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The Role Of Dividend Policy In Mediating The Relationship Of Profitability To Firm Value: Empirical Study On The Business Index-27 On The Indonesian Stock Exchange

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Abstrak

Penelitian ini dilakukan untuk mengetahui pengaruh kebijakan dividen dalam memediasi hubungan antara profitabilitas dan nilai perusahaan terhadap indeks bisnis-27 periode 2018-2022. Penelitian ini menggunakan sampel 17 perusahaan dengan metode purposive sampling. Data yang digunakan adalah data sekunder yang diperoleh dari laporan keuangan dan laporan tahunan yang dipublikasikan di situs resmi Bursa Efek Indonesia (www.idx.co.id) dan situs resmi masing-masing perusahaan. Teknik analisis data yang digunakan adalah regresi multivariat, uji hipotesis parsial dan uji mediasi dan pengolahan data dilakukan dengan aplikasi statistik STATA versi 17. Hasil penelitian menunjukkan bahwa profitabilitas memiliki efek positif yang signifikan terhadap nilai perusahaan. Profitabilitas memiliki efek positif yang signifikan terhadap kebijakan dividen. Kebijakan dividen mampu memediasi hubungan antara profitabilitas dan nilai perusahaan.

Keywords: *Profitabilitas, Kebijakan Dividen, Nilai Perusahaan*

Abstract

This study was conducted to determine the effect of dividend policy in mediating the relationship between profitability and firm value on the business-27 index for the 2018-2022 period. This study used a sample of 17 companies using purposive sampling method. The data used is secondary data obtained from financial reports and annual reports published on the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official website of each company. The data analysis technique used is multivariate regression, partial hypothesis test and mediation test and data processing is done with the STATA version 17 statistical application. The results showed that profitability has a significant positive effect on firm value. Profitability has a significant positive effect on dividend policy. Dividend policy is able to mediate the relationship between profitability and firm value.

Keywords: *Profitability, Dividend Policy, Firm Value*

BACKGROUND

The growth of a business is experiencing a very rapid development, So that it can create a competition between companies. Company must optimize the value of the company in order to be a superior company than its competitor company. A company that is managed

effectively and efficiently by its company management can make the value of that company increase, and usually the shareholders see the rise of that company from the share price.

The business index company-27 is a co-operation between the Indonesian stock market and the Indonesian business daily to manage this index more independently and flexible, where the constituent selection of the index is based on emitent performance with fundamental electoral criteria, Historical data transactions (technical) and accounting. By such criteria, It's expected that the share of the share of business index-27 will be able to attract investors to invest in the economy and give more value to the economy.

One of the problems that happened was that there was a decline in the company's value due to the impact of the covid-19 pandemic. The impact of a covid-19 pandemic that many sectors of life feel, one of them's corporate economy. Surveys of pandemic implications for the company indicate that 88 % companies in Indonesia were exposed to loss. The loss stems from the decreased demand that leads to sales and production also decreased (Kemnaker, 2020). Another negative pandemic is felt in the capital market sector where investors don't have physical and financial certainty of the impact of covid-19.This event is a negative signal for investors. So that causes investors to be more interested in selling their stock ownership (Baek et al., 2020). Negative capital market movements can affect the results of corporate measurements (Retnosari et al., 2022).

Firm value is the investor perception of the success of the company's performance that is reflected in the share price. High firm value will provide prosperity for shareholders. High firm value will make the market believe in management performance in managing the company as well as company prospects in the future (Aslindar & Lestari, 2020). Firm value is very influential in the development of a company in the business world, because the value of the company describes how a company develops in the business world. So if it's a good company value, it'll make investors interested in planting stock in the company. Company value proxy with PBV. PBV shows the level of corporate ability to create relative value to the amount of capital that has been invested.

Factors affecting the value of the company are profitability, dividend policy and company size. Profitability as a gauge in assessing the company has good prospects or no prospects, because the level of profit or profit gained by the company illustrates how well management performs in managing its company (D. S. Dewi & Suryono, 2019). The higher the profitability of the company the higher the value of the company. Investors are more interested in investing in companies with high levels of profitability. High interest investors have had an impact on increased stock prices (Santoso & Dermawan, 2021).

Dividend policy is the decision whether the profit earned by the company at the end of the year will be divided to shareholders in the form of dividends or will be retained to add capital for the financing of future investments (Rokhayati et al., 2021). Increased dividend payments are considered a positive signal that shows a good company prospect, which means also the level of welfare of shareholders will increase (Santoso & Dermawan, 2021).

The size of the company is a picture of a company that shows the success of a company that can be reflected in the total assets that the company has. The larger the company then the higher the debt rate used that aims to develop the company's prospects (D. Dewi & Sudiartha, 2017). The size of the company has an impact on the value of the

company because if the size of the company grows, then it will make it easier to obtain both internal and external funding sources (Anggraini & MY, 2021).

The relationship of profitability to company value has empirically been much done by some past researchers, but there are still some differences in research results. Research conducted by (Akhmadi et al., 2022) & (Mujino & Wijaya, 2021), which states that high profitability will give a positive signal to investors that the company is in a favorable state, so as to attract investors to have shares in the company. High demand for shares will make investors appreciate the value of shares that is greater than the value recorded on the company's balance, so that the PBV of the company is high and the company value is high. Thus, profitability has a positive influence on the company value. Different from research done by (Mercyana et al., 2022) & (Prabowo & Hartono, 2018), the higher the value of a company's profitability, the lower the value of the company. So the shareholders saw that they wouldn't make a profit from planting their shares in the company.

The difference in the results of the research is believed because there are other variables that affect the relationship of profitability with the value of the company. According to (Khasbulloh et al., 2023), that's when the company was able to make a profit from its operation. Then the company will be willing to share dividends with investors. So that the dividend will consistently increase the confidence of the market against the company and will significantly increase the value of the company.

The purpose of this study is to find out the extent to which the impact of profitability on the value of the company with a relationship is further strengthened by the variable dividend policy. Whether variable dividend policy can affect the profitability relationship to the value of the company thus increasing the value of its company. In other words, whether dividend policy can already play a role in mediating the profitability relationship to the value of the company.

METHODOLOGY

This study uses quantitative research. Companies in this study the population is companies - 27 business index companies listed on BEI in 2018-2022. Whereas the sample in this study 17 companies on the index that was established by purposive sampling techniques. As for the sample criteria is a company that is listed in the business index-27 during the period 2018-2022, and the company distributes dividends routinely during the period 2018-2022. Based on the results of data collection techniques obtained 85 observations from a sample of 17 companies with a period of observation of 5 years.

This study using on the independent variable, a dependent variable, one variable mediation, and one set of control. The company is dependent variable, measured by PBV, the comparison a stock with the book value per share (Aslindar & Lestari, 2020). The independent variable profitability as measured by ROE, that is the ratio of net profit that measures rate of return on equity shareholders (Irnawati, 2019). As variable mediation the policies dividends as measured by the house of representatives, that is the ratio between the per share dividend per share and its (Ratnasari & Purnawati, 2019). The study also use variable control the size of the company as measured by Ln_TA, the logarithm of the natural assets (Ln total assets) owned by companies with a unit of rupiah (Astuti & Yadnya, 2019).

Data collection methods in research used library studies and documentation studies. The study of literature is done by collecting literature, previous study journals that were relevant as references used in studies that came from books and articles related to the issues discussed. Documentation studies are done by collecting and recording financial data in annual financial reports, the ratio of the company financial listed companies in the index business 27 listed at the Indonesian stock exchange 2018-2022 period. Financial data is intended associated with the value of the company, profitability, dividend policy, And the size of the company.

Observation data analysis in this study includes descriptive statistics to know the spread of research data related to maximum value, minimum value, average values (mean) and standard deviation values.In this study also used a classic assumption test, and multivariant regression using stata-17 applications. The partial multivariant regression equation in this study is as follows:

$$PBV = a + b_1 ROE + b_2 Ln_{TA} + e \dots\dots\dots\dots\dots\dots\dots (1)$$
$$DPR = a + b_1 ROE + b_2 Ln_{TA} + e \dots\dots\dots\dots\dots\dots\dots (2)$$
$$PBV = a + b_1 ROE + b_2 DPR + b_3 Ln_TA + e \dots\dots (3)$$

HYPHOTESIS DEVELOPMENT

The Influence Of Profitability On The Firm Value

Profitability as a gauge in assessing the company has good prospects or no prospects, because the level of profit or profit gained by the company illustrates how well management performs in managing its company (D. S. Dewi & Suryono, 2019). Based on signalling theory, if the profitability ratio of a large company will have a positive signal effect on investors so that the fund giver will do an increase in stock demand which causes stock prices to increase and also the value of the company finds increase (D. P. Sari et al., 2021). Research (Prakoso & Akhmadi, 2020) proves that a higher profit will show a better company prospects and this makes investors respond positive so it will increase the demand for shares and for company values certainly also potentially increase. Then (Aslindar & Lestari, 2020), in his research, it proved that increased profitability pushed stock prices to potentially increase company value. Which means more and more prosperity for the shareholders. This is relevant (Rahayu et al., 2020), in his research, he proved that increased profitability would increase the company's value. So investors are increasingly optimistic in predicting the value of the company in the future and making the decision to increase their stock investment. (Fajaria, 2018), in his research also proved that high profitability shows that the management of the company is able to manage the company's resources efficiently and is a good signal to assert return in the form of dividends thus making investors interested in increasing investment in the company's shares. This leads to a rise in the price of shares and a rise in the value of the company. And the next (K. Y. Dewi & Rahyuda, 2020), in his research proved that investors are more interested in investing in companies with a high level of profitability, so as to impact the high interest of investors to increase investment in shares thus encouraging the increase in share price.

Based on explanations of previous references related to profitability relationships with company values, then formulate hypothesis 1 as follows:

H1: The higher the profitability, the more the company's value increases.

The Effect of Profitability on Dividend Policy

In signalling theory it's explained that the greater the profitability the company's value is increasing as it encourages greater investment return rate. The rise of companies in earning profits that impact the rise in corporate value. This happens because the company's internal funding. The company is able to maximize the company's performance so as to give investors a good signal there will be a rise in future dividends (Nasution & Ramadhan, 2020). The next research by (Nai, 2022), proves that his great small profit or profit a company will affect his small dividend payment. The result means that the greater the profit gained, the greater the potential for the company to pay higher dividends. This result is in line with (Ratnasari & Purnawati, 2019), in his research proved that the greater the profit the company gets causes the greater the amount of cash the company has so that potentially the greater the amount of dividends that can be distributed to shareholders. (Astuti & Yadnya, 2019), it also ensures a similar result that the funds paid as dividends came from profit obtained from corporate operations available to stockholders. The increasing profits allow the company to increase its dividend payment. So did (Khan, 2017), in his research, it proves that profitability is increasing, it encourages higher dividend payments, so investors are interested in investing in the company.

Based on the explanation of various previous references related to the relationship of profitability to the value of the company, then formulate hypothesis 2 as follows:
H2: The higher the profitability, the higher the dividend policy ratio distributed.

The Effect of Dividend Policy on Firm Value

Based on signalling theory, if the company has good information, then it'll give investors a good signal so that it can attract investors to invest in the company. If many investors are investing in the company, then dividend policy can affect the stock price of the company and increase its value (Santoso & Dermawan, 2021). The company that distributes dividends to shareholders, will attract investors to invest (Warisman & P, 2022). Based on research conducted by (Gz & Lisiantara, 2022), states that large dividend payments can be made into mirrors in view of the future development of companies, then high dividend payment will increase the company value. Companies that pay dividends regularly and tend to increase will give positive signals to investors (Surwanti & Pamungkas, 2021). This is in line with the results of research conducted by (Utama & Dana, 2019) that the value of the company will be maximized by a high dividend payout ratio, because investors assume that the risk of dividends is not as much as the increase in capital costs, so investors prefer profits in the form of dividends than the expected profit from the increase in capital value. (Sulasih et al., 2021), the greater the proportion of shareholders in getting dividends then the better the performance and operational, so that makes the company more valuable. (Astuti & Yadnya, 2019), dividend payments are seen as a positive signal for investors regarding the companys future prospects. Increased value of the company that can be seen through the increase in its share price.

Based on various previous reference studies associated with the dividend policy relationship with the company value, So formulate hypothesis 3 as follows:
H3: The higher the Dividend Ratio, the more the company's value increases.

The Mediation Role of Dividend Policy on the Influence of Profitability on Firm Value

In signaling theory, it is explained that the greater the profit allows the company to increase its dividend payout ratio. Relevant to (Astuti & Yadnya, 2019), that dividend distribution provides a positive signal to investors regarding the company's future prospects, thereby increasing investor interest in the company. Companies that are able to pay high dividends get better investor confidence. High dividends make investors interested, thus encouraging an increase in investor demand for shares. The high demand for shares indicates that investors value the value of shares greater than their book value, thus encouraging the company's value to be high (Azhar & Wijayanto, 2018). The research (Permata, 2019), proves that when the company makes a profit, the profit can be used for two purposes, namely return earnings for investment purposes and improving operational performance, and dividends as a means of conveying information about the company's performance to gain market confidence and attract new investors to invest in the company. Meanwhile, research (Nai, 2022), proves that the size of a company's profits will affect the size of dividend payments. If the company's profits are large, it means that the dividends to be paid will also be greater. If the company's profits are large, it means that the dividends to be paid will also be greater. Similar results were stated by (Gz & Lisiantara, 2022), in their research proving that large dividend payments can be used as a mirror in seeing the company's future development, so that high dividend payments will increase company value.

Based on explanations from various references related to the mediating role of dividend policy on the effect of profitability on firm value, it formulates hypothesis 4 as follows:
H4 : The higher profitability increases the dividend ratio thereby increasing firm value.

RESULT AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistics are used to describe the distribution of observed data, namely the mean, minimum, maximum and standard deviation values. The following is a descriptive analysis of the variables used in the study. Data processing uses the STATA 17 application.

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
PBV w	85	2.8978	1.7737	.6297	8.8548
ROE w	85	.1577	.06	.029	.3261
DPR w	85	.4235	.172	.0442	.7632
Ln TA w	85	32.3785	1.5889	29.1811	35.0844

Source: Data Processing Results, STATA 17 output

Based on the descriptive statistical test, the firm value variable proxied by PBV has an average value of 2.8978, a standard deviation value of 1.7737, a minimum value of 0.6297, and a maximum value of 8.8548. Profitability proxied by ROE has an average value

of 0.1577, a standard deviation value of 0.06, a minimum value of 0.029, and a maximum value of 0.3261. Dividend Policy proxied by DPR has an average value of 0.4235, a standard deviation value of 0.172, a minimum value of 0.0442, and a maximum value of 0.7632. Company size proxied by Ln_TA has an average value of 32.3785, a standard deviation value of 1.5889, a minimum value of 29.1811, and a maximum value of 35.0844.

Inferential Statistical Analysis

In this study, the inferential statistical methods used include classical assumption tests, multivariate regression equations, partial hypotheses (t-statistical tests) and mediation tests. The following are the results of inferential statistical tests, namely:

Classical Assumption Test

Normality Test

Table 2. Normality Test Results

Model	Uji Skewness Kurtosis (Prob>Chi2)	Decision
Equation 1	0.2963	The residuals are normally distributed
Equation 2	0.5043	The residuals are normally distributed
Equation 3	0.2807	The residuals are normally distributed

Source: Data Processing Results, STATA 17 output

Based on table 2, the results of the normality test can be seen from the Prob>chi2 value. The Prob>chi2 values for the three models are greater than 0.05, so it can be concluded that the residual data is normally distributed.

Multicollinearity Test

Table 3. Multicollinearity Test Results

Model	Variabel Dependen	Variabel Independen	VIF	1/VIF	Mean VIF	Decision
Equation 1	PBV	ROE_w	1.02	0.985	1.02	There is no multicollinearity
		Ln_TA_w	1.02	0.985		
Equation 2	DPR	ROE_w	1.02	0.985	1.02	There is no multicollinearity
		Ln_TA_w	1.02	0.985		
Equation 3	PBV	ROE_w	1.19	0.8418	1.13	There is no multicollinearity
		Ln_TA_w	1.03	0.9667		
		DPR_w	1.18	0.849		

Source: Data Processing Results, STATA 17 output

It can be seen in table 3 of the multicollinearity test results that the tolerance value (1/VIF) of each independent variable is greater than 0.1 and the variance inflation factor (VIF) value is less than 10. Both values indicate that the model is free from multicollinearity symptoms.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

Model	Prob>Chi2	Decision

Equation 1	0.0000	Heteroscedasticity occurs
Equation 2	0.0735	No heteroscedasticity occurs
Equation 3	0.0000	Heteroscedasticity occurs

Source: Data Processing Results, STATA 17 output

It can be seen in Table 4 of the heteroscedasticity test results that the Prob>chi2 value for equation models 1 and 3 is smaller than 0.05, so it can be concluded that equation models 1 and 3 occur heteroscedasticity. To overcome heteroscedasticity in this study, namely by using robust standard errors, namely by using estimation coefficients that are robust or immune to violations of heteroscedasticity assumptions.

Autocorrelation Test

Table 5. Autocorrelation Test Results

Model	dW	dL	dU	4 - dU	Decision
Equation 1	0.96721	1.575	1.721	2.279	Positive autocorrelation occurs (dW<dL)
Equation 2	1.0119	1.575	1.721	2.279	Positive autocorrelation occurs (dW<dL)
Equation 3	0.90514	1.551	1.747	2.253	Positive autocorrelation occurs (dW<dL)

Source: Data Processing Results, STATA 17 output

It can be seen in table 5 of the autocorrelation test results that the Durbin-Watson (dW) value for all models is smaller than the dL value so that positive autocorrelation is indicated. To solve the autocorrelation problem, the Cochrane-Orcutt test is needed (Ghozali, 2018). (A. Hidayat, 2016) explains that in the STATA application there is a Prais Winsten transformation which is a development of Cochrane-Orcutt. The difference in the Prais Winsten method is that there are no missing observations like in Cochrane-Orcutt. The results of the autocorrelation test after using the Prais Winsten transformation are as follows:

Table 6. Autocorrelation Test Results using Prais Winsten Transformation

Model	dW	dL	dU	4 - dU	Decision
Equation 1	2.0829	1.575	1.721	2.279	No autocorrelation (1.721<2.0829<2.279)
Equation 2	2.1642	1.575	1.721	2.279	No autocorrelation (1.721<2.1642<2.279)
Equation 3	2.0487	1.551	1.747	2.253	No autocorrelation (1.747<2.0487<2.253)

Source: Data Processing Results, STATA 17 output

It can be seen in table 6 of the autocorrelation test results using Preis Winsten transformation that the Durbin-Watson value after transformation with Prais Winsten has changed. The dW value for the four equations is between dU and 4-dU which indicates that there is no autocorrelation.

Multivariant Regression

Multivariant regression is a statistical method that allows examining the relationship of more than two variables simultaneously. This analysis technique, used to analyze the effect of several variables on other variables at the same time, can also examine more complex

and more accurate phenomena. The results of multivariant regression can be seen in the baseline model table below:

Tabel 7. Baseline Model

	(1) PBV_w	(2) DPR_w	(3) PBV_w
_cons	15.1753***	-0.1974	15.4635***
	(1.7052)	(0.3433)	(1.4848)
ROE_w	10.0245***	1.0982**	8.4212***
	(1.6819)	(0.3314)	(1.5639)
DPR_w			1.46*
			(0.6816)
Ln_TA_w	-.428***	0.0138	-.4482***
	(0.054)	(0.0099)	(0.0507)
Observations	85	85	85
R-squared	0.2937	0.151	0.3108

Standard errors are in parentheses
**** p<.01, ** p<.05, * p<.1*

Source: Data Processing Results, STATA 17 output

Based on table 7 of the baseline model, the regression equation of the relationship between Profitability and Firm Value mediated by Dividend Policy and Firm Size as the control variable can be formulated, which is as follows:

$PBV = 15.1753 + 10.0245ROE - 0.428Ln_TA + e \dots\dots\dots\dots\dots\dots\dots\dots (1)$

$DPR = -0.1974 + 1.0982ROE + 0.0138Ln_TA + e \dots\dots\dots\dots\dots\dots\dots\dots (2)$

$PBV = 15.4635 + 8.4212\ ROE + 1.46DPR - 0.4482Ln_TA + e \dots\dots (3)$

Based on the data analysis of the regression test, it is found that the significance of ROE is at the significance level of 0.01% and 0.05%, then it is concluded that ROE has a significant positive effect on PBV, and ROE has a significant positive effect on DPR. The significance level of DPR is 0.1%, then it can be concluded that DPR has a significant positive effect on firm value.

Hypothesis Test

Test the Effect of Profitability on Firm Value

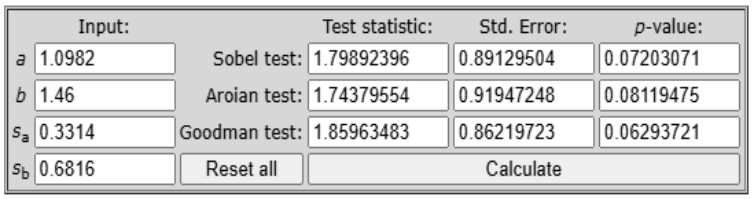
Profitability has a significant positive effect on firm value (table 7 column 1). The results present a significant level of 1% much smaller than the significant level set at 5%. These results cause the null hypothesis (Ho) to be rejected or the alternative hypothesis (Ha) to be accepted.

Test the Effect of Profitability on Dividend Policy

Profitability has a significant positive effect on dividend policy (table 7 column 2). The results present a significant level of 5%. This result causes the null hypothesis (Ho) to be rejected or the alternative hypothesis (Ha) to be accepted.

Mediation Test

Testing the mediation hypothesis is done with the sobel test or sobel test. The sobel test is carried out by testing the indirect effect between the independent variable and the dependent variable through the intervening variable. The results of the sobel test can be seen below:



Input:			Test statistic:	Std. Error:	*p*-value:
a	1.0982	Sobel test:	1.79892396	0.89129504	0.07203071
b	1.46	Aroian test:	1.74379554	0.91947248	0.08119475
s_a	0.3314	Goodman test:	1.85963483	0.86219723	0.06293721
s_b	0.6816	Reset all	Calculate		

Figure 1. Sobel Test Results

Source: Data Processing Results, STATA 17 output

Based on the sobel test results above, the t-count obtained is 1.79892, while the t-table is 1.66365. So, t-count> t-table (1.79892> 1.66365). If the t-count> t-table value, it can be concluded that there is an intervening influence (Sugiyono, 2019). So that there is a significant indirect effect of profitability on firm value. It can be concluded that dividend policy mediates the relationship between profitability and firm value.

Effect of Profitability on Firm Value

Based on the regression test, the results show that profitability has a significant positive effect on firm value or hypothesis 1 is accepted. These results show the suitability of signaling theory which states that the higher the level of company profitability is considered a good signal for investors to invest in the company. These results are in line with research conducted by (Hajar & Risal, 2023), (Akbar & Fahmi, 2020) and (Aeni & Asyik, 2023) which state that if the company can generate stable and higher profits, then it is seen as a positive signal by investors related to company performance. Similar to research (Akhmadi & Januarsi, 2021) which states that high profitability reflects good financial performance which can encourage companies to distribute more dividends so as to attract investor interest which has an impact on increasing stock prices and company value. The results of this study indicate that companies with high profitability show that the company has good prospects in the future so that it can trigger investors to invest in the company. Investors assume that high profitability can increase the prosperity of shareholders, which is very good for increasing the value of the company.

Effect of Profitability on Dividend Policy

Based on the regression test, it shows that profitability has a significant positive effect on dividend policy or hypothesis 2 is accepted. These results show the suitability of signaling theory which states that the greater the profit generated by the company, the greater the dividends distributed by the company to shareholders, so that the company can send positive signals to investors through the net profit generated and dividends distributed to shareholders that the company is financially stable and remains profitable for investors. These results are in line with research conducted (N. K. Dewi & Muliati, 2021), (Akbar &

Fahmi, 2020) and (Nai, 2022) which state that companies that have a large level of profitability or profit, the possibility of dividend distribution will also be higher. Similar to research (Goldwin & Handayani, 2022) which states that a significant increase or decrease in profitability will certainly have an impact on how much dividends are distributed. If the company distributes dividends, it will provide sentiment for investors that the company is profitable and investors will try to invest more capital in the hope of achieving greater returns. The results showed that profitability is one of the main determinant factors as a consideration for dividend payments, the higher the profitability shows the better management in carrying out company operations, so that the higher the value of profitability, the potential to increase the dividend distribution ratio is also higher.

Effect of Dividend Policy on Firm Value

Based on the regression test, it shows that the dividend policy has a significant positive effect on firm value or hypothesis 3 is accepted. These results show the suitability of signaling theory that the higher the dividend payout ratio will be a signaling tool for investors so that the company will get high trust from investors and this can increase the value of the company. These results are in line with research conducted by (E. P. Sari et al., 2022)(E. P. Sari et al., 2022), (Warisman & P, 2022) and (Gz & Lisiantara, 2022) which state that companies that pay dividends to shareholders will attract investors to invest. Similar to research (Hairudin et al., 2020) which states that when the company feels that the company's future prospects are good, income, cash flow is expected to increase where dividends can be paid, the company decides to increase dividends, the market will respond positively to the announcement of a dividend increase. This positive information makes investors confident to buy the company's shares which will increase the company's value. The results showed that the amount of corporate dividends received by shareholders can affect the company's stock price and will have an impact on firm value. If the greater the dividends received by shareholders, the better the investors' view of the company's value will be so that the higher the value of a company.

The Effect of Profitability on Firm Value Mediated by Dividend Policy

Based on the regression test, the results show that dividend policy can mediate the relationship between profitability and firm value or hypothesis 4 is accepted. These results show the suitability of signaling theory that the higher the profit generated, the higher the portion of dividends distributed. The greater the amount of dividends distributed will affect the response to changes in stock prices so that the company's value will also increase. These results are in line with research conducted by (Nai, 2022), (E. P. Sari et al., 2022) and (Warisman & P, 2022) which reveal that the company's ability to pay dividends is a function of company profits. The greater the profit earned, the greater the company's ability to pay dividends. Similar to research (Setyabudi, 2022) which reveals that companies that have high profitability show bright prospects. This makes investors interested in making an investment. For investors who have invested in these shares, an increase in company profits means that the company is better able to channel part of its profits to be distributed to shareholders in the form of dividends. This will encourage investors to increase their

expectations regarding the company's future prospects, thus encouraging investors to invest more in the company's shares. The increasing amount of investment in the company's shares will certainly increase the company's value. The results showed that companies that have high profitability show bright prospects. This makes investors interested in investing, due to increased investor expectations that the company is increasingly able to provide part of its profits to be distributed to shareholders in the form of dividends, this will encourage investors to invest more in these shares. The increasing amount of investment in the company's shares will certainly increase the company's value.

CONCLUSIONS

Based on the results of the study, it can be concluded that companies with high profitability are able to increase the prosperity of shareholders, thereby encouraging an increase in firm value. The greater the profit generated by the company is a positive signal to investors due to increased expectations of dividends to be distributed to shareholders, thereby encouraging an increase in company value. The greater the dividends received by shareholders, increasing the prospects of investors for the company which is considered better so that it encourages an increase in their investment which will further strengthen the company. An increase in company profits indicates that the company is better able to channel part of its profits to be distributed to shareholders in the form of dividends. This will encourage an increase in the amount of investment in the company's shares and in the end, of course, will increase the company's value. The results of this research cannot be generalized to other sub-sectors, sectors or indices due to several limitations, including the companies studied only business index 27 with a sample size of 17 companies. This study also only uses one proxy for each variable observed, it has not been tested if other proxies are used for the same variable. The research coverage is also only on one index, so the results cannot represent all indices on the Indonesia Stock Exchange. In the future, research should expand its coverage to several indices on the Indonesia Stock Exchange, conduct sensitivity tests using other proxies for each variable observed, and increase the observation period.

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