The Effect of Dividend Policy as a Moderation Variable on the Effect of Debt Policy and Profitability on Company Value

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Abstract

This study aims to analyze the effect of dividend policy as a moderating variable on the effect of debt policy and profitability on firm value. This study uses secondary data obtained from the Indonesia Stock Exchange and Finance.yahoo.com. The population in this study are all manufacturing sector companies that have been and are still listed on the Indonesia Stock Exchange for the 2015-2017 period, as many as 141 companies. The sample selection technique uses a purposive sampling method. A sample of 26 manufacturing companies that met the criteria was obtained based on predetermined criteria. The data analysis technique used is hierarchical regression analysis with a moderator variable. Based on the results of data analysis, it can be concluded that (1) Debt policy has a positive effect on firm value; (2) Profitability has a positive and significant effect on firm value; (3) dividend policy moderates the effect of debt policy on firm value; and (4) dividend policy moderates the effect of profitability on firm value.

Keywords: *Debt Policy, Profitability, Dividend Policy, Firm Value.*

A. INTRODUCTION

A company founded to reach something purpose, i.e. maximizing prosperity holder share or maximising stockholders' wealth through maximization mark company. Company value is size success management something company in operate operation business in the past and prospects business in the future come for convincing holder shares (Chandra, 2007 in Novari & Lestari, 2016).

Company value is investors' perceptions of the level of success company and is often associated with the price of stock. The taller the price share, the more high-value the company is. In other words, prosperity holder shares will increase if the price of the stock they have increased (Fajaria & Isnalita, 2018; Umbarwati & Fachrurroie, 2018) because the holder share wants the manager to make decisions or policies that can increase the price of the share company.

Maximizing company value can be achieved by implementing the financial management function, where one financial policy or decision will influence other financial decisions and impact company value (Sukirni, 2012). The company's financial policy includes investment analysis, working capital management, sources and costs of capital, determining capital structure, dividend policy, and risk and return analysis (Tahu & Susilo, 2017; Rahmawati et al., 2021).

Companies can use internal or external funding sources, or both, to finance their operational activities. Internal funds come from retained earnings and depreciation, while external funds come from debt and equity issuance (Tanjung et

al., 2021; Darmawan et al., 2020). In determining which funding source to use, company management must consider the benefits and costs incurred because each source has different consequences and financial characteristics (Meythi, 2012; Juwinta et al., 2021). Often, the company's internal funds are not enough to finance operational activities. So, companies must use external funding sources to meet their capital needs.

Companies will issue debt first and only issue equity as a last resort because issuing debt is not interpreted as a bad sign by investors when compared to issuing equity. Issuing new shares can signal to shareholders that the company's financial performance is poor. A company is considered risky if it has a large portion of debt in its capital structure (Nurchaqiqi & Suryarini, 2018; Pascareno & Siringoriongo, 2016). However, if the debt can generate profits, then the debt will be able to increase the company's value (Hidayat, 2013). Achieving a 'satisfactory' level of debt is essential for any business because it achieves profitability and firm value and demonstrates an organization's ability to face a competitive environment (Yazdanfar & Ohman, 2015).

Profitability is the company's ability to earn profits. A high level of profitability reflects the company's good financial performance. Investors use profitability as information in evaluating companies before deciding which company to invest in. Companies with high profitability will attract investors to invest. The more investors there are, the more demand for shares will increase, increasing share prices. Increasing share prices will maximize company value (Artiningsih & Izzaty, 2021).

Company value can also be seen from the company's ability to distribute dividends to shareholders. Investors invest funds to maximize wealth from dividends and/or capital gains. Investors will value companies that pay dividends regularly more regularly than those that pay dividends fluctuatingly. Companies that distribute dividends regularly will attract investors to invest in the company. The more investors, the higher the share price will ultimately increase the company's value.

Dividend policy cannot be separated from funding policy. Dividend policy relates to the profits earned by the company, whether these profits will be distributed as dividends to shareholders or retained to finance future investments. If the company chooses to distribute profits as dividends, it will reduce retained profits and total internal funding sources. Vice versa, if the company chooses to retain profits, the amount of internal funds will be greater.

The greater the profit a company makes, the greater the company's ability to pay dividends to shareholders. Management in determining dividend policy must pay attention to the issue of using profits that are the rights of shareholders. The company will be able to maximize the value of the company if investors' expectations of getting a rate of return in the form of dividends can be realized. Information about the cash dividend payment policy contains signals related to the company's future prospects. So, dividend policy is expected to be able to moderate the influence of profitability on company value.

Shareholders prefer companies that pay dividends regularly, so the company must be able to provide funds to pay dividends to shareholders. The dividend policy will increase the amount of debt if retained earnings are insufficient for dividend

payments. The higher the proportion of debt, the higher the profit per share, which will increase the share price. Paying dividends is closely related to the company's ability to earn profits. If the company earns large profits, its ability to pay dividends is also large. Therefore, large dividends will increase company value (Harjito & Matono, 2005).

Dividend policy is the centre of attention of many parties, such as shareholders, creditors, and other external parties who have an interest in the information issued by the company (Elangga, 2009). A company's cash dividend policy impacts many parties involved in society (Suharli, 2004). In relation to firm value, dividend policy is expected to moderate the effect of debt policy and profitability on firm value.

This research was conducted at a manufacturing company. A manufacturing company is a company whose main activity is changing raw materials, components or other parts into finished goods that meet specification standards. In 2015, many medium and large industries closed or reduced production due to the impact of the economic slowdown, exchange rate and decline in exports and imports. However, Indonesia's manufacturing sector was able to maintain positive growth, even in the midst of the global financial crisis, when the economic conditions of industrial countries declined.

The national manufacturing industry is increasingly showing positive performance. In 2017, Indonesia was ranked fifth in the World Rank of Manufacturing Value Added with a value of 20.5% or an average manufacturing growth of IDR 2,555.8 trillion (www.kemenperin.go.id). The Ministry of Industry predicts that manufacturing will contribute more than 25% of GDP in 2030. The manufacturing sector is predicted to become the main driver of the Indonesian economy through increased investment and exports. Manufacturing companies are the largest issuers on the Indonesia Stock Exchange (BEI) and are in demand by domestic and foreign investors. Therefore, the company must be able to maximize the value of the company in order to achieve company goals and contribute to the economy.

Based on the background of the problems described above, this study takes the title "The Effect of Dividend Policy as a Moderating Variable on the Effect of Debt Policy and Profitability on Firm Value". This research was conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX) used in this research in 2017-2022.

B. METHOD

In this research, the method used involves a quantitative approach by collecting data from companies listed on the stock exchange. The main variables, namely dividend policy, debt policy, profitability and company value, are measured using annual financial data. Statistical analysis, such as linear regression, examines the relationship between dividend policy, debt policy, profitability, and firm value. A moderation analysis was also carried out to evaluate whether dividend policy acts as a moderating variable on the relationship between debt policy and profitability on company value. This method is expected to provide in-depth insight into how

dividend policy can moderate the influence of debt policy and profitability on company value in the context of this research.

C. RESULT AND DISCUSSION

Significance test results involve using a significance level (alpha level), which determines how low the p-value must be to reject the null hypothesis. Generally, the commonly used alpha level is 0.05, which means that if the p-value is smaller than 0.05, the null hypothesis can be rejected. The test results are presented in the following table:

Table 1. T-Test results

Model		Unstandardized Coefficients	t	Sig.	Conclusion
		B			
1	DER	2,704	5,948	0.001	Significant
	ROA	3,506	4,915	0.002	Significant
	DER*DPR	10,819	5,321	0,000	Significant
	ROA*DPR	8,499	6,538	0,000	Significant

Source: data processed by SPSS (2023)

Based on the test results in Table 1, the effect of debt policy (DER) and profitability (ROA) on value company, as well as the effect of dividend policy (DPR) as variables moderation on the influence of debt policy (DER) and profitability (ROA) on company value can be explained as follows:

1. The influence of debt policy on company value
   Based on the test results in Table 1, the regression coefficient value is 2.704, and the t-count value is 5.948, with a significance value of 0.00 1. More significance value smaller than the specified error tolerance (0.00 1 < 0.05). This suggests that the debt policy has a positive and significant effect on the company's value.
2. Effect of profitability on firm value
   Based on the test results in Table 1, the regression coefficient value was 3,506, and the t-count value was 4,915, with a significance value of 0.00 2. The significance value is smaller than the predetermined error tolerance (0.00 2 < 0.05). This shows that profitability has a positive and significant effect on company value.
3. Dividend policy moderates the effect of debt policy on firm value
   Based on the test results in Table 1, the regression coefficient value is 10,819, and the t-count value is 5,321 with a significance value of 0.000. The significance value is smaller than the specified error tolerance (0.000 < 0.05). This shows that dividend policy moderates the effect of debt policy on firm value.
4. Dividend policy moderates the effect of profitability on firm value
   Based on the test results in Table 1, the regression coefficient value is 8,499, and the t-count value is 6.538 with a significance value of 0.000. The significance value is smaller than the specified error tolerance (0.000 < 0.05). This shows that the dividend policy moderates the effect of profitability on firm value.

Table 2. Determination Coefficient Test Results (Adjusted R²)

Summary Model [b]					
Model	R	R Square	Adjusted R Square	std. Error of the Estimate	Durbin-Watson
1	.785 [a]	,616	.684	2.44821	1820

Source: data processed by SPSS (202 3)

The coefficient test results in the determination in Table 2 show an obtained R-value of 0.616. This indicates that the ability of the independent variable, consisting of policy money and profitability, is moderated by the dividend policy in explaining the variation in the dependent variable, amounting to 61.6%. The remaining 38.4% is explained by other factors not researched in this study.

Influential Debt Policy Positive to Company Value

The debt policy has a positive influence on the company's performance. This research aligns with studies conducted by Lybryanta, Toha, and Sisbintari (2019) and Burhanudin and Nuraini (2018), asserting a positive influence on debt policy and company performance. When there is an opportunity for profitable investment, securing additional funds through debt can be highly advantageous for the company compared to issuing new shares, which is considered a negative signal and can lead to a lower stock price.

The use of debt is assessed negatively by investors when a company uses its own profits. However, utilizing debt has its advantages, including tax deductions and returns on the amount of debt. Shareholders may not receive profits if the company achieves extraordinary success under normal circumstances. If a company can effectively use funds obtained from debt, it can enhance its performance by increasing investor confidence in its ability to meet obligations, even with a high value.

Debt can increase earnings per share, making investing capital in the company more attractive. The higher the demand from investors, the higher the stock price, reflecting an increase in the company's value. A higher stock price signifies a higher market valuation for the company.

Profitability Influential Positive on Company Value

Profitability has a positive influence on a company's market performance. This research aligns with studies conducted by Mahendra (2018), Lyrbryanta (2019), Sinaga (2019), and Burhanudin and Nuraini (2018). High profitability signifies that a company has a strong ability to generate profits through its owned assets. A company with a high level of profitability sends a positive signal to shareholders, indicating that the company is in good financial condition. The higher the level of profitability a company achieves, the higher the returns the stockholders obtain.

A high level of profitability reflects a bright future prospect for the company. A promising outlook for the company increases the trust of shareholders in the company. Investors seek companies with the best performance to invest their capital

by purchasing stocks. Increased demand for shares will drive up stock prices, thereby enhancing the company's market valuation.

Policy Dividend Moderate Influence Debt Policy on Company Value

The dividend policy moderates the influence of debt policy on a company's market performance. This is in line with research conducted by Burhan and Nuraini (2018) and Dewi, Amboningtyas, & Dhiana (2018), which state that the dividend policy can moderate (strengthen) the influence of debt policy on a company's market performance. This means that the dividend policy can increase the market valuation of a company when there are high levels of debt, and the dividend policy can decrease the market valuation of a company when there are low debt levels.

Debt can pose risks for a company if not utilized and managed optimally. However, if a company can generate profits through debt, it signifies a beneficial use of debt. Debt also provides a positive signal to investors compared to issuing new shares. Companies that regularly and generously pay dividends are more favoured by investors. Dividends send a signal that the company's performance is satisfactory. A company that can manage debt effectively and pay dividends regularly will increase its market valuation by increasing stock prices.

Policy Dividend Moderate Influence Profitability to Company Value

The dividend policy moderates the influence of profitability on a company's market performance, as research results indicate. This is in line with studies conducted by Sinaga (2018) and Burhanudin and Nuraini (2018), which state that the dividend policy can strengthen the influence of profitability on a company's market performance. This implies that the dividend policy can increase the market valuation of a company when profitability is high and decrease the market valuation when profitability is low.

It can be concluded that the dividend policy functions as a quasi-moderator variable in influencing profitability on a company's market performance. A company with a high level of profitability has more significant opportunities to pay dividends with larger values to stockholders. Additionally, with a higher profitability, the company is more likely to pay dividends regularly. Investors prefer companies that distribute dividends regularly over those with fluctuating dividend payments, contributing to increased market valuation through enhanced stock prices.

D. CONCLUSION

The research and subsequent discussion reveal several key findings: firstly, a positive influence of debt policies on the market valuation of the company; secondly, a significant and positive impact of profitability on the market valuation; thirdly, the moderation effect of policy dividend on the relationship between debt policies and the market valuation; and finally, a similar moderating influence of policy dividend on the connection between profitability and the market valuation of the company.

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