

Navigating the Interplay of Profitability, Debt Policy, and Dividend Strategy in Business Valuation

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ABSTRACT

Dividend policy is often considered a good signal for investors in assessing the good and bad of the company, the increase and decrease of the Dividend Policy contains information on the current state of company management and the state of profits in the future. This study was conducted to determine and analyze the Effect of Profitability and Debt Policy on Company Value with Dividend Policy as an Intervening Variable. This study was conducted using associative quantitative methods. The number of samples in this study based on criteria was obtained as many as 112 data from 16 companies for 7 periods with the Eviews 11 testing tool. The analysis techniques used are descriptive statistical analysis, panel data regression testing, classical assumption testing, and path analysis. Next, hypothesis testing using f test, t test and coefficient of determination assisted by using Eviews 11 program. The results showed simultaneous tests that profitability, debt policy and dividend policy had a significant effect on the value of the company. The results of the track test show that dividend policy is able to mediate the relationship between profitability and debt policy to company value.

Keywords: Profitability, Debt Policy, Dividend Policy, Company Value, Financial Statements

INTRODUCTION

Company value is an investor's perception of the company's success rate, the higher the company's value, the higher the level of prosperity of investors. For investors, company value is an important concept because company value is an indicator of how the market values a company as a whole. High company value is the desire of company owners, because a high value shows high shareholder prosperity. A high company value indicates good company performance.

Company value can be measured by several indicators, namely Price to Book Value (PBV), Price Earning Ratio (PER), and Tobin's Q (Nugraha, et, al., 2020). This study uses the PBV indicator because PBV is a stable measurement and is widely used by securities throughout the country. A higher PBV means that the higher the financial performance with the funds that have been invested by investors, thereby increasing

market confidence in the company's prospects and will attract more investors to buy shares of the company.

The choice of profitability ratio is based on the reason that the profitability ratio shows the effectiveness or performance of the company in generating profit levels using the assets owned. According to (Putri, 2022) the profitability ratio is a ratio that shows how a company is able to generate profits by utilizing the resources it has such as assets, capital and also sales results. The increasing profitability ratio is the result of good management efforts in managing the funds that have been invested by investors. Investors will get positive signals from the company if this ratio continues to increase because it looks to have good business prospects in the future.

Profitability in this study is measured using Return on Assets (ROA), ROA is superior to other ratios because it is able to measure the efficiency of overall capital use. ROA is the rate of return on total assets. (Lajar & Marsudi, 2021) ROA is a comparison between the profit earned and the assets used. The borrower or creditor who has lent funds to the company will get a return on interest, namely from the profits obtained. Also, investors who have bought shares will get returns in the form of dividend payments, dividend payments also come from company profits. Therefore, if the profits obtained are increasing, investors will be happy and many will be interested so that the value of the company will also be better.

According to (Desire & Yuliana, 2020), more debt can increase the value of the company because debt interest costs can reduce tax payments. However, if the use of debt is used only for unprofitable investments, there will be a risk of financial distress. Debt policy can be proxied with DER (debt to equity ratio) which compares the amount of long-term debt with equity in company funding. A low DER indicates that the company's ability to pay its debt using its own capital is getting better, while a high DER means that more debt can later cause financial distress which causes investors not interested in buying shares in the company because they assume that the company is unable to pay its debts so they will not get dividends either. This causes the value of the company to fall due to its stock price falling due to falling demand from investors. Therefore, management must make the right decisions in determining the company's debt policy, because it affects the high and low value of the company.

An Investor in investing his capital definitely wants to get profitable returns from the company. The return on an investment is in the form of dividends. Dividends are part of the company's net profit distributed to the company's shareholders in proportion to the number of shares owned by each owner. Cash dividends received today are better able to reduce the risk of uncertainty and predictions of future dividends will be riskier than dividends paid today (Angelina & Amanah, 2021). As for some companies that are reluctant to pay large amounts of dividends, because they want to maintain liquidity levels and provide protection against uncertain returns. In addition to preventing many shareholders from controlling the company, some companies feel it is better to distribute the smallest dividend than for a company to issue new shares that incur emission costs for shareholders.

In this case, the steps taken by managers to anticipate risk are managers applying conservatism accounting policies by calculating high depreciation to produce low profits that are relatively permanent on decreasing profits so that the results will be reversed in the future. That way the profit and net assets generated will show positive signals that investors will be expected to value the company better than before.

THEORETICAL BASIS

Financial Statements

(Ayu & Kusumawati, 2020) Financial statements are written documents or summaries that present financial information of a company or business entity in a certain period. Financial statements provide an overview of a company's financial performance, including assets, liabilities, revenue, expenses, profits, and cash flow. The main purpose of financial statements is to provide a clear and transparent picture of the financial position and performance of the business to stakeholders, such as investors, creditors, management, and external parties.

Financial statements are important in business and investment decision making. Stakeholders use financial statements to analyze the financial health, operational performance, and ability of the company to generate profits and manage its financial resources. Sometimes financial statements can also include additional information such as notes to financial statements that provide further explanation of the accounting policies used, risk information, and other important information (Saleh, 2020).

Profitability (ROA)

According to (Assa, et, al., 2021) the Profitability Ratio is a ratio to measure overall managerial effectiveness aimed at the size of the level of profit obtained in relation to sales and investment. High profitability is a company's success in obtaining profits based on its assets and based on its own capital. Maintaining profitability is important for the company because high profitability is the goal of the company.

(Sari, et, al., 2020) Profitability is a measure or indicator that measures the ability of a company or business entity to generate profits or profits from its operational activities. Profitability describes the extent to which a company can generate revenue that is greater than the costs incurred in running its business. Return on Assets (ROA) measures how effective the company is in generating profits from its assets. ROA measures a company's net income per dollar of assets owned.

Debt Policy

(Firdarini & Tjahjono, 2022) Debt policy is the company's policy in determining how much the company's funding needs are financed by debt. Debt policy is a company funding policy whose source comes from external companies. Debt policies are generally used more by companies than issuing new shares because they are considered safer. Debt has a positive effect on the value of the company. The benefit of using debt is through interest expense that can reduce taxable profits.

Debt policy refers to the strategy or approach taken by a company or business entity in managing and using sources of funds derived from loans or debt. Debt policy involves decisions on how much debt to take, how the debt will be managed, and how the debt will be used to support business operations and growth (Sapulette & Senduk, 2022).

Company Value

Company value refers to the estimated total amount of all economic resources owned by a firm or business entity. It includes all assets, liabilities, rights, and interests that exist within the company. (Wulandari, et, al., 2022) A company's value assessment is an important step in analyzing a company's financial health and investment potential. A company's value appraisal can be done for a variety of purposes, including acquisitions, sales, stock valuations, investment analysis, and financial decision making.

According to (Wulandari, et, al., 2021), company value is the selling price of the company that is considered feasible by potential investors so that investors are willing to pay if the company makes a price offer. An increase in company value is synonymous with an increase in stock price. So for companies that sell their shares to the public, the indicator is the price of shares traded on the stock exchange. To assess the company, the main source of data used by various parties is the company's financial statements, because the company's financial statements provide information or signals to interest owners to know the state of the company quantitatively.

Dividend Policy

An optimal corporate dividend policy is one that results in a balance between current dividends and future growth that maximizes stock prices (Lajar, 2021). The amount of dividends can affect stock prices, because companies that pay high dividends, stock prices tend to be high so that the value of the company is also high. Conversely, companies that pay low dividends, the company's stock price is also low.

(Suryandari, et, al., 2021) Dividend policy is a strategic decision that considers the interests of the company and shareholders. Every company has different needs and priorities, so dividend policies can vary depending on the situation and goals of the company in the long run. Dividend policy has a direct impact on shareholders. A good dividend can attract investors, while a retention policy can provide further growth opportunities for the company.

METHOD

The research method used is a quantitative approach method with associative causal. Quantitative methods are research approaches that focus on collecting data in the form of numbers and using them to analyze relationships, trends, and patterns in the phenomenon under study. In this method, data is collected through surveys, experiments, or secondary data analysis, and then analyzed using statistical techniques. The associative causal approach is concerned with attempting to find a cause-and-effect relationship between two or more variables.

This study uses the population of companies categorized in LQ45 Companies listed on the Indonesia Stock Exchange in 2014-2020 which amounted to 45 companies. The selection of research samples was carried out based on purposive sampling, namely

the determination of samples based on criteria in accordance with what was desired by the researcher, a sample of 16 LQ45 companies that met the criteria was obtained. The analysis techniques used are descriptive statistical analysis, panel data regression testing, classical assumption testing, and path analysis.

RESULT

The Effect of Profitability on Dividend Policy

Based on the tests conducted, a regression coefficient value of 4.258354 was obtained with a significance level of 0.0000. With a significance level smaller than the required 0.05. So it can be concluded that profitability has a significant effect on dividend policy. In the first hypothesis, it was formulated that profitability affects dividend policy, from the results of the study it is proven that profitability has a significant effect on dividend policy. So it can be concluded that H1 i.e. profitability against dividend policy is received.

From the results of this study, it can be concluded that profitability is a determining factor in the dividend distribution policy of a company. Companies that are committed to distributing dividends regularly with high profitability every year, will give a good signal to investors to invest in a company to get dividends every year.

The Effect of Debt Policy on Dividend Policy

Based on the test conducted, a regression coefficient value of 1.674962 was obtained with a significance level of 0.7851. With a greater than required significance of 0.05, it can be concluded that debt policy has no significant effect on dividend policy. In the second hypothesis, it was formulated that debt policy has an effect on dividend policy, but from the results of this study it was found that debt policy does not have a significant effect on dividend policy. So it can be concluded that H2, namely the debt policy against the dividend policy, is rejected.

The use of high debt will cause a decrease in the company's ability to pay dividends, because most of the profits will be allocated to reserve funds for debt repayment. Companies that have a low level of debt will prioritize the welfare of their shareholders with dividend distribution, on the other hand, if the company has a large level of debt, the company will concentrate more on paying off its obligations than

distributing dividends in order to prevent bankruptcy because it cannot fulfill its obligations to creditors.

The Effect of Profitability and Debt Policy Simultaneously on Dividend Policy

Based on hypothesis testing that has been carried out, it was obtained that simultaneously the independent variables, namely profitability and debt policy, have a significant effect on the dependent variable, namely, the dividend payout ratio on the LQ45 index listed on the Indonesia Stock Exchange in 2014-2020 with an influence level of 56.4373%, the remaining 43.5653% is influenced by other factors not explained in this study. This result is proven by testing the F Test with a Prob value (F-statistic) of 0.000000 or the result of the F value calculated $> F$ Table ($9.459139 > 3.08$) $< \alpha$ a significance of 0.05 which means that simultaneously the independent variable has a significant effect on the dependent variable. This significant influence can be seen from the value of the coefficient and the level of probability that arises from each independent variable in this study.

A third hypothesis is formulated that profitability and debt policy have a simultaneous effect on dividend policy. In this study, it was found that simultaneously profitability, debt policy had an effect on dividend policy by 56.4373%. This means that there is a significant influence between profitability and debt policy on dividend policy, so that H3 is accepted. If the manager chooses to distribute profits to shareholders as dividends, this will be a positive signal for investors, which means that the company is still able to pay its profits to creditors and distribute dividends to shareholders. However, the risk in this case is that it will reduce internal sources of funds and also reduce retained earnings for investment financing in the future.

The Effect of Profitability on Company Value

Based on the test conducted, a regression coefficient value of 0.103720 was obtained with a significance level of 0.0001. With a level of significance smaller than the required 0.05, it can be concluded that profitability has a significant effect on the value of the company. The fourth hypothesis is formulated that profitability affects the value of the company. In line with this study which found that profitability has a significant effect on the value of the company. So it can be concluded that H3 there is a significant influence between profitability and the value of the company received.

Profitability is the most obvious variable that has an influence on the value of the company, this is because companies that experience an increase in profits reflect that the company has a good performance that causes positive sentiment from investors and can make stock prices increase, increasing stock prices in the market means an increase in company value in the eyes of investors.

The Effect of Debt Policy on Company Value

Based on the test conducted, a regression coefficient value of 0.493053 was obtained with a significance level of 0.0361. With a significance level that is less than the required 0.05, it can be concluded that debt policy has a significant effect on the value of the company. The fifth hypothesis formulates that debt policy has an effect on the value of the company. Relevant to this study which results in debt policies having a significant influence on company value. So it can be concluded that H5 is a debt policy against the value of the company received.

Debt policy needs to be managed seriously by company management because the use of high debt will increase the value of the company because the use of debt can save taxes. It can also be a consideration for investors that the company is able to pay its obligations stably.

The Effect of Dividend Policy on Company Value

Based on the test conducted, a regression coefficient value of 0.505317 was obtained with a significance level of 0.0642. With a greater than required level of significance of 0.05, it can be concluded that the dividend policy has no significant effect on the value of the company. The sixth hypothesis formulates that dividend policy has an effect on the value of the company. However, in this study it was found that dividend policy did not have a significant effect on the value of the company. So it can be concluded that H6 is rejected.

These results indicate that the high and low dividends distributed to shareholders are not related to the high and low value of the company. The dividend policy has no effect on the value of the company because shareholders only want to take profits in the short term by obtaining capital gains. Investors consider that small dividend income today is no more profitable when compared to future capital gains.

CONCLUSION

The results showed that the two factors studied, namely profitability and debt policy, have a joint influence on dividend policy. This means that not only one factor influences dividend policy, but both factors play a role together in influencing a company's decision on dividend distribution. The figure of 56.4373% reflects the percentage of how influential these two factors are on dividend policy.

That is, about 56.44% of the variation in dividend policy can be explained by variations in profitability factors and debt policy. The remaining percentage of 43.5653% that is not explained by these two factors may be influenced by other factors that were not included in the study or complex factors in dividend decision making.

Thus, the conclusion shows that profitability and debt policy have a significant influence together on a company's dividend policy. This research provides insight that the company's decision in dividend distribution is not only influenced by one factor, but is influenced by the interaction between profitability and debt policies run by the company.

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