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The Effect of Profitability on Company Value with Dividend Policy as a Moderating Variable

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ABSTRACT

This research aims to provide empirical evidence of the influence of profitability on company value with dividend policy as a moderating variable. The population of this research is all consumer goods sector companies listed on the Indonesia Stock Exchange for the period 2017 – 2022. The sampling technique used was purposive sampling technique and obtained as many as114 number of observations. This study uses the Statistical Product and Service Solution (SPSS) program with Moderated Regression Analysis (MRA) as a tool to analyze the moderating effect of dividend policy on the sample tested. The results of the analysis provide evidence that profitability has a positive effect on company value. Furthermore, dividend policy is unable to moderate profitability on company value.

INTRODUCTION

Company value is needed by investors and potential investors to make investment decisions and is an important indicator used by the market to assess the company as a whole. Company goals can be achieved if the company can increase company value. The higher the company value, the greater prosperity the company owner will receive. Company value reflects the performance of a company, so it can influence investors' assessment or perception of the company. Conditions of high company value will be attractive to investors, where conditions like this can increase the value of company shares (Linantis et.al., 2021).

The Covid 19 pandemic has caused a worldwide crisis. It is not only a health crisis, but also a social and economic crisis, including in the financial sector. The Covid-19 pandemic has had an impact on the capital market in Indonesia, causing a significant decline in the joint stock price sector and impacting all industrial sectors on the Indonesia Stock Exchange (BEI) including the Consumer Goods sector. Shares in Consumer Goods Sector companies are categorized as shares that are not affected by macroeconomic conditions or political situations, because the company has products that are always needed by consumers. However, in reality the share price of the Consumer Goods Sector experienced increases and decreases from 2017 to 2022. These fluctuations are not in line with the view that the Consumer Goods Sector is able to survive in the face of economic conditions. The increase and decrease in share prices shows that there has been a phenomenon of inconsistent share price movements so far.

The information received by the market is a signal that can be positive or negative. Based on signaling theory, stable and increasing company value has an impact on shareholders to maintain their capital and provides a positive signal for potential investors to invest their capital in the company. Investor confidence can be increased if management attempts to increase company value (Minh Ha et.al., 2021). Markonah et.al., (2020) stated that profitability is one of the main factors that can influence company value. Company performance can be assessed from the level of increase in company profits projected through profitability ratios. Profitability can be used by internal company parties to set targets, budgets, coordination, evaluate company operational results, and base decision making. Companies with better profitability can increase the value of the company in the eyes of investors because a good level of profitability is an attraction for investors to invest their capital in the company (Cordiaz, 2021). Supporting research is Nurmadi & Novietta, (2022) which states that profitability has a significant effect on company value in the LQ-45 sector. This is different from research by Juwinta et.al., (2021) which revealed that profitability does not have a significant effect on company value in the pharmaceutical sub-sector because company policy tends to retain profits rather than distributing them to shareholders when profits increase. It can be seen that profitability, which is said to be the main factor influencing company value, still has inconsistent results in previous research.

Dividend policy is a company's decision to distribute profits to shareholders. Most investors use dividends as a reference in investing because investors prefer returns in the form of dividends. So dividend policy has an important role in increasing company value and is expected to strengthen the influence of factors in increasing company value. Fluctuating share prices in companies in the consumer goods sector need to be paid closer attention because they reflect the value of the company. The consumer goods sector is a company that has products that consumers need at any time and has a wide market so it is hoped that the company will be able to distribute dividends under any conditions. Researchers are interested in testing the effect of profitability on company value with dividend policy as a moderating variable in companies listed in the consumer goods sector for the period 2017 - 2022.

LITERATURE REVIEW

Signaling Theory

Signaling theory is a behavior of company management in providing guidance to investors regarding management's views on the company's prospects for the future (Brigham and Daves, 2018: 666). Signaling theory explains the shareholder's perspective regarding the company's opportunities to increase company value in the future, where this information is provided by company management to shareholders. Annual reports are information released by companies that can provide signals to investors. Signaling theory reduces the occurrence of information asymmetry. Modigliani & Miller (1961) stated that in a perfect capital market, all stakeholders, consisting of management and external capital providers, have the same right to know all information and prices regarding the shares in which they invest. (Saskia & Andyarini, 2020). Profitability is an important piece of information for investors where they can analyze the development of company profits. Higher company profits will provide a positive signal to investors that they will get a profit on their investment. From these profits, the company will be able to distribute dividends to investors.

Bird in Hand Theory

The bird in the hand theory is a theory in dividend policy, developed by Myron Gordon (1956) and John Lintner (1962). This theory states that dividend policy has a positive effect on stock market prices (Gitman and Zutter 2012:573). This means that the greater the dividend distributed by the company, the higher the market price of the company's shares, which will have an impact on increasing the value of the company. Investors in financial terms prefer to make investments that can provide current dividends rather than dividends given in the future and retain profits earned by the company. The reason why investors prefer to hold cash compared to future capital gains is that generally these investors are risk averse.

The value of the company

Company value is investors' perception of the company's level of success. Company value is linked to share prices. This company value is really needed by investors and potential investors to make investment decisions and is an important indicator used by the market to assess the company as a whole. The company's main goal is to maximize profits or wealth, especially for its shareholders, which is realized in the form of efforts to increase or maximize the market value of the company's share price (Linantis et.al., 2021).

Profitability

Profitability is the net result of a number of policies and decisions (Brigham and Ehrhardt, 2015: 98). Measuring the level of profit of a company uses profitability ratios. The profitability ratio is a ratio to assess a company's ability to earn profits. Company management will try its best to control existing resources to generate profits. Funds from incoming investors will be processed in such a way that they are sufficient to fund company operations (Fajaria & Isnalita, 2018). There are many profitability ratios, including Return on Assets (ROA) or Return on Equity (ROE). ROA is a ratio to measure a company's net profit with total assets. ROA functions to measure a company's effectiveness in generating profits by utilizing the assets it owns. The greater the ROA a company has, the more efficient its use of assets will be, thereby increasing profits. Large profits will attract investors. As the profit value increases, the dividends that will be distributed to shareholders will increase. Large dividend distribution will increase investors' interest in investing their capital, so that demand for shares will increase.

Dividend Policy

Dividend policy is a company policy to determine the proportion of income distributed as dividends to the proportion of the company's retained earnings that will be reinvested. Company management must create an optimal dividend policy, namely by paying attention to opportunities to invest funds and giving various preferences to investors regarding dividends rather than capital gains. The company distributes dividends to investors based on the dividend policy decided by the company. Dividend policy has an important role, especially for investors or shareholders, where it is hoped that the company will be able to distribute dividends according to the share of shareholder ownership.

RESEARCH METHODS

This research was conducted on companies classified in the consumer goods sector listed on the Indonesia Stock Exchange (BEI) for the 2017-2022 period. This research uses quantitative descriptive methods and tests the influence of profitability variables on company value which is moderated by dividend policy. The companies studied are companies registered in the consumer goods sector for the 2017-2022 period. The variables used in this research are profitability (independent variable), company value (dependent variable), and dividend policy (moderating variable). Profitability is measured using the ROA (Return on Assets) ratio. The ROA ratio equation is used to measure a company's ability to generate net profits based on the level of assets owned. Company value is proxied by the Tobin's Q ratio. Tobins' Q reflects the assets of a company as a whole and reflects market sentiment. Dividends paid by companies are measured using the DPR (Dividend Payout Ratio) indicator. Dividend Payout Ratio is a ratio that shows the percentage of each profit the company receives to be distributed to shareholders in cash. The population in this research is all companies classified in the consumer goods sector listed on the IDX for the 2017-2022 period. The population in this study was 54 companies. The research sample used purposive sampling technique. The criteria used in selecting samples for this research are: companies in the consumer goods sector that publish financial reports and distribute dividends consecutively during the 2017-2022 period. The type of data in this research is quantitative data sourced from secondary data contained in the annual reports of consumer goods sector companies published on the IDX for the 2017-2022 period. The data analysis technique used in this research is

Moderated Regression Analysis (MRA) using the Statistical Product and Service Solution (SPSS) program.

RESEARCH RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 1. Descriptive Statistics

Variable	Number of Samples	Minimum Value	Maximum Value	Average value	Standard Deviation
Company Value (Y)	114	0.64	20.49	3.54	4.18
Profitability (X1)	114	0.00	0.58	0.12	0.11
Dividend Policy (X2)	114	0.00	33.53	1.02	3.50

Source: Data processing results, 2024.

Based on Table 2, it can be seen that the number of observations (N) in this research is 114. Company Value has a minimum value of 0.64, while the maximum value is 20.49. The average company value is 3.54 with a standard deviation value of 4.18. The standard deviation value is greater than the average, this shows that there is a varied distribution of data.Profitability has a minimum value of 0.00, while the maximum value is 0.58. Average value of profitability of 0.12 with a standard deviation value of 0.11. A standard deviation value that is smaller than the average indicates small variations in data distribution or that there is a small gap between the minimum and maximum values. Dividend Policy has a minimum value of 0.00, while the maximum value is 33.53. The average value of dividend policy is 1.04 with a standard deviation value of 3.51.

Normality Test

Table 2. Normality Test Results

No	Equality	Exact Sig. (2-*tailed*)
1	$Y= \alpha + \beta 1X1+\varepsilon$	0.137
2	$Y= \alpha+ \beta 1X1+\beta 2X2+\beta 3X1.X2+\varepsilon$	0.141

Source: Data processing results, 2024.

Table 2 above shows that the Exact Sig coefficient value. (2-tailed) greater than 0.05. These results show that the first and second equation regression models have a normal distribution.

Autocorrelation Test

Table 3. Autocorrelation Test Results

No	Equality	Durbin-Watson
1	$Y= \alpha + \beta 1X1+\varepsilon$	1,971
2	$Y= \alpha+ \beta 1X1+ \beta 2X2+\beta 3X1.X2+\varepsilon$	1,840

Source: Data processing results, 2024.

Based on Table 3 above, the first equation model has a Durbin-Watson value of 1.971. It is known that the number of samples is 114 and the number of independent variables is 1, so the values obtained are dL = 1.6768 and dU = 1.7122 and the value also obtained is 4-dU = 2.2878. So the criteria for $dU<dW<4-dU$ can be formulated, namely ($1.7122<1.971<2.2878$). The second equation model has a Durbin-Watson value of 1.840. It is known that the number of samples is 114 and the number of independent variables is 2, then the values obtained are dL = 1.6768 and dU = 1.7122 and also obtained the value 4-dU = 2.1600. So the criteria for dU<dW<4-dU can be formulated, namely (1.7122<1.840<2.1600). This shows that the first and second equation regression models do not contain autocorrelation symptoms.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

No	Equality	Variable	Sig.
1	$Y = \alpha + \beta 1X1 + \varepsilon$	X1	0.756
2	$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X1.X2 + \varepsilon$	X1	0.870
		X2	0.255
		X1X2	0.428

Source: Data processing results, 2024.

Based on Table 4 above, it can be seen that the significance value of each independent variable in the first and second equation regression models is greater than 0.05. These results indicate that the first and second equation regression models do not contain symptoms of heteroscedasticity.

Multicollinearity Test

Table 5. Multicollinearity Test Results

No	Equality	Variable	*Collinearity Diagnostics*	
			Tolerance	**VIF**
1	$Y = \alpha + \beta 1X1 + \varepsilon$	X1	0.986	1,114

Source: Data processing results, 2024

Table 5 shows the values*tolerance*more than ten percent (10%) and the VIF value is smaller than 10. These results indicate that the regression model does not contain symptoms of multicollinearity

Linear Regression Test

Table 6. Linear Regression Test Results

Model	*Unstandardized Coefficients*		*Standardized Coefficients*		
	B	***Std. Error***	**Beta**	**t**	**Sig.**
(Constant)	0.026	0.353		0.074	0.941
Profitability (X1)	28,142	2,064	0.790	13,637	0,000
R*Square*	0.624				
Adjusted*R*Square	0.621				
F	185,968				
Significance of F	0,000				

Source: Data processing results, 2024

Based on Table 6, the following regression equation is obtained.

$Y = 0.026 + 28.142X1$ ……………………………………………..…………………..(1)

Table 6 shows a constant value of 0.026. This value means that if profitability is zero, the value of the company value will be 0.026 percent. The coefficient value on profitability of 28.142 means that if profitability increases by one percent, the company value will increase by 28.142 percent assuming other factors are constant.

The value of the coefficient of determination (*Adjusted*R*Square*) of 0.621. This value means that 62.1 percent (62.1%) of the variance in company value is influenced by profitability,while 37.9 percent (37.9%) were influenced by other factors outside the research model. The results of the F test calculation show a significance of less than 0.05 (0.000 ≤ 0.050). This means that the model is said to be able to predict observations because it matches the data used.

Moderated Regression Analysis Test

Table 7. Moderated Regression Analysis Test Results

Model	*Unstandardized Coefficients*		*Standardized Coefficients*		
	B	*Std. Error*	Beta	t	Sig.
(Constant)	0.943	0.173		5,457	0,000
Profitability (X1)	9,054	2,086	0.473	4,340	0,000
Dividend Policy (X2)	0.040	0.119	0.025	0.340	0.084
Profitability*Dividend Policy (X1X2)	-7,295	2,390	-0.343	-3,052	0.063
R*Square*	0.581				
Adjusted*R*Square	0.566				
F	39,694				
Significance of F	0,000				

Source: Data processing results, 2024

Based on Table 7, the regression equation can be prepared as follows.

Y=0.943+9.054X1+0.040X2+7.295X1X2

The equation shows a constant value of 0.943. This value means that if profitability, dividend policy, the interaction between profitability and dividend policy is zero, it will result in a company value of 0.943 units. The interaction coefficient between profitability and dividend policy shows a value of 7.295. This value means that if the interaction between profitability and dividend policy increases by one percent, the company value will decrease by 7.295 percent assuming other factors are constant. Mark*Adjusted*R*Square*equal to 0,566has the meaning that56,6percent (56,6%) variance of company value is influenced by profitability and dividend policy, meanwhile43,4percent (43,4%) is influenced by other factors outside the research model. The results of the F test calculation show a significance of less than 0.05 (0.000 ≤ 0.05). This means that the model is said to be able to predict observations because it matches the data used.

The Influence of Profitability on Company Value

The results of the analysis show that profitability has a positive effect on company value. Research supports signaling theory which explains the shareholder perspective regarding opportunities to increase company value, where profitability is one of the important pieces of information for shareholders. The higher the profitability ratio, the better the company's performance because the returns obtained are greater. The research results mean that the higher the profitability as proxied by ROA, the higher the company value as proxied by Tobins Q. High profitability will indicate that the company has good financial performance. This can increase demand for shares due to the increased level of confidence of investors and potential investors. The results of this research strengthen research conducted by Nurmadi & Novietta (2022), Sholatika & Triyono (2022), Kanta et.al., (2021), Cordiaz (2021), which stated that profitability has a positive effect on company value.

The Effect of Dividend Policy on the Relationship between Profitability and Company Value
The results show that dividend policy does not moderate the effect of profitability on firm value. The results of the analysis of the direct influence of profitability show that profitability has an influence on company value with a positive coefficient value, while the coefficient of the interaction variable between profitability and dividend policy on company value is negative, so it can be concluded that dividend policy weakens the positive influence of profitability on company value. These results indicate that the level of profitability is able to provide a positive signal to investors regarding the value of the company, however, dividend policy has not been able to strengthen investors' assessment of company shares when there is an increase in profitability. Information regarding dividends distributed is information that has no influence on the level of company value. Profitability information can be a positive signal for investors, but not dividend policy which cannot strengthen shareholders' views regarding high profitability.

CONCLUSION

Based on the results of data analysis and discussions that have been carried out, the following conclusions can be drawn:
1) Profitability has a positive effect on company value. This shows that the higher the profitability, the higher the company value of companies registered in the consumer goods sector for the 2017 - 2022 period.
2) Dividend policy is unable to moderate the relationship between profitability and firm value. These results indicate that dividend policy has not been able to strengthen investors' assessment of company shares when there is an increase in profitability in companies listed in the consumer goods sector for the 2017 - 2022 period.

This research is limited to profitability and dividend policy to measure their influence on company value and only in the consumer goods sector.Future researchers are expected to be able to analyze other factors that influence company value, such as the investment opportunity set which will help investors gain profits in the future and other factors and can research sectors other than consumer goods.

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