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## Does Dividend Policy Mediate the Relationship Between Financial Performance and Company Value?

**Abstract.** The impact of financial performance and dividend policy on company value is the subject of numerous studies in corporate finance, although the findings are still conflicting. Therefore, this study aims to analyze factors affecting the company values of manufacturing companies listed on the Indonesia Stock Exchange. The sample of this study is 31 manufacturing companies that were listed on the Indonesian Stock Exchange (IDX) in 2016-2020. This study uses quantitative secondary data, particularly financial reports published by manufacturing companies on the Indonesian Stock Exchange (IDX) website (<https://www.idx.co.id/>). Structural Equation Modeling with Partial Least Square (SEM-PLS) is the analytical model used in this study. The independent variables in this study are Liquidity (X1) (represented by the Current Ratio (CR)), Leverage (X2) (represented by the Debt to Equity Ratio (DER)), and Profitability (X3) (represented by the Return on Assets (ROA)). The dependent variable in this study is Company Value (Y), represented by the Price-to-Book Value (PBV). The mediating variable in this study is Dividend Policy (Z), represented by the Dividend Payout Ratio (DPR). The results show that liquidity does not affect company value; profitability and leverage have effects on company value with a positive direction; dividend policy does not affect company value; liquidity, leverage, and profitability do not affect dividend policy, and the relationship between liquidity, leverage, and profitability and company value cannot be mediated by dividend policy. This study contributes to the literature by giving a deeper understanding of factors affecting company value. Companies should optimize leverage and maximize profitability to maximize company value.

**Keywords:** liquidity, leverage, profitability, dividend policy, company value.

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## Чи опосередковує дивідендна політика зв'язок між фінансовими показниками та вартістю компанії?

**Анотація.** Вплив фінансових показників і дивідендної політики на вартість компанії є предметом численних досліджень у сфері корпоративних фінансів, хоча висновки все ще є суперечливими. Метою цього дослідження є аналіз факторів, що впливають на вартість виробничих компаній, зареєстрованих на Індонезійській фондовій біржі. Вибірка дослідження – 31 виробнича компанія, яка була зареєстрована на Індонезійській фондовій біржі (IDX) у 2016-2020 рр. У цьому дослідженні використовуються кількісні вторинні дані, а саме фінансові звіти, опубліковані виробничими компаніями на вебсайті Індонезійської фондової біржі (<https://www.idx.co.id/>). Часткове моделювання структурних рівнянь методом найменших квадратів (PLS-SEM) є аналітичною моделлю, яка використовується в цьому дослідженні. Незалежними змінними є ліквідність (X1) (представлена поточним коефіцієнтом (CR)), кредитне плече (X2) (представлена співвідношенням боргу та власного капіталу (DER)) і прибутковість (X3) (представлена коефіцієнтом рентабельності активів (ROA)). Залежною змінною є вартість компанії (Y), представлена співвідношенням ціни до балансової вартості (PBV). Посередницькою змінною в цьому дослідженні є дивідендна політика (Z), представлена коефіцієнтом виплати дивідендів (DPR). Результати показують, що ліквідність не впливає на вартість компанії; прибутковість і кредитне плече впливають на вартість компанії в позитивному напрямку; дивідендна політика не впливає на вартість компанії; ліквідність, кредитне плече та прибутковість не впливають на вартість компанії, а взаємозв'язок між ліквідністю, кредитним плечем та прибутковістю та вартістю компанії не може бути опосередкований дивідендною політикою. Це дослідження надає глибше розуміння факторів, що впливають на вартість компанії. Компанії повинні оптимізувати кредитне плече та максимізувати прибутковість, щоб підвищити свою вартість та бути більш інвестиційно привабливими.

**Ключові слова:** ліквідність, кредитне плече, прибутковість, дивідендна політика, вартість компанії.

### INTRODUCTION

Every public company wants to be attractive for investment. Therefore, public companies' purpose is to boost the company's value since it is a variable that investors consider in investing their money. Company value indicates financial performance as it reflects shareholders' welfare (Sondakh, 2019).

A high company value gives investors a high level of confidence to invest their money in the business. However, this value is dynamic because it is based on an investor's assessment or view of the company, which can change at any time (Sugeng, 2017). According to Weston & Copeland (2010) in Indrarini (2019), the measurement of company value can be done using valuation ratios. If the business's performance is satisfactory, investors will be attracted to invest so that, in the end, it will raise its value. Conversely, if the company performs poorly, investors will not be interested in investing, which will lessen its value (Markonah et al., 2020).

According to Wibowo & Yuliana (2020), the price-to-book value (PBV) is one indicator in evaluating companies. PBV is a comparison of the price of a stock with book value. A company is valued more than the book value reported in the financial statements when the PBV exceeds one (Sukamulja, 2019).

The impact of financial performance and dividend policy on company value has been the subject of

numerous research in corporate finance, although the findings are still inconclusive (Santosa et al., 2020).

Therefore, this study aims to analyze factors affecting the company value of manufacturing firms listed on the Indonesia Stock Exchange.

### LITERATURE REVIEW

#### Financial Ratios

According to Kasmir (2017), financial ratios are a way of comparing data in financial statements. Meanwhile, according to Harahap (2017), financial ratios are measurements created by evaluating one financial statement item with respect to other elements that bear a meaningful and relevant relationship.

#### The Effect of Liquidity on Company Value

Liquidity is one of the elements to assess the capability of a company to pay its short-term debts. This will have a significant impact on company value in the views of investors when making investment decisions. A high level of this ratio signals that the business is healthy. Greater liquidity means greater company value; contrarily, lesser liquidity means lesser company value (Sukarya & Baskara, 2018). Research conducted by Sondakh (2019) and Hasanudin et al. (2020) found that liquidity positively affects company value. However, studies conducted by Husna & Satria (2019), Jihadi et al.

(2021), Markonah et al. (2020), Ningsih & Sari (2019), and Sari & Sedana (2020) show that liquidity does not affect company value.

H1: It is assumed that liquidity affects company value.

#### **The Effect of Leverage on Company Value**

Leverage is a measure that shows how a company finances its assets and how well it can pay its long-term debt (Brigham & Houston, 2018). Debt policy is seen as a compassionate issue regarding company value. According to Signaling Theory, high debt will send a good signal to investors. This is because organizations that take on more debt are considered to have more promising future possibilities (Putri & Rachmawati, 2018). However, the company's value will decrease if the debt goes beyond the limit. When the company can handle debt well, company value will increase. If managers think the company's futures are good, managers can use more. Of course, this will be a credible signal for potential investors and a good consideration for investors to invest their money (Putri & Rachmawati, 2018). Research on the effect of leverage on company value using the DER indicator has been conducted by Hertina (2019), Hirdinis (2019), Jihadi et al. (2021), Markonah et al. (2020), Rahmawati et al. (2021), Sasongko (2019), Setyabudi (2021), which obtained results that DER affects company value. However, the results are inconsistent with the research conducted by Hidayah & Rahmawati (2019), Munawar (2018), Santosa et al. (2020), and Soewignyo (2020), which found that leverage using debt to equity ratio (DER) does not affect company value.

H2: It is assumed that leverage affects company value.

#### **The Effect of Profitability on Company Value**

It is considered that profitability affects company value. Profitability ratios evaluate the company's performance based on the profit it generates. Suppose a company can increase profitability from one period to the next. In that case, it can give the impression that it is performing well, causing investors to be attracted to invest, and, as a result, company value will increase (Putri & Rachmawati, 2018). The studies conducted by Hidayah & Rahmawati (2019), Husna & Satria (2019), Ibrahim & Isiaka (2020), Ifada et al. (2019), Jihadi et al. (2021), Luthfiah & Suherman (2018), Markonah et al. (2020), Ningsih & Sari (2019), Putri & Wiksuana (2021), Rahmawati et al. (2021), Sasongko (2019) show that profitability affects company value. These results indicate that investors consider profitability in making decisions to invest. High profitability indicates good company performance in managing existing capital to generate profits for investors. With high profits for investors on the capital invested in the company, investors have a high interest in investing in the company. However, research conducted by (Soewignyo, 2020; Sondakh, 2019) reveals that Return on Assets (ROA) does not affect company value.

H3: It is assumed that profitability affects company value.

#### **The Effect of a Company's Dividend Policy on Company Value**

According to Modigliani and Miller in Brigham & Houston (2019), the increase in dividends above the expected amount served as an indicator for investors that management predicts high profitability in the future. One variable that can increase company value is dividend policy. Companies that pay dividends send a good message to shareholders. The dividend payout indicates that the company is in good shape, which will motivate additional investors to invest. According to the dividend discount model, the larger the DPR, the higher the stock price. The increase in stock price reflects the increase in company value. Research on the effect of dividend policy on company value using the DPR indicator has been carried out by Rahmawati et al. (2021), Santosa et al. (2020), Sasongko (2019), Suidani & Wiksuana (2018), who obtained the result that DPR affects company value. However, these results differ from the results of the study carried out by Husna & Satria (2019), Munawar (2018), and Soewignyo (2020), which found that DPR does not affect company value.

H4: It is assumed that dividend policy affects company value.

#### **The Effect of Liquidity on Dividend Policy**

The capability of a business to fulfill its obligations to internal and external parties is measured by its liquidity. A corporation will likely afford dividends to shareholders when its liquidity is strong. Liquidity, therefore, has a positive link with dividend distribution, as the higher the level of liquidity, the greater the dividend to be distributed (Mauris & Nora, 2019). Comparing the company's liquidity position with its dividend payout is very important. Rationally, companies will pay dividends, granted that the cash situation is safe and the profits are sufficient to justify paying dividends (Lotto, 2020). This is supported by research conducted by Angelia & Toni (2020), Arif (2020), Hadi (2019), Lasniroh (2019), Putri & Wiksuana (2021), Wahjudi (2020), which reveals that CR affects a company's dividend policy. Contrarily, other research (Adityo & Heykal (2020); Casriningrum et al. (2019); Mauris & Nora (2019); Silviana & Adi (2021)) shows that CR does not affect dividend policy.

H5: It is assumed that liquidity affects dividend policy.

#### **The Effect of Leverage on Dividend Policy**

The leverage ratio shows the relationship between the portion of assets financed by creditors and shareholders (Chakraborty, 2018). As a result, an increase in leverage implies that the company's risk also increases due to high debt levels. Because companies tend to use their profits to pay debts, companies with high debt levels will be weak in distributing dividends. As a result, given that corporations with high leverage also have high levels of debt, leverage negatively influences dividend distribution (Mauris & Nora, 2019). According to Lotto (2020), businesses with significant debt in their capital structures frequently prioritize repaying debt over paying dividends. Since the company's top priority is paying debts, the

dividends shared with stockholders depend on the residual balance after meeting debt obligations. This is supported by research carried out by Angelia & Toni (2020), Casriningrum et al. (2019), Chakraborty (2018), Lasniroh (2019), Rachmat (2019), Ranajee (2018), Setyabudi (2021), Sharma (2019), Wahjudi (2020); Zaman (2018) reveals that DER affects company's dividend policy. Contrarily, research conducted by Adityo & Heykal (2020), Hidayah & Rahmawati (2019), Munawar (2018), Santosa et al. (2020), Silviana & Adi (2021), Soewignyo (2020), Sudiani & Wiksuana (2018) shows that DER does not affect dividend policy.

H6: It is assumed that leverage affects dividend policy.

#### **The Effect of Company's Profitability on Dividend Policy**

Profitability measures a company's ability to manage business processes to maximize revenue. Companies with significant profits will be capable of paying dividends, and dividends paid to shareholders will be proportional to the company's profits. A company's reputation and prospects will be enhanced by paying large dividends. As a result, profitability has a favorable impact on dividend distribution. The more the profit generated, the more the dividends to be paid (Mauris & Nora, 2019). This is supported by research carried out by Ali et al. (2018), Angelia & Toni (2020), Casriningrum et al. (2019), Dewi & Abundanti (2020), Hadi (2019), Hadian (2019), Kurniawan et al. (2019), Lasniroh (2019), Putri & Wiksuana (2021), Rachmat (2019), Sharma (2019), Silviana & Adi (2021), Zaman (2018), that shows that profitability affects DPR. However, research by Husain & Sunardi (2020) and Wahjudi (2020) shows that profitability does not affect dividend policy.

H7: It is assumed that profitability affects dividend policy.

#### **The Effect of Liquidity Ratio on Company Value Mediated by Dividend Policy**

The more liquid a company, the more liabilities are backed by current assets, increasing public trust and implying that the company's value also increases. Furthermore, dividends must be calculated according to the company's and shareholders' demands. As the company grows, dividends may be minimal because it focuses more on raising funds. However, when it reaches maturity (sufficient income collected), dividends paid can be increased because the need to maintain capital is no longer great. By distributing dividends fairly, companies can encourage investors to seek dividends, thereby maintaining company value. Investors expect dividends and an increase in the value of their shares as a result of their efforts. Giving shareholders dividends will boost company value (Akbar & Bustaman, 2019). The capacity of the business to provide dividends may raise its market value. High dividend payouts attract investors and impact the company's value (Akbar & Bustaman, 2019).

H8: It is assumed that liquidity affects company value through dividend policy.

#### **The Effect of Leverage on Company Value with Company's Dividend Policy as a Mediating Variable**

Large debts can lead to financial difficulties and/or possible bankruptcy, which affects the company's value in the eyes of investors. Debt policy will have a disciplinary impact on management to optimize the current use of money. The lower the company's leverage ratio, the higher the company's capability to distribute dividends (Setiawati, 2020). According to the residual dividend theory, a company decides to pay dividends after all profitable investments have been funded, implying that dividends will be paid if there is any residual income. Companies with much debt will prioritize using profits to fund all investments and their capital budget. Therefore higher debt means lower dividends are given to investors. Because it will directly affect the dividend payments to investors, the policies taken in determining the amount of debt certainly require complex considerations. Increased debt will reduce shareholder rights as the profits required to pay dividends decrease. According to signaling theory, low dividend payouts are seen as a possible lousy future, resulting in a decrease in investor confidence to invest in the company and a decrease in stock prices. Companies will be affected by the decrease in stock prices. As a result, using large debt will limit dividend payments, reduce investor confidence and cause a decrease in stock prices and company value (Setiawati, 2020).

H9: It is assumed that leverage affects company value through dividend policy.

#### **The Effect of Profitability on Company Value Mediated by Dividend Policy**

According to the "bird in the hand" theory, dividend payments outweigh capital gains in the eyes of investors. The advantage of applying this theory is that by paying large dividends, stock price increases, potentially affecting company value. Investors will be lured to invest in the company because of its ability to earn large profits. The company's capability to generate high profits from business activities to prosper shareholders through high dividend distribution is considered to have good prospects because high dividend distribution will affect the reaction to stock price requests, increasing company value (Astuti, 2018). This is supported by research conducted by Dewi & Abundanti (2020), showing that dividend policy significantly mediates the relationship between profitability and company value. However, research by Casriningrum et al. (2019), Husain & Sunardi (2020), and Putri & Wiksuana (2021) shows that dividend policy does not mediate profitability effects on company value.

H10: It is assumed that profitability affects company value through the dividend policy.

#### **RESEARCH METHODOLOGY**

The sample of this study is 31 manufacturing companies that were listed on the Indonesian Stock Exchange (IDX) in 2016-2020 (Table 1).

Table 1. Research Sample

No	Code	Company Name	No	Code	Company Name
1	ARNA	Arwana Citramulia Tbk.	17	JPFA	Japfa Comfeed Indonesia Tbk.
2	ASII	Astra International Tbk.	18	KBLM	Kabelindo Murni Tbk.
3	CINT	Chitose Internasional Tbk.	19	KINO	Kino Indonesia Tbk.
4	CPIN	Charoen Pokphand Indonesia Tbk	20	KLBF	Kalbe Farma Tbk.
5	DLTA	Delta Djakarta Tbk.	21	MYOR	Mayora Indah Tbk.
6	DPNS	Duta Pertiwi Nusantara Tbk.	22	ROTI	Nippon Indosari Corpindo Tbk.
7	EKAD	Ekadharma International Tbk.	23	SCCO	Supreme Cable Manufacturing & Commerce Tbk.
8	FASW	Fajar Surya Wisesa Tbk.	24	SIDO	Industri Jamu dan Farmasi Sido Muncul Tbk.
9	HMSP	H.M. Sampoerna Tbk.	25	SKLT	Sekar Laut Tbk.
10	ICBP	Indofood CBP Sukses Makmur Tbk.	26	SMSM	Selamat Sempurna Tbk.
11	IGAR	Champion Pacific Indonesia Tbk.	27	SRIL	Sri Rejeki Isman Tbk.
12	IMPC	Impack Pratama Industri Tbk.	28	TKIM	Pabrik Kertas Tjiwi Kimia Tbk.
13	INAI	Indal Aluminium Industry Tbk.	29	TSPC	Tempo Scan Pacific Tbk.
14	INDF	Indofood Sukses Makmur Tbk.	30	UNVR	Unilever Indonesia Tbk.
15	INKP	Indah Kiat Pulp & Paper Tbk.	31	WTON	Wijaya Karya Beton Tbk.
16	INTP	Indocement Tunggul Prakarsa Tbk.			

Source: <https://www.idx.co.id/>

This research is quantitative descriptive research. A quantitative descriptive is a research method that describes and explains how the dependent variable is affected by the independent variable (Sugiyono, 2018).

This study uses quantitative secondary data, particularly financial reports published by manufacturing companies on the Indonesian Stock Exchange (IDX) website (<https://www.idx.co.id/>).

The analytical model used is Structural Equation Modeling with Partial Least Square (SEM-PLS). PLS analysis can prevent the two significant issues of factor indeterminacy and inadmissible solutions. A statistical t-test achieved from the bootstrapping process was used to assess the stability of this estimate (Ghozali, 2018).

The independent variables in this study are Liquidity (X1) (represented by the Current Ratio (CR)), Leverage (X2) (represented by the Debt to Equity Ratio (DER)), and Profitability (X3) (represented by the Return on Assets (ROA)).

The dependent variable in this study is Company Value (Y), represented by the Price-to-Book Value (PBV).

The mediating variable in this study is Dividend Policy (Z), represented by the Dividend Payout Ratio (DPR).

## RESULTS AND DISCUSSION

Descriptive statistics provide an overview of the data used in the study. Data analysis was carried out with the SmartPLS program. The statistics data are shown in Table 2.

Table 2. Descriptive Statistics Results

Indicators	Mean	Median	Min	Max	Standard Deviation
CR	4.459	2.386	0.606	208.445	16.659
DER	0.837	0.581	0.083	4.190	0.764
ROA	0.094	0.064	0.002	0.467	0.082
DPR	0.488	0.367	0.017	3.968	0.509
PBV	4.651	2.402	0.138	82.444	10.895

a) R-Square

The inner model test's findings are in Table 3.

Table 3. Adjusted R-Square (R2)

	R Square	R Square Adjusted
Dividend Policy	0.044	0.025
Company Value	0.674	0.665

The value of the Adjusted R-Square PBV is 0.665. This means that CR (X1), DER (X2), ROA (X3), and DPR (Z) can explain the PBV (Y) of 66.5%. Other factors outside this study, such as the activity ratio, institutional ownership, and company size, account for the remaining 33.5%.

The value of the Adjusted R-Square DPR is 0.025. This means that CR (X1), DER (X2), and ROA (X3) can explain Z (DPR) by 2.5%. Other factors outside this study, such as company size and institutional ownership, account for the remaining 97.5%.

## b) Direct Influence

Table 4 displays the outcomes of the bootstrapping.

Table 4. Direct Effects

	Original Sample (O)	Sample Mean (M)	P Values
Dividend Policy (DPR) → Company Value (PBV)	0.047	0.060	0.397
Leverage (DER) → Dividend Policy (DPR)	0.073	0.039	0.636
Leverage (DER) → Company Value (PBV)	0.371	0.361	0.000
Liquidity (CR) → Dividend Policy (DPR)	-0.014	-0.021	0.787
Liquidity (CR) → Company Value (PBV)	0.052	0.026	0.471
Profitability (ROA) → Dividend Policy (DPR)	0.195	0.219	0.067
Profitability (ROA) → Company Value (PBV)	0.727	0.726	0.000

As observed in table 4 above, the influence of DER and ROA on PBV has a p-value > 0.05 and original sample (O) > 0, indicating that DER and ROA affect PBV with a positive relationship. The effect of CR on PBV, DPR on PBV, CR on DPR, DER on DPR, and ROA on DPR, has a P-Value > 0.05, indicating it has no effect.

## c) Indirect Effects

Table 5. Total Indirect Effects

	Original Sample (O)	Sample Mean (M)	P Values
Liquidity → Dividend Policy → Company Value	-0.001	-0.003	0.894
Profitability → Dividend Policy → Company Value	0.009	0.015	0.564
Leverage → Dividend Policy → Company Value	0.003	-0.005	0.749

From table 5, the effect of CR, DER, and ROA on PBV through DPR has a P-Value > 0.05, which means that DPR cannot mediate the effect of CR, DER, and ROA on PBV.

## d) Hypothesis Test

The results of hypothesis testing are obtained as presented as follows:

**Hypothesis 1.** The results show that liquidity does not affect company value in IDX-listed manufacturing companies for the 2016-2020 period. The liquidity that is too high can be interpreted as high idle cash, which investors will see as a negative signal because the company must bear the risk of the cost of capital. The results support research by Husna & Satria (2019), Markonah et al. (2020), Ningsih & Sari (2019), which mention that liquidity does not affect company value.

Nevertheless, the results do not support the research by Hasanudin et al. (2020) and Sondakh (2019), which mention that liquidity affects company value. The difference in the results may be caused by different periods of analysis. Then there are differences in the sector studied. The distinctions in these sectors will undoubtedly result in variations in research findings due to the nature/characteristics of different companies.

**Hypothesis 2.** According to our findings, for 2016 to 2020, leverage has a positive relationship with company value in IDX-listed manufacturing companies. The direction of the positive association in the results of

this study reveals that the higher the leverage of a company, the higher its PBV. As long as the company's debt has not reached the optimal point, it can take on more debt to expand or improve its performance, both of which will raise its value. The results support the study by Angelia & Toni (2020), Casriningrum et al. (2019), Setyabudi (2021), Wahjudi (2020), and Zaman (2018), which state that DER affects company value. Nevertheless, the results do not support research by Adityo & Heykal (2020), Hidayah & Rahmawati (2019), Munawar (2018), Santosa et al. (2020), Silviana & Adi (2021), Soewignyo (2020), Sudiani & Wiksuana (2018) showing that high or low DER does not affect dividend policy. The difference in the results is because there are differences in the use of periods and company sectors.

**Hypothesis 3.** The results show that profitability affects company value positively in IDX-listed manufacturing companies between 2016 and 2020. This finding shows that investors consider profitability when deciding to invest in companies. High profitability shows the company's ability to manage current capital to generate profits for investors effectively. Investors are attracted to invest in the company because of the significant profit margin of the invested capital. The results of this study support research by Hidayah & Rahmawati (2019), Husna & Satria (2019), Ibrahim & Isiaka (2020), Ifada et al. (2019), Luthfiah & Suherman (2018), Markonah et al. (2020), Ningsih & Sari (2019), Putri & Wiksuana (2021), Rahmawati et al. (2021), Sari & Sedana (2020), Sasongko (2019), which state that company's profitability affects company value. Nevertheless, the results do not support research by Soewignyo (2020) and Sondakh (2019), which state that profitability does not affect company value. The difference in the results is because there are differences in the use of periods and company sectors.

**Hypothesis 4.** The findings demonstrate that, for the 2016–2020 timeframe, the dividend policy of IDX-listed manufacturing companies is unaffected by liquidity. This finding can be explained by the probability that liquidity is allocated to purchase fixed or permanent current assets rather than dividends to take advantage of current investment opportunities and cover operational expenses. Furthermore, a high current ratio can create a negative perception that it does not affect dividend policy. The results support the studies by Adityo & Heykal (2020), Casriningrum et al. (2019), Mauris & Nora (2019), and Silviana & Adi (2021), which state that CR does not affect dividend policy. Nevertheless, the results do not support research by Angelia & Toni (2020), Hadi (2019), Putri & Wiksuana (2021), and Wahjudi (2020), which state that liquidity affects dividend policy. The difference in the results is because there are differences in the use of periods and company sectors.

**Hypothesis 5.** The results show that, for the 2016–2020 timeframe, leverage has no impact on the dividend policies of IDX-listed manufacturing companies. This means that high or low leverage does not affect DPR.

The higher the DER, the greater the company's debt; thus, the company's capability to distribute dividends is also getting smaller. However, the amount of debt does not prevent the company from distributing dividends because the company also considers the interests of the owners of capital. According to the efficient contracting point of view, managers want to establish a dividend policy that minimizes agency costs to create a policy acceptable to shareholders and management. Agency costs can be reduced by increasing dividend payments, so DER does not affect dividend policy.

The results support research by Adityo & Heykal (2020), Santosa et al. (2020), Hidayah & Rahmawati (2019), Munawar (2018), Silviana & Adi (2021), Soewignyo (2020), Sudiani & Wiksuana (2018), which state that leverage does not affect dividend policy. Nevertheless, the results do not support the research by Angelia & Toni (2020), Casriningrum et al. (2019), Setyabudi (2021), Wahjudi (2020), and Zaman (2018), which mentioned that leverage affects dividend policy. The difference in the results is because there are differences in the use of periods and company sectors.

**Hypothesis 6.** The results show that the dividend policy of IDX-listed manufacturing businesses is unaffected by profitability over the 2016–2020 period. This means that profitability has nothing to do with dividend policy. Profitability does not affect dividend distribution because managers will consider an increase in future costs due to the company's growth. The residual dividend theory further contends that because internal financing is less expensive than external financing, businesses prefer it. Companies use retained earnings to meet as much equity participation as possible and only pay dividends if there is more profit than is necessary to maintain an optimal capital budget. This is supported by research conducted by Ali et al. (2018), Angelia & Toni (2020), Casriningrum et al. (2019), Dewi & Abundanti (2020), Hadi (2019), Hadian (2019), Kurniawan et al. (2019), Putri & Wiksuana (2021), Silviana & Adi (2021), Zaman (2018), which show that dividend policy affects company value. Nevertheless, studies by Husain & Sunardi (2020) and Wahjudi (2020) show that profitability does not affect dividend policy. The difference in the results is because there are differences in the use of periods and company sectors.

**Hypothesis 7.** The outputs show that the dividend policy does not affect the value of IDX-listed manufacturing companies during the 2016–2020 period. This indicates that a high, fair, or low dividend policy does not affect the company's value. The results are also supported by the client effect hypothesis, which according to (Brigham & Houston, 2019, p. 63) all of these indicate a client effect, which means that the company has different client groups, and each client has different dividend policy preferences. A change in dividend policy disappoints most clients while negatively impacting stock prices. Thus, companies should have consistent dividend payout policies to avoid disappointment among various groups. The results of this

research support research by Husna & Satria (2019), Munawar (2018), and Soewignyo (2020), which state that the dividend policy does not affect company value. Nevertheless, our results do not support the research by Santosa et al. (2020), Rachmawati et al. (2021), and Sasongko (2019), which state that the dividend policy does not affect company value. The difference in the results is because there are differences in the use of periods and company sectors.

**Hypothesis 8.** Liquidity does not significantly affect company value, according to the results of testing the direct relationship between the liquidity variable and the company value variable. The indirect effect test of liquidity to company value through DPR has a P-Value of  $0.894 > 0.05$ , indicating no significant relationship between the level of liquidity and company value mediated by the company's dividend policy. Thus, the dividend policy does not mediate the link between liquidity and company value. This is because there is no change in the influence of the independent variable towards the dependent variable either directly or mediated by the intervening variable. Suppose a company's CR is very high. In that case, it shows that the management cannot effectively manage the company's current assets, which will cause the dividend policy to be smaller and negatively impact the company's value. However, as was already said, the client effect means that the company dividend policy will not impact the company's value.

**Hypothesis 9.** Leverage significantly affects company value, according to examining the direct relationship between the Leverage variable and the company value variable. With a P-Value of  $0.749 > 0.05$ , the indirect effect test of leverage on company value through the intervening variable dividend policy indicates that there is no significant impact of leverage through dividend policy towards company value. Thus, the dividend policy does not mediate the relationship between leverage and company value. This is because there is a change in the influence of the direct relationship, which has a significant effect of being insignificant when mediated by the intervening variable on the indirect relationship. Therefore, the dividend policy isn't expected to mitigate the impact of leverage on the value of the company. When the business can handle debt well, debt will raise the company's value. More debt might be used as a more reliable signal if managers think the company's prospects are positive. Of course, this will be a good signal for

potential investors and a good consideration for investors to invest in the company (Putri & Rachmawati, 2018).

**Hypothesis 10.** The results of testing the direct relationship between the profitability and company value variables indicate that the company's profitability significantly affects company value. While the indirect relationship test of the profitability variable to company value mediated by the intervening variable dividend policy has a value of P-Value  $0.564 > 0.05$  which means that the relationship between profitability through dividend policy has no significant effect on company value. Comparing the direct relationship with the indirect one above shows that the company's dividend policy does not mediate the relationship between profitability and company value. This is because there is a change in the influence of the direct relationship, which has a significant effect of being insignificant when mediated by the intervening variable on the indirect relationship. Therefore, the dividend policy is not mediate the relationship between profitability and company value. Companies with high profitability give the impression that their performance is excellent, causing investors to be interested in investing and, as a result, stock prices and company value increase (Putri & Rachmawati, 2018).

#### CONCLUSIONS

Based on statistical analysis, this study concludes that between 2016 and 2020, the IDX-listed manufacturing companies will experience increases in value due to profitability and leverage. Businesses should increase profitability and raise the appropriate degree of leverage in order to maximize company value. However, companies are still advised to maintain their liquidity according to industry standards.

In contrast, the manufacturing businesses' dividend policy listed on IDX is unaffected by liquidity, leverage, or profitability. Thus, investors who invest solely to obtain dividends should consider other variables.

This study contributes to the literature by giving a deeper understanding of factors affecting company value. Companies should optimize leverage and maximize profitability to maximize company value. This study also contributes to the puzzle of conflicting dividend policy theories. The client effect hypothesis is a suitable theory, although there are limitations to this study.

#### Research Limitations

This study only focuses on reviewing financial factors. Future research is expected to examine non-financial factors such as image, reputation, and competitive advantage.

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