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Dividend Policy as a Mediator between Profitability, Firm Size, and Firm Value in Indonesian Manufacturing Companies

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ABSTRACT : The role of a company's value in the perception of society is undeniably crucial for the survival of a business. Consequently, many companies strive to enhance their image through various means, such as increasing dividends to shareholders. This study aims to investigate the impact of profitability and firm size on firm value and dividend policy in manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2021 period. The sampling technique employed was purposive sampling, resulting in a sample of 35 companies observed over three years, yielding a total of 105 observations. The findings of this study indicate that profitability and firm size have a positive effect on dividend policy; profitability and dividend policy positively affect firm value, while firm size does not influence firm value. Additionally, dividend policy mediates the relationship between profitability and firm size on firm value. The implications of these findings for business practice suggest that companies, particularly manufacturers, should consistently monitor profitability, total assets (firm size), and dividend policy, as these factors have been shown to influence firm value.

KEYWORDS:*Company Value, Dividend Policy, Firm Size, Firm Value, Profitability*

I. INTRODUCTION

The significance of a company's value in the eyes of the public cannot be overstated for the survival of a business. It is often observed that many companies strive to enhance their image through various means, such as increasing dividends for shareholders, engaging in corporate social responsibility (CSR) activities for the broader community, and publishing financial statements with high integrity (Manuari and Devi, 2021). Company value can also be interpreted as the company's efforts to achieve its business goals. Enhancing company value can be viewed as a success for the company, as it brings wealth to investors, thereby attracting them to invest in the company. The value of a company is expressed as the stock price, meaning the market value of the stock depends on the company's value (Risqi, 2022; Tanasya, 2020). According to Idris (2021), company value can be measured by monitoring the company's stock price in the stock market, as it reflects the perception of all shareholders regarding the company's equity. Stock prices can be used as a benchmark for evaluating the overall performance of a company, as the performance shown in the financial statements greatly influences the company's value in the eyes of stakeholders (Putra and Manuari, 2024).

Dividend policy also significantly influences company value. A company that distributes higher dividends compared to its peers is perceived to have better performance, thereby increasing its value in the eyes of investors. Dividend policy is often considered a positive signal from the company to stakeholders, as the attractiveness of dividends is crucial in attracting potential investors to invest in the company. Factors suspected to affect company value and dividend policy include profitability and company size.

Profitability is a crucial parameter for measuring company value when predicting future prospects. This parameter is essential in assessing the return that investors can expect from investing in the company. According to Ali et al. (2021), profit is an aspect that can influence company value. If management can efficiently manage the business, the costs incurred will be relatively low, leading to higher profits. Business value can also be affected by the magnitude of the profits generated. Research conducted by Huda et al. showed a positive influence of profitability on company value, whereas studies by Ali et al. (2021) indicated a significant negative effect of profitability on company value, while Farizki (2021) and Natalie (2022) found no effect.

Profitability is defined as the company's ability to generate profit through sales. Profitability can be measured by examining the company's total assets or equity (Agatha, 2021). The level of profitability impacts the number of dividends distributed to shareholders. Research by Aldi (2020) showed that profitability has a significant positive effect on dividend policy; however, Ali et al. (2021) found that profitability has a significant negative effect on dividend policy.

The second factor suspected to influence company value and dividend policy is company size, which can be measured by total assets or total sales. Company size reflects the company's condition, where larger companies have excess funds accumulated to finance their investments, thereby obtaining higher returns, which, in turn, affects the number of dividends paid to shareholders and influences the company's value. Research by Aldi (2020) found that company size positively affects company value; however, Burhan (2024) stated that company size does not affect company value. The dividend policy, suspected to be influenced by company size, cannot be denied, as larger companies are expected to provide higher dividends. Research by Huda, et al. (2023) showed that company size significantly positively affects dividend policy, while Oktaviarni (2019) found that profitability significantly negatively affects dividend policy.

Dividend policy is a part of corporate financing decisions, particularly concerning internal financing. This is because the number of dividends distributed will affect the amount of retained earnings. Retained earnings are one of the company's internal sources of funds (Fahmie, 2022). Dividend policy influences the company's decision on how the profits generated will be distributed to shareholders as dividends or retained for future investment expenses. The number of dividends paid by the company can affect the stock price, as investors prioritize dividend income over capital gains (Nugraha, 2020). Research by Agatha (2021) explains that if a company increases its dividend payment, it can be interpreted by investors as a signal that management expects to improve the company's future performance, meaning that dividend policy positively affects company value. Conversely, reducing dividend payments is considered poor business practice, a conclusion supported by Oktaviarni's (2019) research. Ali, et al. (2021) found that dividend policy positively affects company value, differing from Nugraha (2020), who stated that dividend policy does not affect company value.

Dividends are a distribution of a portion of profits to shareholders. The number of dividends distributed by a company is determined by shareholders during the General Meeting of Shareholders (GMS). According to Aldi (2020), dividend policy involves deciding whether the company's profits will be distributed to shareholders as dividends or retained for future investment expenses. Based on this, the hypotheses formed in this study are: (H1) profitability positively affects dividend policy; (H2) company size positively affects dividend policy; (H3) profitability positively affects company value; (H4) company size positively affects company value; (H5) dividend policy positively affects company value; (H6) dividend policy mediates the relationship between profitability and company value; (H7) dividend policy mediates the relationship between company size and company value.

II. METHODS

The research location in this study is a manufacturing company listed on the Indonesia Stock Exchange for the period 2019 to 2021 which is accessed via www.idx.co.id. The population in this research is all manufacturing companies listed on the Indonesia Stock Exchange for the period 2019 to 2021. Manufacturing companies are companies that sell their products starting with an uninterrupted production process. The production process starts from purchasing raw materials, processing the materials until they become products that are ready to be sold. Where this is done by the company itself so it requires a source of funds that will be used on the company's fixed assets. Manufacturing companies require more long-term sources of funds to finance company operations, one of which is investment in shares by investors.

The sampling technique used is *purposive sampling*, namely, a sample determination technique that is carried out by taking certain data that is correctly selected by the researcher based on the special characteristics of the sample. *Purposive* samples are samples that are carefully selected so that they are relevant to the research plan. Researchers will try to ensure that the sample contains representatives from all levels of the population (Aldi, 2020) . The criteria used in the research sample are manufacturing companies listed on the Indonesia Stock Exchange from 2019-2021; Manufacturing companies listed on the Indonesia Stock Exchange whose financial reports can be accessed consecutively during the 2019-2021 period; Manufacturing companies that report financial statements using rupiah currency units during the 2019-2021 period; Manufacturing companies listed on the Indonesian Stock Exchange that distribute dividends during the 2019-2021 period. Thus,the research sample is 35 companies with an observation period of 3 years, resulting in 105 sample companies.

The data analysis method in this research uses PLS (*Partial Least Square*) with the SmartPLS 3.0 program tool. The analytical approach used is quantitative. The reason for choosing PLS as an analysis tool in this research is because apart from being able to explore relationships between variables whose theoretical basis is weak or does not yet exist (in the form of testing propositions), it can also be appropriately used for types of research that test explanatory factors for variable Y, such as this research. Because PLS provides detailed values regarding which factors are more dominant in explaining Y. Hypothesis testing in this research was carried out using the method*bootstrapping*, to see the significance of the influence between variables by looking at the parameter coefficient values and the significance value of the T-statistic.In *the path coefficient*, the relationship between two variables can be categorized as significant if the *path coefficient value* is > 0,1 and when using *a two-sided t test* it is significant at 0,05 (5%). The *path coefficient* value is declared significant if the T- *statistic value* is greater than 1,96.

III. RESULTS AND DISCUSSION

Based on Table 1, it is known that the number of observations in the research (N) was 105 and the following are the results of descriptive statistical analysis of these observations. The results of descriptive statistical analysis of profitability in manufacturing companies listed on the BEI in 2019-2021 show a minimum value of -49,91615463, the maximum value is 1.384,69068616, the average (mean) is 21,7199847657, and the standard deviation is 134.78102487058. The results of descriptive statistical analysis of company size in manufacturing companies listed on the IDX in 2019-2021 show a minimum value of 441.254, a maximum value of 179.356.193, an average (mean) of 16.716.015,8761904760, as well as the standard deviation of 31.496.050,89485157300. The results of descriptive statistical analysis of company value in manufacturing companies listed on the BEI in 2019-2021 show a minimum value of 3E-8, a maximum value of 0,00097478; an average (mean) of 0,0000543515, and a standard deviation of 0,00014993786. The results of descriptive statistics on dividend policy in manufacturing companies listed on the IDX in 2019-2021 show a minimum value of -1, a maximum value of 19,75133291, an average (mean) of 0,8549107750 and a standard deviation of 2,16131763707.

Table 1. Results of Descriptive Statistical Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Profitabilitas	105	-49,91615463	1384,69068616	21,7199847657	134,78102487058
Ukuran Perusahaan	105	441.254,0	179.356.193,0	16.716.015,8761904760	31.496.050,89485157300
Nilai Perusahaan	105	3E-8	0,00097478	0,0000543515	0,00014993786
Kebijakan Dividen	105	-1,00000000	19,75133291	0,8549107750	2.16131763707
Valid N (listwise)	105				

Source: Processed data (2023)

Based on Table 2, the adjusted R-square value for the dividend policy variable is 0.426 or means that 42.6% of the dividend policy variable is influenced by profitability and company size, the remaining 57.4% is influenced by other factors outside the variables studied. The adjusted R-square value for the company value variable is 0.351 or means that 35.1% of the company value variable is influenced by profitability and company size, 64.9% of the dependence is influenced by other factors outside the variables studied.

Table 2. R-square test results

	R Square	R Square Adjusted
Dividend Policy	0,437	0,426
Firm Value	0,370	0,351

Source: Processed data (2023)

Table 3. Direct Effect Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics (|O/STDEV|)	P value
Dividend Policy -> Company Value	0,355	0,372	0,125	2,840	0,005
Profitability -> Dividend Policy	0,582	0,574	0,095	6,121	0,000
Profitability -> Company Value	0,483	0,469	0,111	4,357	0,000
Company Size -> Dividend Policy	0,208	0,212	0,070	2,961	0,004
Company Size -> Company Value	0,171	0,176	0,101	1,690	0,094

Source: Processed data (2023)

Table 3 shows the p-value and t statistics for each variable are obtained which are explained as follows. The p-value of the dividend policy variable towards the company value is 0,005 which is compared with a significant value of 0,05. Because the p-value is < significant value (00,05 < 0,05) with a beta value of positive 0,355 and a statistical t value of 2,840 which is compared with the t-table of 1,96. Because the t-statistics value > t-value (2,840 > 1,96) thus it can be concluded that dividend policy has a positive effect on company value (supporting H5).

The p-value of the profitability variable on dividend policy is 0,000 which is compared with a significant value of 0,05. Because the p-value is < significant value(0,000 < 0,05) with a beta value of positive 0,582 and a statistical t value of 6,121 which is compared with the t-table of 1,96. Because the t-statistics value > t-value (6,121 > 1,96) it can be concluded that profitability has a positive effect on dividend policy (supporting H1).

The p-value of the profitability variable on company value is 0,000 which is compared with a significant value of 0,05. Because the p-value is < significant value(0,000 < 0,05) with a beta value of positive 0,483 and a statistical t value of 4,357 which is compared to the t-table of 1,96. Because the t-statistics value > t-value (4,357 > 1,96) it can be concluded that profitability has a positive effect on company value (supporting H3).

The p-value of the company size variable on dividend policy is 0,004 which is compared with a significant value of 0,05. Because the p-value is < significant value(0,004 < 0,05) with a beta value of positive 0,208 and a statistical t value of 2,961 which is compared with the t-table of 1,96. Because the t-statistics value > t-value (2,961 > 1,96) it can be concluded that company size has a positive effect on dividend policy (supporting H2).

The p-value of the company size variable on company value is 0,094 which is compared with a significant value of 0,05. Because the p-value is > significant value(0,094 > 0,05) with a beta value of positive 0,171 and a statistical t value of 1,690 which is compared with the t-table of 1,96. Because the t-statistics value < t-value (1,690 <1,96) it can be concluded that company size has no effect on company value (not supporting H4).

Table 4 shows the indirect effect test results. Based on the Table 4, the *p-value* and t statistics for each variable are obtained which are explained as follows. The *p-value of* the profitability variable on company value is mediated by dividend policy at 0,036 which is compared with a significant value of 0,05. Because the *p-value* is < significant (0,036 < 0,05) with a beta value of positive 0,206 and a statistical t value of 2,129 which is compared with the t-table of 1,96. Because the t-statistics value > t-value (2,129 > 1,96), it can be concluded that dividend policy can significantly mediate profitability on company value (supporting H6).

Table 4. Indirect Effect Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics (|O/STDEV|)	P value
Profitability -> Dividend Policy -> Company Value	0,206	0,221	0,097	2,129	0,036
Company Size -> Dividend Policy -> Company Value	0,074	0,075	0,029	2,544	0,012

Source: Processed data (2023)

The p-value of the company size variable on the value mediated by the company by dividend policy is 0,012 which is compared with a significant value of 0,05. The *p-value* is < significant value (0,012 < 0,05) with a beta value of positive 0,074 and a statistical t value of 2,544 which is compared with the t-table of 1,96. Because the t-statistics value > t-value (2,544 > 1,96) it can be concluded that dividend policy can significantly mediate company size on company value (supporting H7).

IV. CONCLUSION

The findings of this study provide empirical evidence that profitability and company size positively influence dividend policy and company value. Dividend policy also positively influences company value and partially mediates the relationship between profitability and company size with company value. However, the direct effect of profitability on company value is not significant. This study's results align with several previous studies and offer new insights into the impact of dividend policy as a mediating variable in the relationship between profitability and company size with company value.From a managerial perspective, these findings suggest that companies should consider both profitability and company size in determining their dividend policies, as these factors directly and indirectly affect company value. Additionally, understanding the role of dividend policy as a mediator can help managers better align their financial strategies to enhance company value, ultimately benefiting shareholders.Future research could explore other factors that may influence company value and dividend policy, such as market conditions, regulatory changes, or industry-specific variables, to provide a more comprehensive understanding of the dynamics between these variables.

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