The Effect of Dividend Policy on Company Value with Profitability as an Intervening Variable in LQ45 Companies Listed on the Indonesia Stock Exchange

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ABSTRACT

Keywords: dividend policy, profitability, company value, LQ45, indonesia stock exchange.

This study aims to analyze the influence of dividend policy on the value of companies with profitability as an intervening variable in companies that are members of LQ45 listed on the Indonesia Stock Exchange (IDX). LQ45 is a stock index consisting of 45 selected companies with high liquidity and large market capitalization. A dividend policy is a company's decision to distribute profits to shareholders, which can affect the market's perception of the company's value. Profitability is measured using Return on Assets (ROA), which reflects a company's ability to generate profits from the assets it owns. This study uses a quantitative approach with secondary data taken from the annual financial statements of LQ45 companies during the 2019-2022 period. Data analysis was carried out using multiple regression methods to test the relationship between dividend policy, profitability, and company value. The results of the study show that the dividend policy has a significant positive influence on the company's value, both directly and through profitability as an intervening variable. This finding has implications for company management in designing optimal dividend policies to increase company value, as well as for investors in considering dividend policies and profitability as important factors in making investment decisions.

Introduction

The capital market is one of the important instruments in the economy that serves as a means for companies to obtain funds from investors. The Indonesia Stock Exchange (IDX) is one of the main institutions in this context, offering various stock indices that reflect market performance, one of which is the LQ45 index. The LQ45 Index consists of 45 selected companies with high liquidity and large market capitalization, which are considered the main representation of the Indonesian stock market.

An important thing that must be considered as the number of investors increases is the improvement of the quality of investors so that the people who become investors

understand the stocks collected both from the fundamental and technical sides. It is hoped that in the future investors in Indonesia will carry out their activities in the capital market using their own fundamental and technical analysis basis, not just buying certain stocks that are widely discussed on social media. The Indonesia Stock Exchange on its website has provided various data that can help investors analyze stocks listed on the Indonesia Stock Exchange, including annual financial statements, stock indices, stock price history data, company actions, and news related to trading activities in the capital market (Parlindungan Sipahutar, et al., 2021).

The assessment of the value of a company is a crucial aspect for investors and company management. A company's value reflects the market's perception of the company's performance and prospects. The value of this company is not only influenced by internal factors such as financial performance but also by the company's policy in terms of profit distribution, namely the dividend policy. Dividend policy refers to a company's decision to distribute profits to shareholders in the form of cash dividends or shares. This policy can give a positive or negative signal to the market, depending on the company's financial condition and strategy. (Dang et al., 2021). Dividend policy refers to the company's decision to distribute profits to shareholders in the form of dividends.

According to Andayani and Warsono, (2013) The value of a company indicates the price that potential buyers are willing to pay if the company is sold. Many factors can affect the value of a company, including a company's financial performance, dividend policy, corporate governance, and so on. The value of the company will affect the decision of investors in determining their investment in the capital market based on their perception of the company's success rate. So companies need to know the factors that affect the company's value in their efforts to increase the company's value. The higher the company's ability to generate profits, the higher the company's value. The value of a company is greatly influenced by the profitability of the company. The value of a company looks at the size of the company in question. The maximization of the company's corporate value leads to profit. Financial performance shows the profitability of how a company uses assets to obtain high profits. This ratio is more in demand by shareholders and company management as one of the investment decision tools, whether this business investment will be developed, maintained, and so on. Profitability is the level of net profit that a company can achieve when carrying out its operations. High profits indicate the company's good prospects so that it can trigger investors to increase demand for shares. The better the company's profitability growth means that the company's prospects are considered better in the eyes of investors. (A'yun et al., 2022). If the company's ability to generate profits increases, the stock price will also increase.

The Profitability Ratio measures the overall management effectiveness aimed at the magnitude of the level of support obtained about sales and investments. The better the profitability ratio, the better it describes the Company's ability to obtain high profits (Irfani, 2015). The profitability ratio depends on the accounting information taken from the financial statements. Therefore, profitability in the context of ratio analysis, measures income according to the income statement with the investment book value. This

profitability ratio can then be compared to the same ratio of the company in the past year or the industry average ratio. The Profitability Ratio is measured by Return On assets, ROA is a measure of the company's overall ability of the assets available in the company. ROA can measure the company's ability to generate profits in the past and then project it in the future. The asset in question is the entire company's assets obtained by its capital or from foreign capital that the company has converted into assets used for the survival of the company. Food and beverage companies, although growing very rapidly, can generate profits not continuously or every year.

This study aims to analyze the influence of dividend policy on company value by considering profitability as an intervening variable in companies that are members of LQ45. This research is important because it can provide insights to company management on how dividend policies and profitability levels can affect a company's value in the eyes of investors. In addition, the results of this research can also help investors make better investment decisions based on dividend policies and the company's profitability performance.

Previous research has examined the relationship between dividend policy, profitability, and company value, but the results are still varied and contextual. Therefore, this study seeks to fill the gap by focusing on LQ45 companies in Indonesia, which have their characteristics in terms of dividend policy and financial performance. By using a quantitative approach and statistical analysis, this study is expected to make a significant contribution to understanding the dynamics between dividend policy, profitability, and company value in the context of Indonesia's capital market.

The following is the average Firm Value using Tobin's Q method in LQ-45 companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2022 period:

Table 1
Firm Value of LQ45 Companies for the Period 2019−2022

No.	Company Code	Tobin's Q (%)				
		2019	**2020**	**2021**	**2022**	**Average**
1.	CHURCHYARD	7,34	7,55	9,91	11,82	9,15
2.	ITEM	1,07	1,87	2,01	1,71	1,66
3.	ASIA	1,27	1,14	1,04	0,97	1,11
4.	BRPT	20,41	14,54	8,21	8,25	12,85
5.	ACES	4,16	4,34	18,62	7,23	8,58
6.	EXCL	1,23	1,15	1,19	1,03	1,15
7.	GGRM	1,65	1,26	1,01	0,74	1,16
8.	ACCRA	0,68	0,57	0,66	0,72	0,65
9.	HRUM	0,11	0,09	0,26	0,23	0,17
10.	ICBP	0,31	0,52	0,54	0,51	0,47
11.	INCO	0,14	1,29	0,15	0,14	0,43
12.	INDF	0,44	0,52	0,52	0,48	0,49
13.	INKP	0,53	0,51	0,47	0,42	0,48
14.	KLBF	3,92	3,26	3,12	3,79	3,52
15.	MEDC	0,78	0,81	0,79	0,75	0,78

16.	PGAS	0,57	0,61	0,57	0,53	0,57
17.	PTBA	1,47	1,64	1,19	1,31	1,41
18.	SCMA	0,81	1,42	0,73	0,48	0,86
19.	SMGR	1,46	1,49	1,01	0,91	1,21
20.	BEEN	5,51	6,39	6,52	5,69	6,02
21.	TLKM	2,25	1,84	1,92	1,81	1,95
22.	TPIA	0,51	0,51	0,42	0,44	0,47
23.	UNTR	1,17	1,36	1,11	1,06	1,17
24.	UNVR	16,26	14,41	9,01	10,57	12,56
25.	INDY	2,27	3,33	2,94	4,58	3,28

Source: Indonesia Stock Exchange (data processed in 2019-2022)

In Table 1, it can be seen that the company with the highest average Tobin's Q value during the period 2019 to 2022 is owned by PT Barito Pacific Tbk. at 12.85%, this shows that the company can be classified as expensive (overvalued), thus attracting parties who want to imitate the company's business model to get profits as well. The higher the value of Tobin's Q, the more expensive the company's shares are. This is because the market considers the company to have assets that are not recorded in the company's books. The lowest average value of Tobin's Q during the period 2019 to 2022 is owned by PT Harum Energy Tbk. at 0.17%. A company can be classified as cheap (undervalued) because its book value is higher than its market value. This can attract interested parties to buy the company.

The following is the average value of the Dividend Policy in LQ-45 companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2022 period:

Table 2
LQ45 Corporate Dividend Policy for the Period 2019−2022

No.	Company Code	DPR (%)				
		2019	2020	2021	2022	Average
1.	CHURCHYARD	40,27	232,58	32,54	26,58	82,99
2.	ITEM	38,06	14,47	19,87	41,80	28,55
3.	ASIA	41,76	37,47	58,23	39,99	44,36
4.	BRPT	0,00	0,00	14,70	28,44	10,79
5.	ACES	48,72	37,28	104,73	52,72	60,86
6.	EXCL	0,00	20,00	31,70	51,00	25,68
7.	GGRM	884,64	1258,52	1486,16	2995,98	1656,33
8.	ACCRA	76,50	76,50	51,30	55,59	64,97
9.	HRUM	30,04	0,00	10,85	6,59	11,87
10.	ICBP	137,00	215,00	215,00	215,00	195,50
11.	INCO	0,00	0,00	47,65	0,00	11,91
12.	INDF	171,00	278,00	278,00	278,00	251,25
13.	INKP	12,96	5,77	5,01	2,46	6,55
14.	KLBF	47,46	46,54	43,84	49,37	46,80
15.	MEDC	0,00	0,00	0,00	22,29	5,57
16.	PGAS	45,92	45,92	0,00	59,99	37,96

No.		2019	2020	2021	2022	Average
17.	PTBA	339,63	326,46	74,69	688,52	357,33
18.	SCMA	63,49	0,00	0,00	14,96	19,61
19.	SMGR	53,86	9,06	42,34	51,04	39,08
20.	BEEN	84,63	136,20	2488,98	97,33	701,79
21.	TLKM	80,11	80,83	72,37	57,99	72,83
22.	TPIA	83,77	0,00	0,00	80,97	41,19
23.	UNTR	43,12	45,45	35,53	35,06	39,79
24.	UNVR	125,85	101,09	96,10	97,43	105,12
25.	INDY	0,00	0,00	0,00	16,41	4,10

Source: Indonesia Stock Exchange (data processed in 2019-2022)

In the table above, it can be seen that the company with the highest average DPR value during the period 2019 to 2022 is owned by PT Gudang Garam Tbk. of 1656.33%, this indicates that the company does not want to innovate so the value of dividends distributed by the company in the long term may decrease or even not distribute dividends at all. Meanwhile, the lowest average value of the House of Representatives during the period 2019 to 2022 is owned by PT Indika Energy Tbk. at 4.10%, which shows that related companies are expanding a lot so they need more funds. Investors of this company are asked to be a little patient before finally, the company distributes the profits.

The following is the average value of the Dividend Policy in LQ-45 companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2022 period:

Table 3
LQ45 Corporate Dividend Policy for the Period 2019−2022

No.	Company Code	DPR (%)				
		2019	**2020**	**2021**	**2022**	**Average**
1.	CHURCHYARD	40,27	232,58	32,54	26,58	82,99
2.	ITEM	38,06	14,47	19,87	41,80	28,55
3.	ASIA	41,76	37,47	58,23	39,99	44,36
4.	BRPT	0,00	0,00	14,70	28,44	10,79
5.	ACES	48,72	37,28	104,73	52,72	60,86
6.	EXCL	0,00	20,00	31,70	51,00	25,68
7.	GGRM	884,64	1258,52	1486,16	2995,98	1656,33
8.	ACCRA	76,50	76,50	51,30	55,59	64,97
9.	HRUM	30,04	0,00	10,85	6,59	11,87
10.	ICBP	137,00	215,00	215,00	215,00	195,50
11.	INCO	0,00	0,00	47,65	0,00	11,91
12.	INDF	171,00	278,00	278,00	278,00	251,25
13.	INKP	12,96	5,77	5,01	2,46	6,55
14.	KLBF	47,46	46,54	43,84	49,37	46,80
15.	MEDC	0,00	0,00	0,00	22,29	5,57
16.	PGAS	45,92	45,92	0,00	59,99	37,96
17.	PTBA	339,63	326,46	74,69	688,52	357,33
18.	SCMA	63,49	0,00	0,00	14,96	19,61
19.	SMGR	53,86	9,06	42,34	51,04	39,08

20.	BEEN	84,63	136,20	2488,98	97,33	701,79
21.	TLKM	80,11	80,83	72,37	57,99	72,83
22.	TPIA	83,77	0,00	0,00	80,97	41,19
23.	UNTR	43,12	45,45	35,53	35,06	39,79
24.	UNVR	125,85	101,09	96,10	97,43	105,12
25.	INDY	0,00	0,00	0,00	16,41	4,10

Source: Indonesia Stock Exchange (data processed in 2019-2022)

In the table above, it can be seen that the company with the highest average DPR value during the period 2019 to 2022 is owned by PT Gudang Garam Tbk. of 1656.33%, this indicates that the company does not want to innovate so the value of dividends distributed by the company in the long term may decrease or even not distribute dividends at all. Meanwhile, the lowest average value of the House of Representatives during the period 2019 to 2022 is owned by PT Indika Energy Tbk. at 4.10%, which shows that related companies are expanding a lot so they need more funds. Investors of this company are asked to be a little patient before finally, the company distributes the profits.

Research Methods

The type of research conducted in this study is associative quantitative research that aims to analyze and explain the influence of independent variables on dependent variables. The data collection technique used in this study is documentation, namely the data collected through financial statements and performance summaries that have been published through the company's official website and www.idx.co.id website related to the object being studied.

The population used in this study is 45 LQ45 companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2022 period. The sample is 21 companies because the available data is quite complete, homogeneous, and open to outsiders who will conduct research. To determine the sample in this study, the researcher uses *the purpose sampling* technique, namely by deliberately sampling according to the requirements of the required sample, namely:

1. LQ45 indexed companies on the Indonesia Stock Exchange during the 2019-2022 period.
2. Non-banking companies indexed by LQ45 consecutively during the 2019-2022 period. Because there are differences in financial statements between banking companies and manufacturing companies, in the form of differences in inventory and company liabilities. Banking companies have special regulations issued by the Financial Services Authority (OJK) and Bank Indonesia (BI).
3. The company did not suffer losses for the 2019-2022 period.
4. Companies that have audited annual financial report data.

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Table 4
Calculation of Sampling Criteria

Information	Sum
Companies indexed by LQ-45 consecutively during the 2019-2022 period	45
Companies that have not issued cash dividends in their *Annual Report*	12
Banking companies indexed by LQ-45 consecutively during the 2018-2022 period	8
Companies that suffer losses	4
LQ-45 company sampled	21

Source: Data processed by the author

The sample in this study was obtained from as many as 21 companies that were included in the research criteria using the purposive sampling technique.

Results and Discussion

Uji Hipotesis
Coefficient of Determination (Adjusted R2)

The determination coefficient test aims to measure how far the independent variable can explain the variation of the dependent variable (Ghozali, 2018). shows that the dividend and leverage policy variables can explain the ROA variable of 22.8% while the remaining 77.2% is explained by other variables outside the regression model of this study.

Partial Test (T-Test)

The t-value test is used to measure how far the influence of one independent variable individually in explaining the variation of dependent variables (Ghazali, 2018). The results of the t-value test underlie the preparation of a research model that can be formulated as follows:

ROA = -0,018DPR + 0,90LEV… (model 1)
Tobins Q = -0,62DPR + 0,346LEV + 0,326ROA… (model 2)

Table 5
Results of Path Analysis and Hypothesis Test

Variable	Nilai Standardized Beta		Mr.	Hypothesis
	Direct Influence	Indirect influence		
DPR - ROA	(0,018)		0,868	rejected
LEO - ROA	0,090		0,419	rejected
DPR - TQ	(0,620)		0,525	rejected
LEV - TQ	0,346		0,001	Accepted
ROA - TQ	0,326		0,001	Accepted

DPR-ROA-TQ	(0,018)	(0,006)	Accepted
LEV-ROA-TQ	0,090	0,031	rejected

Source: Output SPSS 25.0 (Data processed by the author)

Dividend Policy on Profitability

Based on the results of the T-test in Table 4.12, it was obtained that the Dividend Payout Ratio did not affect the Profitability proxied by the return on Assets in LQ45 companies listed on the Indonesia Stock Exchange for the 2019-2022 period. This can be seen from the test results where the regression coefficient value is -0.018 with a significance value of 0.868 ($0.868 > \alpha$ 0.05), so the hypothesis that the Dividend Payout Ratio has a negative and significant effect on the return on Asset is accepted. Dividend policies can affect a company's ability to generate profits. The higher the dividend payment ratio, the smaller the profit obtained by the company, this is to the theory of irrelevant dividends, the share price due to the increase in dividend yield will be directly proportional to the decrease in the share price due to the issuance of new shares (Kuswanto, 2012).

Leverage on Profitability

Based on the results of the T-test in the table, it is stated that the results of the Leverage test do not affect the Profitability proxied by the Return on assets in LQ45 companies listed on the Indonesia Stock Exchange for the 2019-2022 period. This can be seen from the test results where the regression coefficient value is 0.090 with a significance value of 0.419 ($0.419 > \alpha$ 0.05) so the hypothesis that Leverage does not affect the Return on Asset is rejected. An indication of the absence of the influence of debt policy variables (leverage) on profitability with ROA proxies is due to the absence of significant changes in the company's profitability level even though the company's debt level rises and falls. Based on the stakeholder theory, shareholders want high profitability from the company, and indirectly the company will implement policies, one of which is debt policy management. Another thing is that when the company is in debt, the company will pay interest expenses, interest expense is one component of profit deduction which means that the company must pay interest expenses which results in low profitability. (Juliani Putri, 2023).

Dividend Policy on Company Value

Based on the results of the T-Test, it was obtained that *the Dividend Payout Ratio* had no effect on the Company Value proxied with *Tobin's q* in LQ45 companies listed on the Indonesia Stock Exchange for the 2019-2022 period. This can be seen from the test results where the regression coefficient value is -0.620 with a significance value of 0.525 ($0.525 > \alpha$ 0.05) so that the hypothesis that the *Dividend Payout Ratio* does not affect Tobin's q is rejected. The lack of effect of dividend policy on stock prices can be because most investors want short-term profits in the form of capital gains. So stock investment does not consider the company's policy to distribute dividends or hold them as capital, but investors or potential investors will follow the trends that occur in the market more.

So that the company's policy to distribute dividends or not to distribute dividends is not responded to by the market so that it does not result in a change in the stock price (Warisman dan Amwila, 2022).

Profitability to Company Value

Based on the results of the T-Test in Table 5, it was obtained that *Return on Asset* had a positive and significant effect on the Company Value proxied with *Tobin's q* in LQ45 companies listed on the Indonesia Stock Exchange for the 2019-2022 period. This can be seen from the test results where the regression coefficient value is 0.326 with a significance value of 0.001 (0.001 < α 0.05) so that the hypothesis that the Return *on Asset* has a positive and significant effect on Tobin's q. Profitability is a ratio that can represent the company's financial performance, where increasing the company's profitability will increase the returns that will be obtained by investors (Louziri & Oubal, 2022). The higher the profit obtained by the company, the greater the level of dividend payment distributed to shareholders so that it can trigger an increase in stock demand (Iman, Sari, and Pujianti, 2021).

Dividend Policy on Financial Performance Through Profitability

Based on Table 5, the direct effect of the Dividend Payout Ratio has a regression coefficient value of -0.018. The indirect effect of the Dividend Payout Ratio is a coefficient value of -0.006, which is applied from -0.018 x 0.326 = -0.006. 0.326 is the value of the influence of ROA on the Company's Value. If the value of direct influence > the value of indirect influence, the intervening influence is significant. -0.006 > -0.018, the results show that the ROA variable can significantly mediate the influence of the Dividend Payout Ratio on the Company's Value (H6 supported). Based on the clientele effect theory, there are characteristics of investors who prefer not to receive dividends because the tax rate is higher than capital gains. Investors are happier if dividends are reinvested in the company. The amount of undistributed dividends will settle in the profit balance. Based on agency theory, dividend policy is also able to reduce agency costs (Ridwan et al., 2023).

Leverage on Financial Performance through Profitability

Based on Table 4.12, the direct influence of Leverage has a regression coefficient value of 0.090. The indirect effect of *the Dividend Payout Ratio* is a coefficient value of 0.031, which is obtained from 0.090 x 0.326 = 0.031. 0.326 is the value of the influence of ROA on the Company's Value. If the value of direct influence > the value of indirect influence, the intervening influence is significant. 0.031 < 0.090, the results show that the ROA variable is not able to mediate the influence of *Leverage* significantly on the Company's Value. This assumes that the additional profitability variable cannot mediate the effect of leverage on the company's value. The problem is that additional funds through debt are not able to increase the company's profits. The addition of company funds through debt will charge the company high interest if the debt is high enough and

the profits received by the company are reduced.

Conclusion

This study aims to test independent variables consisting of Dividend Policy and Leverage on Company Value with Return on Asset as intervening. The determination coefficient of this study shows a figure of 0.288 which means that the independent variable is only able to explain the bound variable with 22.8% while the remaining 77.2% is influenced by other factors outside this model.

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