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# THE EFFECT OF DIVIDEND POLICY, DEBT POLICY, AND INVESTMENT POLICY, ON COMPANY VALUE, WITH PROFITABILITY AS A MEDIATION VARIABLE

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**Abstract**

This study aims to examine the effect of dividend policy, debt policy, investment policy and profitability on firm value and profitability which mediates the effect of debt policy and investment policy on firm value. This research will be conducted using a quantitative approach. The population related to this research is manufacturing companies that went public that were listed on the IDX for the 2015-2019 period. The sample selection used purposive sampling so that 7 companies were obtained. Data analysis used descriptive data analysis, normality test, multiple linear regression analysis and path analysis. The results of the study show that dividend policy has a negative and insignificant effect on firm value. Debt policy has a positive and insignificant effect on firm value. The investment policy ratio has a positive and insignificant effect on changes in firm value. Profitability has a positive and significant effect on firm value. Profitability does not have a mediating role in the relationship between debt policy and firm value. Profitability does not have a mediating role in the relationship between investment policy and firm value.

## INTRODUCTION

The manufacturing industry is a favorite in stock transactions because generally listed companies in this sector have high company values. According to the 2022 survey report obtained from the Central Bureau of Statistics, the industrial sector managed to grow 4.01% in the second quarter of 2022 compared to the second quarter of 2021 (year on year/yoy). With this achievement, the industrial sector contributed 0.82% to national GDP growth of 5.44% (yoy) in the second quarter of 2022.

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The industrial sector is a field of business that processes raw materials or semi-finished materials into finished goods that have added value or higher benefits. According to Law No.3 of 2014, industry is all forms of economic activity that manage raw materials or utilize industrial resources, so as to produce goods that have added value or higher benefits. Industrial sector companies need to make new investments in their fixed assets to be able to maximize the company's operational activities to produce the goods produced.

**Table 1. Food and Beverage Sub-Sector Revenue Contribution to GDP in 2022**

| No | Name | Value / IDR trillion |
|---|---|---|
| 1 | Makanan & Minuman | 302,28 |
| 2 | Batu Bara & Kilang Migas | 90,29 |
| 3 | Kimia & Farmasi | 87,39 |
| 4 | Industri Barang Logam | 68,82 |
| 5 | Alat Angkutan | 66,75 |
| 6 | Tekstil | 50,67 |
| 7 | Logam Dasar | 41,30 |
| 8 | Pengolahan Tembakau | 32,31 |
| 9 | Kertas | 31,87 |
| 10 | Karet | 22,81 |

Source: Central Bureau of Statistics, 2021

Based on the survey results in the table above, it shows that in the second quarter of 2022 the food and beverage sub-sector was the largest contributor to the industrial sector GDP, reaching IDR 302.28 trillion (34.44%). After that, the coal processing and oil and gas refining subsector contributed IDR 90.29 trillion (10.29%), the chemical and pharmaceutical industry amounted to IDR 87.39 trillion (9.96%), the metal goods industry amounted to IDR 68.82 trillion (7.84%), the transportation equipment subsector amounted to IDR 66.75 trillion (7.6%) (https://databoks.katadata.co.id/, accessed December 23, 2022).

The results of the percentage of the industrial sector in the sectoral contribution to Gross Domestic Product (GDP) are the highest percentage when compared to other sectors. The existence of this phenomenon, this study will use the object of industrial sector companies listed on the Indonesia Stock Exchange. Another reason for using the industrial sector is that companies in the industrial sector will have a lot of investment in current assets, fixed assets and other assets to support the company's production level of finished goods which have various types to meet market demand for these goods.

Various strategies can be carried out by companies to maintain business stability, one of the strategies that can be done is to maintain company value. Where company value is an important concept for investors because company value is an indicator of how the market assesses the company as a whole. High company value is the desire of investors, because with high value it shows that shareholder prosperity is also high. Maximizing company value is considered more appropriate as a company goal, because maximizing company value means maximizing the present value of all profits that will be received by shareholders in the future or long-term orientation considering risk

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factors. Firm value can be seen from the company's internal factors, in this case related to financial functions, namely investment, debt and dividend policies will affect expected income and risk. Among the important corporate finance decisions are the choice of debt policy, dividend policy and investment policy. These decisions are very important given their effect on firm value.

Dividend policy is one of the factors that affect firm value. Dividend policy concerns the issue of using profits that are entitled to shareholders. Basically, the profit can be divided as dividends or retained for reinvestment. Dividends have information as a condition of the company's prospects. The greater the dividends distributed to shareholders, the company's performance will be considered good, and in the end the assessment of the company reflected through the stock price will be even better. Thus dividends have an important role in explaining firm value (Sofia and Farida, 2017). On the other hand, there is a view that states that if the dividends currently distributed are large, then the investment made by the company is small so that the company's prospects are not good. This causes investors to be uninterested in investing in the company which will reduce the company's value. Research examining the effect of dividend policy on firm value is shown in Astuti and Yadnya's research (2019), that dividends have a positive and significant effect on Firm Value. However, in the research of Tamrin & Arfah (2017), the results show that dividend policy has a positive and insignificant effect on firm value. In addition, different research results are shown by the research of Ilhamsyah and Soekotjo (2017), that dividend policy has a negative effect on firm value.

The next company policy that must be considered in optimizing company value is investment policy. Investment policy is very important because it will affect the success in achieving company goals. Investment policy involves decisions about determining the allocation of funds into forms of investment that will bring profits in the future. The purpose of investment policy is to obtain high profits with certain risks (Faridah, 2016).

The investment policy carried out by the company is very important for the survival of the company concerned. This is because the investment policy concerns the funds used for investment, the type of investment to be made, the return on investment and the investment risks that may arise. This investment policy is expected to obtain revenues generated from the investment which can cover the costs incurred. Research that discusses the effect of investment policy on firm value is shown in Sudiani's research (2018) that investment decisions or policies have a significant positive effect on firm value. However, research by Cahyaningdyah and Ressany (2012) shows different results, namely investment policy has a negative effect on firm value.

Another policy that must be considered in optimizing firm value is debt policy. Debt policy is carried out by companies to fund operations using financial debt or what is commonly called financial leverage. The existence of debt will be able to improve the company's operations which are expected to increase profits which will ultimately increase stock prices and company value. On the other hand, if the level of debt is too large, it will have an unfavorable impact because the benefits obtained from the use of debt are relatively small compared to the costs it incurs (Septariani 2017). Research examining the effect of debt policy or funding decisions contained in Yohana et al (2021) shows the results that debt policy has a significant negative effect on firm value. Which if the company's debt is high, the company's value will decrease. This is

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supported by Nasution's research (2020) where the results of this study indicate that debt can reduce firm value. However, these results differ from the results of research by Hidayat and Triyonowati (2020) and Tambunan et al (2019) which have a significant positive effect on firm value.

Profitability can also affect firm value. The amount of profitability generated by a company can affect the value of the company by seeing profitability as a measure of the company's performance shown by the profit generated by the company. Companies that are able to make increasing profits, it indicates that the company is able to perform well so that it can create a positive response from investors and also increase the share price of the company. Companies that have high profitability show that the company manages the company's assets effectively and efficiently in earning profits every period (Rudangga and Sudiarta 2016). Research that discusses profitability on firm value is shown in the research of Sabrin et al. (2016) the results of data analysis prove that profitability has affected firm value because the value is positive on profit achievement. These results are supported by research by Sintyana and Artini (2019) that profitability is proven to increase firm value. However, it is different from the results of research conducted by Khotimah (2022) which shows that profitability has no significant effect on firm value.

The results of research by Limbong and Chabachib (2016), show that profitability mediates the effect of sales on the company. Increasing sales will increase the company's profitability which then, with increasing profitability, the company will increase a good return, so that profitability can increase company value. In line with research conducted (Dewi and Abundanti, 2019) which states that profitability significantly mediates the effect of leverage on firm value and profitability significantly mediates the effect of company size on firm value. However, it is different from the results of research conducted by Pratama and Wiksuana, (2016) that the results show that profitability is unable to mediate leverage on firm value.

This study aims to examine the effect of dividend policy, debt policy, investment policy and profitability on the value of manufacturing companies on the Indonesia Stock Exchange and test profitability that mediates the effect of debt policy and investment policy on the value of manufacturing companies on the Indonesia Stock Exchange.

## RESEARCH METHODS

This research will be conducted using a quantitative approach that tests the theory through the research variables concerned. Sujoko et al (2008: 47) state that quantitative research is a study that emphasizes testing theories and hypotheses through measuring research variables in numbers (quantitative) and analyzing data using statistical procedures and / or mathematical modeling. This research is conducted with evidence and supporting data that is in accordance with the facts. Istijanto (2010: 31) states that causal research is research that has the main objective of proving the causal relationship or influencing relationship of two or more variables to be studied.

The research-related population is a go public manufacturing company listed on the Indonesia Stock Exchange for the 2015-2019 period. The sample is part of the population whose characteristics will be investigated and is considered to represent the entire population (Jogiyanto, 2016: 91). The selection of this research sample uses

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purposive sampling method so that a sample is obtained that represents the criteria of manufacturing companies that are still active by selecting non-random samples during the specified period. The criteria determined are as follows: 1) Manufacturing companies in the food and beverage sector whose data is available and listed on the Indonesia Stock Exchange for the period 2017-2021. 2) Companies that publicly publish financial statements in the fiscal year as of December 31 and the financial statements presented have been audited during the 2017-2021 research period. 3) The company presents financial statements using the rupiah currency. 4) Companies that have distributed dividends during the 2017-2021 period. 5) Companies with positive equity (cannot be negative). 6) Companies with positive EPS.

In this study, the data used is financial statement data for the period 2017 to 2021. The data sources that will be used in this study are financial statement data of manufacturing companies listed on the IDX obtained from www.idx.co.id and related company websites.

The data analysis carried out in this study is to take a quantitative approach that uses mathematical and statistical models that are classified by category to make it easier to analyze and process data processing, carried out using SPSS (Statistical Product and Service Solutions) version 25.0. In this study using descriptive data analysis, normality test, path analysis and hypothesis testing to test the effect of dividend policy, debt policy, and investment policy on firm value with profitability as mediation.

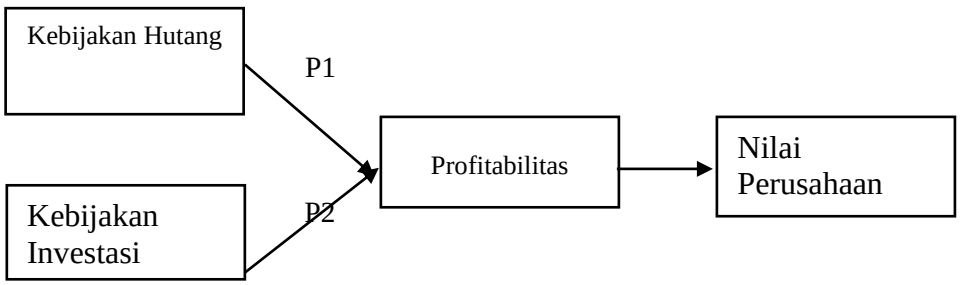
This hypothesis test uses multiple linear regression analysis so that it can be seen the direct effect of dividend policy, debt policy, and investment policy on firm value. The formula for the Multiple Regression equation in this test is :

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Information:

| | |
|---|---|
| Y | = Company value |
| $\alpha$ | = Constant |
| $\beta_1, \beta_2, \beta_3$ | = Regression coefficients |
| $X_1$ | = Dividend policy |
| $X_2$ | = Debt policy |
| $X_3$ | = Investment policy |
| e | = Error |

This path analysis is used to test the effect of mediating variables in this study. The equation model is as follows:




**Gambar 1. Model Analisis Jalur**

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To determine the total effect, calculations will be made through direct and indirect relationships using the following equation.

Direct effect X2 to Y = P1
Indirect effect X2 ke M anf Y = P2 x P3
Total effect (correlation X2 to Y) = P1 + (P2 x P3)
Direct effect X3 to Y = P1
Indirect effect X3 ke M and Y = P2 x P3
Total effect (correlation X3 to Y) = P1 + (P2 x P3)

## RESULTS AND DISCUSSION

This study uses multiple linear regression analysis method and continued with path analysis to test the direct influence of capital structure (DER), dividend policy (DPR) and profitability (ROI) on company value (PBV). For this purpose, the calculation process in data analysis is carried out with a regression model, namely:

**Table 2. Recapitulation of Multiple Regression Calculations**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 0,580 | 1,789 | | 0,324 | 0,748 |
| | DPR | -0,255 | 1,763 | -0,038 | -0,145 | 0,886 |
| | DER | 1,351 | 1,558 | 0,214 | 0,867 | 0,394 |
| | ROI | 0,059 | 0,062 | 0,171 | 0,953 | 0,350 |
| | ROA | 15,563 | 6,840 | 0,452 | 2,275 | 0,031 |
| a. Dependent Variable: PBV | | | | | | |

Source: Appendix of research results

The findings of the calculation of multiple linear regression analysis can then be applied to forecasting methods regarding the magnitude of changes in the dependent variable caused by the magnitude of changes in the independent variable. The calculation results in multiple linear regression analysis show the following results:

$$Y = a + b_1DPR + b_2DER + b_3ROI + b_4ROA$$
$$Y = 0{,}580 - 0{,}255.DPR + 1{,}351.DER + 0{,}062.ROI + 15{,}563.ROA$$

Definition:

a : The constant number a = 0.580 implies that if all independent variables consisting of Dividend Payout Ratio (DPR), Debt to Equity Ratio (DER), Return on Investment (ROI), and Return On Asset (ROA) are equal to 0 (zero), then Price to Book Value (PBV) will be at a level of 0.580 units.

b1 : Dividend Payout Ratio (DPR) regression coefficient b1 = -0.255 implies that if there is an increase in the Dividend Payout Ratio (DPR) variable by 1 (one) unit while the other independent variables in this study are constant, PBV will decrease by 0.255 units.

b2 : The Debt to Equity Ratio (DER) regression coefficient b2 = 1.351 contains the

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meaning that if there is an increase in the Debt to Equity Ratio (DER) variable by 1 (one) unit while the other independent variables in this study are constant, the Price to Book Value (PBV) can increase by 1.351 units.

b3 : Return on Investment (ROI) regression coefficient b3 = 0.059 implies that if there is an increase in the Return on Investment (ROI) variable by 1 (one) unit while the other independent variables in this study are constant, the Price to Book Value (PBV) can increase by 0.059 units.

b4 : Return on Asset (ROA) regression coefficient b4 = 15.563 implies that if there is an increase in the Return on Asset (ROA) variable by 1 (one) unit while the other independent variables in this study are constant, the Price to Book Value (PBV) can increase by 15.563 units.

The simultaneous influence of the independent variables in this study consisting of DPR, DER, ROI, and ROA on the dependent variable, namely PBV, can be known by conducting the F test.

**Table 3. Simultaneous Effect Test Results**

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| **Model** | | **Sum of Squares** | **df** | **Mean Square** | **F** | **Sig.** |
| 1 | Regression | 29,032 | 4 | 7,258 | 1,852 | 0,149[b] |
| | Residual | 101,91 | 26 | 3,92 | | |
| | Total | 130,942 | 30 | | | |
| a. Dependent Variable: PBV | | | | | | |
| b. Predictors: (Constant), AGR_ROI, DPR, ROA, DER | | | | | | |

Source: Appendix of research results

From the calculation results shown in the table above, it is known that $F_{count}$ is obtained at 1.852 with the support of a significance level of 0.149 (p> 0.05). Thus, H0 is not rejected and H1 cannot be accepted so that together the independent variables in this study consisting of DPR, DER, ROI, and ROA have no significant effect on the dependent variable, namely PBV.

The coefficient of determination is a number from the calculation of linear regression analysis which shows the magnitude of the role of the independent variables consisting of DPR, DER, and ROE in predicting variations in the magnitude of the dependent variable, namely Price to Book Value (PBV).

**Table 4. Calculation Results of the Coefficient of Determination**

| Model | R | R Square | Adjusted R Square |
|---|---|---|---|
| 1 | .471[a] | 0.222 | 0.102 |

Source: Appendix of research results

According to the calculation results shown in table above, the coefficient of determination ($R^2$) is 0.222. This implies that changes in the value of the independent variables, namely DPR, DER, ROI, and ROA, affect the magnitude of the dependent

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variable, namely PBV by 22.2% and the remaining 77.8% is influenced by other variables not involved in this study.

The partial influence test was conducted to see the significance of the regression coefficient of each independent variable in this study consisting of DPR, DER, and ROE on the dependent variable, namely PBV. The results of the partial test calculation (titung) on multiple linear regression are shown in the following table.

**Table 5. Partial Effect Test Results**

| Model | | t | Sig, |
|---|---|---|---|
| 1 | (Constant) | 0,324 | 0,748 |
| | DPR | -0,145 | 0,886 |
| | DER | 0,867 | 0,394 |
| | ROI | 0,953 | 0,350 |
| | ROA | 2,275 | 0,031 |

Source: Appendix of research results

As shown above, the Dividend Payout Ratio (DPR) regression coefficient has a $t_{count}$ of -0.145 with a significance of 0.886. Because the $t_{count}$ is supported by a significance figure of 0.886 ($p \geq 0.05$), H1 is rejected or H0 is accepted. In other words, it can be concluded that the Dividend Payout Ratio (DPR) variable has no significant effect on the Price to Book Value (PBV) variable. This means that the increase in Dividend Payout Ratio (DPR) is not able to decrease the significant increase in Price to Book Value (PBV).

The Debt to Equity Ratio (DER) regression coefficient has a $t_{count}$ of 0.867 with a significance of 0.394. Because the $t_{count}$ is supported by a significance figure of 0.394 ($p \geq 0.05$), H2 is rejected or H0 is accepted. In other words, the Debt to Equity Ratio (DER) variable has no significant effect on the Price to Book Value (PBV) variable. This means that an increase in Debt to Equity Ratio (DER) is unable to have a significant effect on increasing the value of Price to Book Value (PBV).

The Return on Investment (ROI) regression coefficient has a tcount of 0.953 with a significance of 0.350. Because the $t_{count}$ is supported by a significance figure of 0.350 ($p \geq 0.05$), H3 is rejected or H0 is accepted. In other words, the Return on Investment (ROI) variable has an insignificant effect on the Price to Book Value (PBV) variable. This finding implies that an increase in Return on Investment (ROI) does not have the ability to increase Price to Book Value (PBV).

The Return on Asset (ROA) regression coefficient has a tcount of 2.275 with a significance of 0.031. Because the $t_{count}$ is supported by a significance figure of 0.031 ($p < 0.05$), H0 is rejected or H4 is accepted. In other words, the Return On Asset (ROA) variable has a positive and significant effect on the Price to Book Value (PBV) variable. This means that an increase in Return On Asset (ROA) has the ability to have a significant effect on changes in the value of Price to Book Value (PBV).

The 5th hypothesis in this study is to analyze the mediating role of the Return On Asset (ROA) variable on the Dividend Payout Ratio (DPR) relationship with Price to Book Value (PBV). The analysis was carried out using the path analysis equation as

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follows:

$$ROA = \alpha + p2\ (DER) + e1 \quad \ldots\ldots (1)$$
$$PBV = \alpha + p1\ (DER) + p3\ (ROA) + e2 \quad \ldots\ldots (2)$$

Note :
p2 = standardized DER value in the 1st equation
p1 = standardized DER value in the 2nd equation
p3 = standardized ROA value in the 2nd equation
$e = \sqrt{1 - R^2}$

The equation is then calculated using the SPSS for Windows program and the calculation output results are as follows:

**Table 6. Calculation Results of Mediation Role (5th Hypothesis)**

| Model | β *Standardized* | $R^2$ | e |
|---|---|---|---|
| Regression I | P2 = -0,349 | 0,122 | 0,439 |
| Regression II | P1 = 0,221<br>P2 = 0,462 | 0,191 | 0,899 |

Source: Appendix of research results

The findings are then further analyzed, namely:

| | | |
|---|---|---|
| Direct effect of DER on PBV | = p1 | = 0,221 |
| The effect of DER on PBV through ROA | = p2 × p3 = -0,349 × 0,462 | = -0,161 |
| Total Effect of DER on PBV | = 0,221 + (-0,161) | = 0,06 |

The calculation results show that the direct effect is greater than the indirect effect. The results of this calculation do not need to be proven further with the calculation of the Sobel test because the requirements of the mediating role are not met. This means that the effect of the DER variable is a direct effect, or in other words, ROA does not have a mediating role in the relationship between DER and PBV.

The 6th hypothesis of this study is to analyze the mediating role of the Return on Asset (ROA) variable in the relationship between Return on Investment (ROI) and Price to Book Value (PBV). The analysis was carried out using the path analysis equation as follows:

$$ROA = \alpha + p2\ (ROI) + e1 \quad \ldots\ldots (1)$$
$$PBV = \alpha + p1\ (ROI) + p3\ (ROA) + e2 \quad \ldots\ldots (2)$$

Note :
p2 = standardized ROI value in the 1st equation
p1 = standardized ROI value in the 2nd equation
p3 = standardized ROA value in the 2nd equation
$e = \sqrt{1 - R^2}$

The equation is then calculated using the SPSS for Windows program and the calculation output results are as follows:

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**Table 7. Calculation Results of Mediation Role (6th Hypothesis))**

| Model | β *Standardized* | $R^2$ | e |
|---|---|---|---|
| Regression I | P2 = 0,149 | 0,022 | 0,989 |
| Regression II | P1 = 0,156<br>P2 = 0,362 | 0,272 | 0,901 |

Source: Appendix of research results

The findings are then further analyzed, namely:

Direct effect of ROI on PBV = p1 = 0,156

The effect of ROI on PBV through ROA = p2 × p3 = 0,149 × 0,362 = 0,053

Total Effect of ROI on PBV = 0,156 + 0,053 = 0,209

The calculation results show that the direct effect is greater than the indirect effect. The results of this calculation do not need to be further proven by the calculation of the sobel test because the requirements of the mediating role are not met. This means that the influence of the ROI variable is a direct influence, or in other words, ROA does not have a mediating role in the relationship between ROI and PBV.

## CONCLUSIONS AND RECOMMENDATIONS

Based on the results of the data analysis carried out in the previous section, the conclusions of this study are: 1) Dividend policy has a negative and insignificant effect on Company value. 2) Debt policy has a positive and insignificant effect on Company value. 3) Investment policy ratio has a positive and insignificant effect on changes in Company value. 4) Profitability has a positive and significant effect on Company value. 5) Profitability does not have a mediating role in the relationship between debt policy and company value. 6) Profitability does not have a mediating role in the relationship between investment policy and company value.

Based on the results of data analysis along with the descriptions in the previous section, the results of this study gave birth to suggestions to several parties, namely: 1) To food and beverage companies on the Indonesia Stock Exchange, Investment policy does not have a significant effect on changes in Company value. Therefore, it is advisable for companies that are the sample of this study to manage their assets more consistently so that they do not use policies that are too aggressive in adding to the value of assets owned by the company. 2) To future researchers who want to conduct research resembling this research in order to observe stocks from sectors that have a larger number and variety so that the results of this research and further research can test the consistency in the results of their research.

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