elevated, investors or shareholders will receive substantial returns. The value of a corporation is crucial for its operational sustainability. When investors evaluate a firm for potential capital investment, the company's value serves as a foundation for predicting its future success. The valuation of a company is frequently linked to its stock values. An increase in firm value might enhance investor confidence in making investments (Tamrin et al., 2017). Investors will pursue profit from the company's net earnings to enable dividends to influence stock prices. As the year concludes, an increasing number of corporations are beginning to declare the dates for dividend distributions. Highly profitable companies will distribute dividends liberally (Natalia, 2023). The dividend policy dictates the distribution of the company's profits to shareholders at the conclusion of the fiscal year.

The company's profits may be distributed as dividends or preserved as extra capital for future investment. A favorable and rising dividend payment ratio might entice investors, leading to an appreciation in the stock price and overall business value. The company's qualities are often represented by financial ratios and are intrinsic to the organization. Leverage, profitability, and liquidity constitute the characteristics of the firm. Prior research examining the influence of firm size, liquidity, profitability, and leverage on company value, mediated via dividend policy, have shown varying results. Research by Nawal Iskandar, I Gede Mandra, and Gusti Ayu Sri Oktariyani (2020) indicated that liquidity negatively impacts dividend policy, whereas a study by Dewi

Rahmasari, Embun Suryani, and Sri Oktaryani (2019) demonstrated that liquidity positively and significantly influences dividend policy. This study examines the attributes of the firm, including leverage, profitability, and liquidity. Additional factors or variables will incorporate business valuation, dividend policy, company age, company size, asset growth, and sales growth. Utilizing these factors is anticipated to enable researchers to see the impact of each variable on the dependent variable under investigation. This paper presents numerous problem formulations, including the question of whether liquidity influences dividend policy. Does profitability influence dividend policy? Does leverage influence dividend policy? Does dividend policy influence corporate value? Does liquidity influence business value through the mediation of dividend policy? Does profitability influence business value via the mediation of dividend policy? Does leverage influence company value via the mediation of dividend policy? This study aims to achieve several objectives, including providing empirical evidence on the effects of liquidity, profitability, and leverage on dividend policy, as well as the impact of dividend policy on firm value. Additionally, it seeks to establish whether liquidity, profitability, and leverage influence firm value through the mediation of dividend policy.

LITERATURE REVIEW

1. Agency theory

Agency theory constitutes a contractual connection between an agent and a principal (Supriyono, 2018). Jensen and Meckling (1976) created a theory that provides a framework for comprehending agency interactions in finance. The principal is the owner of the firm and employs a manager, referred to as an agent. The agent is accountable for overseeing daily operations and making decisions for the organization. Nevertheless, knowledge asymmetry between the two parties may engender possible conflicts of interest between the principal and the agent. Agency theory elucidates the attributes of a corporation and several factors that may influence the quality of financial reporting. By using agency theory, can help identify things that affect company value, as well as provide insight into how companies can improve transparency and accountability in reporting their financial information.

2. Profitability

Sartono (2018:122) defines profitability as a company's effectiveness in generating profit, which is associated with sales, total assets, and the company's capital. Ginting (2018:197) asserts that a better profitability created by the firm would result in an increase in dividends distributed to shareholders. Conversely, if the created profitability is diminished, the dividend disbursement would be reduced, or the corporation may forgo payments altogether. The company's management must endeavor to maximize earnings to enhance the capacity for distributing dividends.

3. Leverage

Sartono (2018:120) elucidates that leverage signifies the extent to which a corporation utilizes debt to finance its investments. Furthermore, if a corporation lacks leverage, it utilizes its own cash to fund its operations or investments. Fahmi (2020:127) asserted that leverage serves as an indication to evaluate the extent to which a firm is financed by debt. High levels of debt pose a significant threat to the company's commercial continuation, since it may struggle to extricate itself from financial obligations.

4. Liquidity

Liquidity encompasses the management and oversight of current assets and current liabilities to prevent the failure to fulfill short-term obligations. This, on one side, prevents over-investment in assets (Ross et al., 2016).

5. Firm values

The firm's valuation reflects the present worth of all anticipated future earnings owned by the company. Jensen & Meckling (1976) assert that a company's objective of enhancing its worth is to elevate the stock price. To enhance the company's worth, management must assure optimal performance, emphasizing innovation and operational efficiency.

6. Dividend Policy

Dividend policy refers to the strategy by which a corporation decides the portion of its profits to be allocated to shareholders as dividends. The firm owner must ascertain the method by which dividends are calculated and distributed to shareholders (Damodaran, 2014). Furthermore, it is essential to ascertain the proportion of earnings to be extracted and reinvested to facilitate the company's growth.

7. Framework

This study employs leverage, profitability, and liquidity as independent factors, dividend policy as a mediating variable, and company value as a dependent variable. The data for this study were derived from the financial statements of firms registered on the Indonesia Stock Exchange. The sample for this study comprised industrial sector businesses listed on the IDX from 2018 to 2022. The subsequent delineates the correlation among the independent factors, mediating variables, and dependent variables in the research.

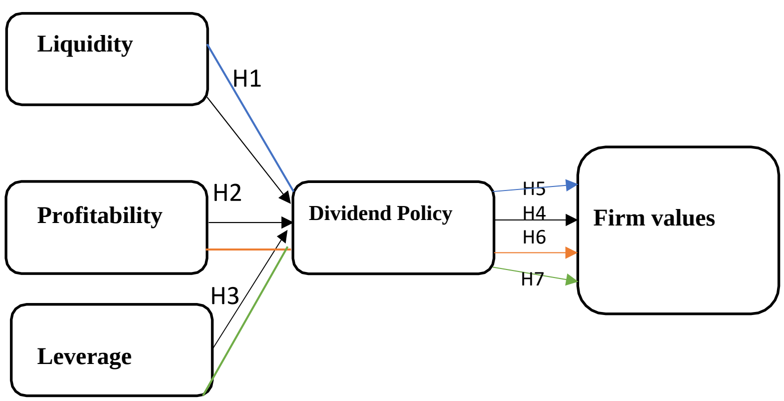

Figure 1. Conceptual Framework

8. Hypothesis Development

8.1 The Effect of Liquidity Ratio on Dividend Policy

Research by Astuti & Yadnya (2019) indicates that the liquidity ratio possesses a substantial liquidity value, with a current ratio (CR) proxy of 0.022 and a β of -0.428. The liquidity ratio exerts a substantial negative influence on dividend policy. Furthermore, research by Rahmasari et al. (2019) indicates that liquidity exerts a strong favorable influence on dividend policy.

H1: Liquidity ratio negatively affects dividend policy.

8.2 The Effect of Profitability Ratios on Dividend Policy

Research done by Astuti & Yadnya (2019) indicates that the profitability ratio has a significance value of 0.009. This indicates that the profitability ratio exerts a substantial beneficial influence on dividend policy. Moreover, the company's substantial earnings may lead to a rise in dividend payments. Consequently, when the corporation experiences diminished earnings, the dividend disbursement to shareholders would likewise decline. The findings of this study align with the research by Sulhan & Herliana (2019), indicating that the profitability ratio influences dividend policy.

H2: profitability has a positive effect on dividend policy.

8.3 The Effect of Leverage Ratio on Dividend Policy

Research published by Azizah et al. (2020) indicates that the leverage ratio has a t value of -2.600 and a significance level of 0.012, which is less than 0.05. Leverage adversely impacts dividend policy. Companies with substantial debt will prioritize debt repayment. When a company's leverage is elevated, its dividend policy will be diminished. The findings of this study align with the research done by Sari et al. (2022).

H3: Leverage negatively affects dividend policy

8.4 Effect of Dividend Policy on Company Value

Research by Astuti & Yadnya (2019) indicates that dividend policy has a significance value of 0.034 (below 0.05) and a β value of 0.387. Research by Ovami and Nasution (2020) indicates that dividend policy positively and significantly influences business value. This indicates that dividend policy exerts a substantial beneficial influence on business value. This aligns with signaling theory, wherein dividend payments are perceived as a favorable indication for shareholders. As stock prices rise, the company's worth will also grow.

H4: Dividend policy has a positive effect on company value

8.5 The Influence of Liquidity Ratio on Company Value Mediated by Dividend Policy

Research by Astuti & Yadnya (2019) indicates that the liquidity ratio, assessed by the Sobel test, yields a Z value of 1.575, which is below 1.96. This indicates that dividend policy cannot influence the relationship between the liquidity ratio and business value. The augmentation of business value via dividend distribution is not inherently attributable to elevated liquidity. The findings of this study align with the research done by Rahmasari et al. (2019), which determined that liquidity does not influence business value via dividend policy.

H5: Dividend policy is unable to mediate the effect of liquidity ratio on firm value

8.6 The Influence of Profitability Ratio on Company Value Mediated by Dividend Policy

The results of a study conducted by Astuti & Yadnya (2019) showed that the profitability ratio using the Sobel test with a Z value had a result of 2.00 (greater than 1.96). This shows that dividend policy is able to mediate the effect of the profitability ratio on company value. High company profits can increase the dividend payout ratio. This is in line with signaling theory, where dividend payments are seen as a positive signal for shareholders and attract investors to invest their capital. This study is in line with research conducted by (Setyabudi, 2022) that dividend policy is able to moderate and improve the effect of the profitability ratio on company value.

H6: Dividend policy is able to mediate the influence of profitability ratio on company value.

8.7 The Effect of Leverage Ratio on Company Value Mediated by Dividend Policy

The study by Sari et al. (2022) reveals that the leverage ratio, derived from the indirect effect of Debt to Equity Ratio (DER) on Price to Book Value (PBV) via Dividend Payout Ratio (DPR), is 0.2%, whereas the indirect effect of Current Ratio (CR) on PBV through DPR is -4.9%. The most significant indirect influence is observed on the CR variable. Consequently, it may be inferred that dividend policy does not serve as a mediator for the impact of the leverage ratio on firm value. This result aligns with the study findings of Rahmasari et al. (2019), which indicate that dividend policy does not mediate the effect of the leverage ratio on company value.

H7: Dividend policy is unable to mediate the effect of leverage ratio on firm value.

METHODOLOGY

1. Population and Sample

This study identifies the population of corporate data based on firms registered on the Indonesia Stock Exchange. The selected timeframe encompasses the years 2018 to 2022 for firms within the industrials industry. Data collection is derived from the company's financial filings for the year 2018 to 2022.

The sample was obtained using purposive sampling, a non-probability approach whereby selection was based on specific qualities held by the subjects. The study's criteria encompassed manufacturing businesses within the industrial sector that are listed on the Indonesia Stock Exchange, those who published financial reports from 2018 to 2022, and those that provided comprehensive financial reports. Out of the 128 manufacturing firms in the industrial sector listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022, just 43 companies satisfied the requirements of this study. The study comprised 215 observations (n) from 43 firms over a duration of 5 years.

2. Data collection technique

This research is quantitative, utilizing data sourced from the official S&P Capital IQ and IDX websites. The chosen data comprises the company's financial reports from 2018 to 2022, as posted on the Indonesia Stock Exchange (IDX).

RESULTS

1. Data analysis

TABLE 1
TEST OF DETERMINATION COEFFICIENT (R-SQUARED)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.332[a]	0,110	0,080	0,265

The R-squared score in the aforementioned test is 0.110, equivalent to 11%. This finding suggests that dividend policy may be elucidated by independent factors, specifically CR, ROA, and DER, to the extent of 11%, while the remaining 89% remains unexplained.

TABLE 2
TEST OF DETERMINATION COEFFICIENT OF STRUCTURE II

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.413[a]	0,171	0,139	1,985

The R-squared score in the aforementioned test is 0.171, equivalent to 17.1%. This finding demonstrates that the dependent variable, the company's value, may be elucidated by the independent variables, CR, ROA, and DERi, mediated by the dividend policy, PBV, to the extent of 17.1%, while the remaining 82.9% remains unexplained.

TABLE 3
F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1,791	7	0,256	3,654	.001[b]
	Residual	14,498	207	0,070		
	Total	16,289	214			

The previously mentioned data indicate a significance value of 0.001, which is below the alpha threshold of 5%. The independent factors are presumed to concurrently influence the mediating variables. The research model is deemed genuine due to a significance value of <alpha 5%, allowing for continuation with the T test.

TABLE 4
F STRUCTURE II TEST

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	167,388	8	20,924	5,308	.000b
	Residual	811,960	206	3,942		
	Total	979,348	214			

The previously mentioned data indicate a significance value of 0.000, which is below the alpha threshold of 5%. The independent factors are presumed to concurrently influence the company's value through the mediation of dividend policy (DPR). The research model is deemed genuine due to a significance value of <alpha 5%, allowing for continuation with the T test.

2. Path Analysis Test

Liquidity does not significantly influence dividend policy, since its significance value exceeds 0.05. Conversely, profitability and leverage, with significance levels of 0.006 and 0.005 respectively, significantly influence dividend policy as their significance values are below 0.05. Conversely, the significance value of dividend policy is 0.227, suggesting that it does not significantly influence firm valuation. In model structure I, the value of e1 is $\sqrt{(1-0.110)} = 0.9433$, while in model structure II, the value of e2 is $\sqrt{(1-0.171)} = 0.9104$.

3. T-test

The T-test findings indicate that ROA has a significant value of 0.0065, which is less than 0.05. Consequently, profitability exerts a substantial positive influence on dividend policy, leading to the acceptance of hypothesis 2. The T-test findings indicate that DER has a significant value of 0.005, which is less than 0.05. Consequently, indebtedness exerts a substantial adverse impact on dividend policy, leading to the acceptance of hypothesis 3. The T-test structure II indicates that DPR has a significant value of 0.227, which exceeds 0.05. Consequently, dividend policy does not substantially influence firm value, leading to the rejection of hypothesis 4. The T-test findings for structures I and II indicate that the direct influence of CR on Y is 0.132. The indirect effect of CR on Y via M is calculated by multiplying the beta coefficient of CR on M by the beta coefficient of M on Y, resulting in 0.067 x -0.751 = -0.050. The cumulative impact calculated is -0.050 + 0.132 = 0.082. The direct influence value of 0.132 exceeds the indirect influence of -0.050, indicating that liquidity does not impact the company's value via dividend policy. Consequently, hypothesis 5 is affirmed. The T-test findings for structures I and II indicate that the direct effect of ROA on Y is 0.325. The indirect effect of ROA on Y via M is calculated by multiplying the beta coefficient of ROA on M by the beta coefficient of M on Y, resulting in 0.191 x -0.751 = -0.143. The cumulative influence is -0.143 + 0.325 = 0.182. The direct influence of 0.325 exceeds the indirect influence of -0.143, indicating that profitability does not significantly impact the company's value via dividend policy. Consequently, hypothesis 6 is dismissed. The T-test findings for structures I and II indicate that the direct effect of DER on Y is 0.156. The indirect effect of DER on Y via M is calculated by multiplying the beta coefficient of DER on M by the beta coefficient of M on Y, resulting in -0.193 x -0.751 = 0.145. The cumulative impact is 0.156 plus 0.145, equaling 0.301. The direct effect value of 0.156 exceeds the indirect effect of 0.145, indicating that leverage does not significantly influence firm value via dividend policy. Consequently, hypothesis 7 is affirmed.

DISCUSSION

The test findings reveal that the liquidity variable (Current Ratio) does not influence dividend policy. Consequently, the initial hypothesis (H1) in this investigation is dismissed. The test findings indicate that the liquidity variable possesses a significant value of 0.1875, which exceeds 0.05. This suggests that liquidity levels do not influence dividend policy. The company's liquidity does not serve as a criterion for dividend distribution. This is due to the fact that existing liabilities will be utilized for the company's operating operations.

The test findings reveal that the profitability variable (Return on Assets) significantly positively influences dividend policy. Consequently, the second hypothesis (H2) in this investigation is affirmed. The test findings indicate that the profitability variable possesses a significant value of 0.0065, which is less than 0.05. This indicates that profitability significantly positively influences dividend policy, as evidenced by a significance value below 0.05. An increase in the company's earnings may lead to a corresponding rise in dividend payments.

The test findings reveal that the leverage variable (Debt to Equity Ratio) significantly negatively impacts dividend policy. Consequently, the third hypothesis (H3) in this investigation is affirmed. The test findings indicate that the profitability variable has a significant value of 0.005, which is less than 0.05. This indicates that the degree of leverage exerts a substantial negative impact on dividend policy, as evidenced by a significance value below 0.05. The degree of leverage influences the dividend distribution policy to investors.

The test findings reveal that the dividend policy variable (Debt Payout Ratio) does not significantly impact the company's value. Consequently, the fourth hypothesis (H4) in this investigation is dismissed. The test findings indicate that the profitability variable has a significant value of 0.227, which exceeds 0.05. This indicates that the dividend policy does not significantly impact the company's value, since the significance value is below 0.05. The amount of dividends allocated to investors is unrelated to the company's valuation.

The test findings demonstrate that dividend policy does not mediate the impact of the liquidity ratio (Current Ratio) on company value. Consequently, the fifth hypothesis (H5) in this investigation is affirmed. The test findings indicate that the liquidity variable has a direct effect value of 0.132, surpassing the indirect influence of -0.050. This suggests that dividend policy cannot mediate the liquidity ratio's effect on company value, as its direct influence is more significant than its indirect influence.

The test findings demonstrate that dividend policy does not mediate the impact of the profitability ratio (Return on Asset) on business value. Consequently, the sixth hypothesis (H6) in this research is dismissed. The test findings indicate that the direct effect of the profitability variable is 0.325, surpassing the indirect influence of -0.143. This suggests that dividend policy cannot mediate the relationship between profitability ratio and business value, as its direct effect is more significant than its indirect influence.

The test findings demonstrate that dividend policy does not mediate the impact of the leverage ratio (Debt to Equity Ratio) on company value. Consequently, the seventh hypothesis (H7) in this investigation is affirmed. The test results indicate that the leverage variable has a direct effect value of 0.156, surpassing the indirect influence of 0.145. This suggests that dividend policy cannot mediate the leverage ratio's effect on company value, as its direct influence is more significant than its indirect influence.

CONCLUSION

This study concludes that liquidity does not influence dividend policy, profitability positively impacts dividend policy, leverage negatively affects dividend policy, dividend policy does not influence firm value, liquidity does not affect firm value through dividend policy, profitability does not influence firm value through dividend policy, and leverage does not affect firm value through dividend policy. This study yields various consequences, as the researcher anticipates that readers will comprehend the relationship between firm features, dividend policy, and company value. This study aims to serve as a reference for future research and enhance scientific understanding of the impact of leverage, liquidity, and profitability on business value, mediated by dividend policy. This study aims to serve as a reference for firms in their decision-making processes to enhance corporate value through leverage, profitability, liquidity, and dividend policy. Furthermore, the researcher anticipates that investors would be able to make informed judgments regarding their capital investments in the Indonesia Stock Exchange by evaluating leverage, liquidity, profitability, and dividend policy in relation to corporate value.

REFERENCES

Azizah, A. N., Dewi, R. R., & Siddi, P. (2020). The Effect of Company Size, Profitability, Leverage, Liquidity and Sales Growth on Dividend Policy (Empirical Study on LQ45 Companies Listed on the Indonesia Stock Exchange in 2016-2018). Scientific Journal of Batanghari Jambi University, 20(3), 814. https://doi.org/10.33087/jiubj.v20i3.1017

Brigham, E., & Houston, J. (2018). Fundamentals of Financial Management (15th ed.). Cengage Learning.

Damodaran, A. (2014). Applied Corporate Finance (4th ed.). Wiley.

Ghozali, I. (2020). Multivariate Analysis Application with IBM SPSS 25 Program. Diponegoro University Publishing Agency.

Hidayat, W. W. (2018). THE EFFECT OF PROFITABILITY, LEVERAGE AND SALES GROWTH ON TAX AVOIDANCE. Journal of Management and Business Research (JRMB) Faculty of Economics UNIAT, 3(1), 19–26. https://doi.org/10.36226/jrmb.v3i1.82

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Muzakir, M. F. A. (2022). Ownership Structure, Dividend Policy, Debt Policy and Company Value in the Banking Sector. EKOMBIS REVIEW: Scientific Journal of Economics and Business, 10(1).

Natalia, T. (2023, September 27). Dividend Season is Coming, Get Ready to Get Surprise Money. CNBC Indonesia. https://www.cnbcindonesia.com/research/20230926164755-128-475714/musim-dividen-sebentar-lagi-siap-siap-dapat-uang-kaget

Ovami, D. C., & Nasution, A. A. (2020). The Effect of Dividend Policy on the Value of Companies Listed in the LQ 45 Index. Owner (Research and Accounting Journal), 4(2), 331. https://doi.org/10.33395/owner.v4i2.247

Pambudi, A. S., Ahmad, G. N., & Mardiyati, U. (2022). The Effect of Profitability, Liquidity and Dividend Policy on Company Value: A Study of the Food and Beverage Industry Listed on the Indonesia Stock Exchange for the 2015-2019 Period. Journal of Business, Management, and Finance, 3(1).