

# Analysis of the Effect of Profitability and Leverage on Firm Value with Dividend Policy as an Intervening Variable in Business Index Companies-27, 2016-2019 Period

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## ABSTRACT

The purpose of this study was to analyse the effect of profitability and leverage on firm value with dividend policy as an intervening variable in Business Index Companies-27, 2016-2019 period. This type of research is a quantitative descriptive study. The population in this study is the companies in Business Index Companies-27 on the Indonesia Stock Exchange. The sampling method used was purposive sampling method, in which each company population has sample criteria. This study uses secondary data. The data analysis method in this study used descriptive statistical analysis and structural equation modeling (SEM) with the Smart PLS 3 analysis tool. The results of this study found that profitability has a positive and significant effect directly on firm value on the Business Index Companies-27. Leverage does not directly effect firm value. Dividend policy has a positive and significant effect directly on firm value. Profitability directly effect dividend policy and leverage directly does not have a significant effect on dividend policy. Then, indirectly, profitability through dividend policy has a significant effect on firm value while leverage through dividend policy has no significant effect on firm value for the Business Index Companies-27 for the 2016-2019 period.

**Keywords:** Profitability, Leverage, Dividend Policy, Firm Value

## INTRODUCTION

The establishment of a company has objectives including to achieve maximum profit, want to prosper the owner or shareholders and maximize the value of the company as reflected in the share price. In maximizing firm value, companies must compete by showing their respective competitive advantages. This competition creates competitors which result in business dynamics. Changing business dynamics cause many companies to need additional funding to further develop their businesses in order to survive.

The main goal of any company is to increase company value. A company has a goal to prosper its owners, in this case shareholders, by increasing company value (Cahyaningdyah, 2012). High corporate value is the desire of company owners, because in general, a high value shows that the shareholder's prosperity is also high. The value of the company in the eyes of investors and creditors is important to know because it will provide a positive signal in the eyes of investors to invest in a company, while for creditors the value of the company reflects the company's ability to pay its debts so that creditors do not feel worried about providing loans to the company.

The consistent increase in company value will make investors believe not only in the company's current performance but also in the company's prospects in the future and will reflect the growth opportunities of a company or the business sustainability of a company. Firm value can be measured by price to book value (PBV) which illustrates that the higher PBV means the market believes in the company's prospects (Brigham and Houston, 2011). In this study, the authors use PBV because it is a ratio that provides precise information, it is determined that the PBV value is a ratio that measures the value that financial markets provide to management and company organizations as a company that continues to grow. PBV shows how far the company is able to create firm value relative to the amount of invested capital. The ratio of the market price of a stock to its book value provides an indication of how investors view the company (Brigham and Houston, 2011). The greater the PBV ratio value indicates that the company has good growth prospects.

In stock investing, the performance of stocks can be reflected in the Index. In Indonesia Stock Exchange, currently has 24 types of stock price index. One of the indices that is currently quite attractive to investors is the Business-27 Index. The Bisnis-27 Index is the result of a collaboration between the Indonesian Stock Exchange and Bisnis Indonesia daily. As an independent party, Bisnis Indonesia daily can manage this index in a more independent and flexible manner, where the selection of index constituents is based on the performance of issuers with fundamental selection criteria, historical transaction data (technical) and accountability. Investors' decision to invest in the Bisnis-27 Index was encouraged because of the hope of obtaining a return on their investment. The better the performance of a company, the more it will attract investors because the expected profits will also be even greater. The reason for choosing the Bisnis-27 Index as the object of research is because it is one

of the blue chips which is considered by the stock exchange as a favorite stock. In addition, the Bisnis-27 Index is the result of cooperation between the Indonesia Stock Exchange (IDX) and Bisnis Indonesia Daily to manage this index more independently and flexibly, where the selection of index constituents is based on issuer's performance with fundamental selection criteria, historical transaction data (technical) and accountability. With these criteria, it is hoped that the company's shares in the Bisnis-27 Index will be able to attract investors to invest in the company and provide added value to the company.

Based on the data, it can be seen that PBV listed on the Business-27 Index fluctuated from 2016 to 2019, namely in 2016 the PBV value was 3.09 and increased by 3.13 in 2017 but in 2018 it decreased by 3, 10 and increased again in 2019 by 3.15. From this event it can be concluded that PBV Business-27 Index should not fluctuate every year because the conditions in selecting companies to be listed in the Bisnis-27 Index must have good company performance and also measured fundamentally, historical transaction data (technical) and accountability increase the value of the company.

The decline in company value was due to the management's inaccuracy in applying factors that could maximize firm value. These factors can be in the form of internal factors, namely profitability, leverage, company size, growth and dividend payments. The variables in these internal factors can be controlled by the company. Internal factors of this study only focus on profitability ratios, leverage ratios and dividend payments because profitability ratios, leverage ratios and dividend payments have certain relationships and characteristics. Profitability is the main goal of a company, therefore profitability is considered important in this study. Meanwhile, leverage has a good or bad influence on the company. The company must generate profits in order to cover its obligations. In addition, dividend payments

are one of the factors in maintaining company value because the more often the company makes dividend payments, the more shareholders will be interested in making reinvestments to the company and it will directly increase the company's value.

Profitability is one of the internal factors in influencing the ability of a go-public company to achieve its long-term goals to increase company value. For investors, the company's ability will be seen in terms of profitability because stock price stability is highly dependent on the level of profits earned and dividends in the future (Sartono, 2009). Profitability focuses the company to generate profits that can be measured by return on assets (ROA). ROA describes the extent to which the company's ability to generate profits that can be obtained by shareholders (Tandelilin, 2010). ROA can affect a company's PBV, because an increase in the ROA ratio will make investors more interested in buying company shares.

Copeland and Weston (1992) define the probability to which the firm generates a return on its sales and investment. If the company's profitability is good, then stakeholders consisting of creditors, suppliers and investors will see the extent to which the company can generate profits from sales and company investment. With good company performance will also increase company value. Angg (1997) states that profitability affects firm value positively. Because the profitability ratio shows the company's success in generating profits.

Leverage is the use of debt by a company to carry out company operations. According to Horne (2014) financial leverage is the use of sources of funds that have fixed expenses, with the hope that it will provide additional benefits that are greater than fixed expenses, so that shareholder profits increase. Leverage is one of the tools widely used by companies to increase their capital in order to increase profits (Arif and El-Wahid, 2011). The increase and decrease in the level of debt

has an influence on market valuation. A large excess of debt will have a negative impact on firm value (Ogolmagai, 2013).

The leverage ratio in this study is proxied by the ratio of debt to assets ratio (DAR). DAR is a comparison between the total debt owned by the company and the total assets owned by the company (Horne, 2014) According to Adenugba (2016) the greater the leverage, the lower the profit that will be distributed to shareholders, the lower profits this company gets will have an impact on the prospect assessment. company, a small profit will lead to lower company value.

The purpose of this study was to analysis of the effect of profitability and leverage on firm value with dividend policy as an intervening variable in Business Index Companies-27, 2016-2019 period.

## **RESEARCH METHODS**

This type of research is a quantitative descriptive study. According to Sugiyono (2013) quantitative research methods are research methods based on the philosophy of positivism, used to research on certain populations and samples. Judging from the method, this research is descriptive correlational. Correlational descriptive research is a study conducted with the aim of detecting the extent to which variations in a factor are related (correlated) with one or another factor based on the correlation coefficient.

The population in this study is the in Business Index Companies-27 on the Indonesia Stock Exchange. The sampling method used was purposive sampling method, in which each company population has sample criteria.

This study uses secondary data. The data analysis method in this study used descriptive statistical analysis and structural equation modeling (SEM) with the Smart PLS 3 analysis tool.

## RESULT

### Descriptive Statistical Analysis

Descriptive statistical analysis can provide an overview of the research object sampled. This can be seen from the average value, standard deviation, maximum value and minimum value used in this study.

Based on the data, the number of research samples of 88 shows the average ROA is 7.969 and the standard deviation of ROA is 5.793. The mean DAR was 0.436 and the standard deviation of DAR was 0.213. The DPR's mean was 45.545 and the DPR's standard deviation was 29.213. The average PBV was 2,880 and the standard deviation of PBV was 1.755.

Based on the data, it can be seen that the company listed on the 27th Business Index in a row from 2016 to 2019 that has the highest profitability (ROA) is PT Surya Citra Media Tbk from 2016 to 2018. As for the lowest profitability (ROA) is PT Vale Indonesia Tbk in 2016 and 2017 and followed by PT Astra Agro Lestari Tbk in 2019. From these results it can be seen that the company's ability to generate profits on its operations is not the same, there are those who get very high profits and there are also companies that have very high profits. low.

Based on the data, it shows that the companies listed on the 27th Business Index in a row from 2016 to 2019 that have the highest leverage (DAR) are PT Bank Rakyat Indonesia Tbk, while for the lowest leverage (DAR) is PT Vale Indonesia Tbk in 2019 and followed by PT Indocement Tunggul Prakasa Tbk in 2016. From these results it can be seen that the level of dependence of companies on debt in financing their

operations is not evenly distributed, some have a high DAR level and some companies have a low DAR level.

Based on the data, it can be seen that the companies listed on the 27th Business Index in a row from 2016 to 2019 have the highest dividend policy (DPR), namely PT Indocement Tunggul Prakasa Tbk, while the lowest dividend policy (DPR) is PT Vale Indonesia Tbk and PT Bumi Serpong Damai Tbk. This can occur because each company has different decisions and policies in paying dividends to shareholders.

Based on the data, it shows that the companies listed on the 27th Business Index in a row from 2016 to 2019 have the highest company value (PBV), namely PT Surya Citra Media Tbk and followed by PT Charoen Pokphand Indonesia Tbk while the lowest Company Value (PBV) is PT Adaro Energy Tbk and followed by PT Bumi Serpong Damai Tbk. From these results it can be seen that the firm's value can be assessed from the company's performance, if the company's performance increases, it can affect investors' perceptions of the company so that the company's value increases, on the other hand, if the company's performance decreases, the investor's perception is bad about the company and it reduces the company's value.

### Hypothesis Testing Results

The purpose of this study was to analysis of the effect of profitability and leverage on firm value with dividend policy as an intervening variable in Business Index Companies-27, 2016-2019 period.

Table 1. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics	P Values
ROA→ PBV	0.736	0.740	0.091	8.085	0.000
DAR→ PBV	0.129	0.142	0.085	1.523	0.128
DPR→ PBV	0.723	0.722	0.081	7.525	0.000
ROA→ DPR	0.767	0.773	0.084	7.449	0.000
DAR→ DPR	-0.125	-0.123	0.165	0.755	0.450
ROA→ DPR→ PBV	0.733	0.723	0.075	8.287	0.000
DAR→ DPR→ PBV	-0.015	-0.022	0.029	0.526	0.599

Source: Processed Smart PLS (2021)

The results of this study found that profitability has a positive and significant effect directly on firm value on the Business Index Companies-27. Leverage does not directly effect firm value.

Dividend policy has a positive and significant effect directly on firm value. Profitability directly effect dividend policy and leverage directly does not have a significant effect on dividend policy.

Then, indirectly, profitability through dividend policy has a significant effect on firm value while leverage through dividend policy has no significant effect on firm value for the Business Index Companies-27 for the 2016-2019 period.

## **CONCLUSION AND SUGGESTION**

### **Conclusion**

The results of this study found that profitability has a positive and significant effect directly on firm value on the Business Index Companies-27. Leverage does not directly effect firm value. Dividend policy has a positive and significant effect directly on firm value. Profitability directly effect dividend policy and leverage directly does not have a significant effect on dividend policy. Then, indirectly, profitability through dividend policy has a significant effect on firm value while leverage through dividend policy has no significant effect on firm value for the Business Index Companies-27 for the 2016-2019 period

### **Suggestion**

Suggestions in this research are:

1. For companies that are listed in the Business Index Companies-27, it is better if they manage the company's performance more optimally and can also consider external factors such as inflation, exchange rates, interest rates and government policies in increasing their share prices so that the company's value can also increase.
2. Further researchers are expected to further investigate the value of the firm by adding other variables as independent and intervening variables, such as other

financial ratios, inflation, exchange rates and the need to add the number of company sectors under study.

3. In research that will be carried out by further researchers, it is better if the research is to make observations with more than four years in order to obtain more accurate data.

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