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Leverage and profitability affect company value with dividend policy as an intervening variable in Indonesian Stock Exchange-Listed Plantation Companies

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Abstract
The purpose of this study was to examine the impact of leverage (DER) and profitability (ROE) on firm value (PBV), with dividend policy (DPR) serving as an intervening variable. This study utilizes pre-existing data. The sample selection employed a purposive sampling strategy, resulting in the inclusion of 3 out of 24 organizations. This study employed the Partial Least Square (SmartPLS) analytic tool version 3. The data utilized in this study were acquired from the financial reports of plantation firms that underwent an initial public offering on the Indonesia Stock Exchange between the years 2018 and 2021. Findings of the research: 1). Leverage positively and significantly impacts firm value. 2). Profitability negatively and significantly impacts firm value. 3). Leverage has no impact on dividend policy. 4). Profitability negatively and significantly impacts dividend policy. 5). Dividend policy has no impact on firm value. 6). Leverage does not mediate the effect of dividend policy on firm value. 7). Profitability does not mediate the effect of dividend policy on firm value.

Keywords: company value, dividend policy, leverage, profitability

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1. INTRODUCTION

Every company has a primary objective, which is to maximize profit and enhance the prosperity of the company's owner or shareholders by raising the firm's worth. The significance of corporate value lies in its ability to mirror the financial performance, hence impacting the evaluation of the company by investors (Abdi et al., 2020). Company value is an assessment of the effectiveness of a company's management in previous operations and future potential to persuade shareholders. This is determined by ratios such as market book value and price-earnings ratio (PER) (Hussein et al., 2023). The worth of a firm is determined by how investors react to information about the company. Therefore, investors will constantly anticipate positive news regarding the company's performance. Typically, the corporation provides information indicating that analysts would utilize financial measures as a foundation for decision-making. Prior to making investment decisions, investors must possess adequate knowledge and comprehension of corporate performance, as shown by share prices, which serve as an indicator of company worth (Gardi et al., 2021).

The value of an entity can be affected by several aspects such as leverage, profitability, and dividend policy (Handayani & Ibrani, 2023). The concept of leverage is represented by the debt to equity ratio (DER). The debt to equity ratio (DER) indicates the company's capacity to meet its commitments using its own capital (Sari, 2021). The profitability ratio is represented by the return on equity (ROE). ROE, or return on equity, is a metric used to assess a company's capacity to generate net profit after tax in relation to its own capital. The dividend policy employs the DPR proxy, which represents the dividend payout ratio. The dividend payout ratio (DPR) is the proportion of earnings that will be distributed to shareholders as cash dividends (Arsyad et al., 2021). Company value is represented by the price book value (PBV), which is considered superior due to its stability and simplicity. The PBV compares the book value of a company with its share prices (Damodaran, 2024).

The Price to Book Value (PBV) is a stock ratio used to assess the market value of a stock based on its book value, which represents the actual worth of a share or the equity per share. Correlation between the market price of shares and the book value per share can be used as an alternative method to assess the value of a share (Bustani et al., 2021). This is because, in theory, the market value of a share should align with its book value. Price to Book Value (PBV) is a market ratio that compares the stock market price with the stock book price. It is used to assess the performance of the stock market price relative to its book value, which indicates the company's ability to generate value for shareholders.

Assessing a company's worth is crucial as it provides valuable information about the company's performance in terms of its expansion, return on investment, and management (Kusainov et al., 2020). When a company has a high valuation, its owners also experience significant financial success. The price-to-book value is a statistic that can be utilized to approximate the value of a company (Surjanto & Sugiharto, 2021). The market's evaluation of the company's management and infrastructure, which serves as the foundation for the company's future performance, is shown by the company's book value (Vinante et al., 2021).

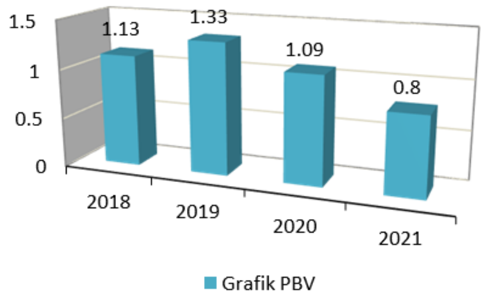

Figure 1. Price Book Value graph
Source: Processed data, 2022

It can be seen that the company value as measured by PBV (price book value) has increased from 2018 to 2019. The highest value was in 2019, namely 1.33. However, from 2020 to 2021 PBV (price book value) experienced another decline. The decrease in PBV (price book value) from 2019 to 2021 was 0.53.

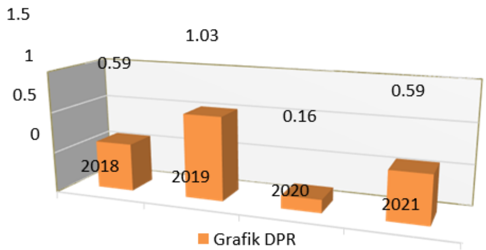

Figure 2. Dividend Payout Ratio Chart
Source: Processed data, 2022

Then it can be seen that from 2018-2021 in the graph the average DPR experienced fluctuations. The DPR experienced a quite high increase in 2019, namely 1.03, but in 2020 the DPR again experienced a quite sharp decline, namely 0.16. The difference in the percentage decrease in the DPR from 2019 to 2020 is 0.87.

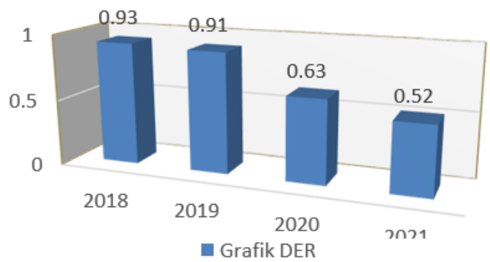

Figure 3. Debt to Asset Ratio graph
Source: Processed data, 2022

It can be seen that DER from 2018-2021 tends to decline. If related to the trade off theory, this is considered a good signal. Because reducing debt will increase company value.

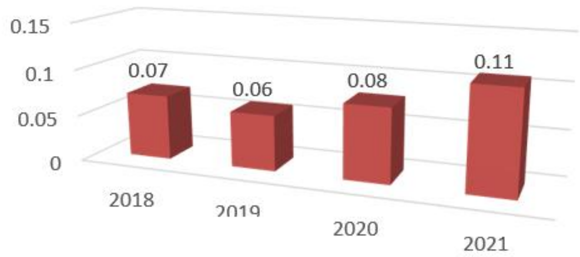

Figure 4. Return On Equity Chart
Source: Processed data, 2022

It can be seen that profitability as measured by ROE (return on equity) has decreased from 2018 to 2019. However, ROE has increased rapidly in 2019-2021, namely 0.05.

From the 4 (four) data above, it can be seen that from 2018, 2019, 2020 and 2021, every time the DPR (dividend payout ratio) experiences an increase, the PBV (price book value) also experiences an increase and vice versa. With this phenomenon, researchers want to know how much dividend policy affects company value. Meanwhile, DER (debt to equity) from 2018-2021 tends to decrease, but ROE (return on equity) actually increases. This raises a question mark for researchers so researchers want to research more deeply.

Dividends have a very positive effect on company value. This is in accordance with the Bird in the Hand Theory by Gordon and Lintner, because when share prices increase the company announces an increase in dividends, and the company's share price falls when the company announces a decrease in dividends (Muriungi & Mwangi, 2020). One of the reasons for the market reaction to dividend announcement information.

Research on company value has been carried out by several researchers, including previous research who in their research stated that profitability has a positive effect on dividend policy, because dividend payments can provide a positive signal to investors, because every year it will show the company able to provide profits for shareholders, which in this case will be considered a good thing by investors (Putri, 2020). Profitability variable has a significant positive effect on company value. Profitability can have an influence on company value, because a company's net profit in the research period has an average increase (Aryantini & Jumono, 2021). This affects the value of the company through the share price of the company. In contrast to research before, it shows that the profitability variable (ROE) has a negative and insignificant effect on dividend policy, namely with a coefficient value of -0.48 and a profitability value of (0.6289 > 0.05). This shows that profitability is not a determining factor in a company's dividend policy (Bawamenewi & Afriyeni, 2019).

2. LITERATURE REVIEW

The value of the company

Corporate theory posits that the primary objective of a company should be to optimize its wealth or value, often known as firm value. Maximizing company value is crucial since it has a direct correlation with the prosperity of firm shareholders. The value of a corporation refers to the present market price of all its outstanding debt and equity securities (Handriani & Robiyanto, 2018). Due to the substantial worth of the organization, investors and creditors exercise greater discernment in selecting whom to invest in and lend money to. Investors will be encouraged by the company's value, while creditors will be reassured by the company's capacity to repay debts, provided that the company's value accurately represents its ability to do so (Schloessmann, 2023).

Leverage

Leverage is a quantitative measure that indicates the extent to which a company's assets are financed through debt. The leverage ratio is a valuable measure for evaluating a company's capacity to fulfill its present and future financial obligations (Rashid, 2021). This research involves calculating the debt-to-equity ratio, which quantifies the proportion of debt compared to equity. The ability of a firm to fulfill its obligations is its influence. Prospective investors should use caution when employing leverage in the assessment of stocks.

Profitability

Maximizing corporate revenues is of utmost significance. Profitability is a measure used to assess how well a firm is performing in terms of its operations and the efficient utilization of its assets. When a company has a better potential for profit, investors anticipate greater investment returns (Markonah et al., 2020).

Dividend Policy

The dividend policy of a corporation is a significant determinant of its value. The allocation of corporate earnings to stockholders in the form of dividends is governed by the company's dividend policy (Ben Salah & Jarboui, 2022). When a corporation chooses to distribute dividends instead of reinvesting its profits, the retained amount of money within the company will decrease. The outcome is a diminished ability to generate funds internally

Research Hypothesis

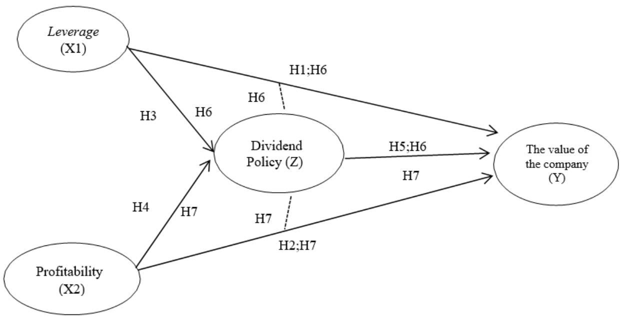

Figure 1 Research Conceptual Framework

As long as debt levels continue to increase, the value of the company will increase proportionally. The market will likely react positively to an increase in debt because it shows the company is able to manage its performance effectively to meet its financial commitments in the future.

H1: Leverage (DER) has a significant positive effect on company value (PBV) in plantation companies that go public on the Indonesia Stock Exchange.

If the business is profitable, investors will pay a higher price for its shares. Large profits indicate a high rate of return, so a high profitability ratio will attract investors to invest their money in the business. Share prices reflect investors' expectations, and if these expectations are very positive as indicated by a high Return on Equity (ROE), then the company value will increase.

H2: Profitability (ROE) has a significant positive effect on company value (PBV) in plantation companies that go public on the Indonesian Stock Exchange.

With the help of agency theory, we can establish a leverage relationship between dividend and distribution policies (leverage). The interest and principal of the company's debts are guaranteed to be paid regularly. Companies have a tendency to reduce dividends as a result of meeting other financial obligations. Agency theory justifies switching from equity dividends to debt dividends to limit the amount of cash available for misappropriation by management. One method for managing agency conflicts is through the use of dividend and leverage policies.

H3: Leverage (DER) has a significant positive effect on dividend policy (DPR) on Plantation companies that go public on the Indonesian Stock Exchange.

Increasing the value of the profitability variable can increase dividends. The ability to distribute dividends is intrinsically linked to business success. The size of the dividends paid to shareholders can vary depending on the company's level of profitability. As a company's profits increase, so does the size of the dividends paid to shareholders. In an ideal world, dividend payments would be reduced if profits fell.

H4: Profitability (ROE) has a significant positive effect on dividend policy (DPR) in plantation companies that go public on the Indonesia Stock Exchange.

Increasing dividend payments is one way for companies to increase the value of their shares. The size of the dividend paid has a direct correlation with the share price. Investors will feel more comfortable putting their money into a company based on the size of its dividend payments. In general, a higher dividend yield inspires greater investor confidence, leading to higher share prices and greater demand.

H5: Dividend policy (DPR) has a significant positive effect on company value (PBV) in plantation companies that go public on the Indonesia Stock Exchange.

The effect of leverage on firm value is inconsistent due to differences between the results of studies on this topic. This shows that the relationship between leverage and firm value is moderated by other elements. It is hypothesized that the dividend policy variable will mediate the relationship between leverage and firm value. Unlike capital gains, dividend yields are viewed as more stable by investors, making them a popular return for shareholders. Investors' willingness to invest their money in a company is proportional to the dividends paid, so large dividends can increase the value of the business.

H6: Leverage (DER) has a significant positive effect on firm value (PBV) mediated through dividend policy (DPR) in plantation companies that go public on the Indonesia Stock Exchange.

The effect of profitability on firm value is inconsistent due to differences between the findings of various studies on the topic. This shows that the relationship between profits and company value is not entirely determined by profits alone. To explain the relationship between profits and company value, researchers look at the dividend policy variable as a potential mediator.

H7: Profitability (ROE) has a significant positive effect on firm value (PBV) mediated through dividend policy (DPR) in plantation companies that go public on the Indonesia Stock Exchange.

3. METHOD

This research utilized secondary data, often known as indirect data. The analysis relies on secondary data, specifically the annual reports of companies active in the plantation industry and registered on the Indonesia Stock Exchange. Secondary data is derived from a variety of published sources such as papers, books, and other study materials. This research specifically examines plantation companies who had initial public offerings (IPOs) on the Indonesia Stock Exchange between 2018 and 2021. Three companies were chosen based on their availability of data and their alignment with the research objectives for sampling. In this study, the researchers employed a purposive sampling method, which is a non-random sampling technique. This study employs a quantitative methodology, which involves collecting and analyzing numerical data using statistical techniques (Sugiyono, 2017).

Table 1. Variable Operationalization

No	Variabel	Definisi	Pengukuran
1.	Company Value (Y)	Company value is a form of maximizing company goals through increasing the prosperity of shareholders. Thus, company value is very important because of value A high company will be followed by high shareholder prosperity.	PBV = $\frac{Market\ Price\ per\ Share}{Book\ Value\ per\ Share}$
2.	*Leverage* (X1)	Leverage is used to measure the company's ability to fulfill all its short-term obligations and long term	DER= $\frac{Total\ Liabilities}{Total\ Equity}$
3.	Profitability (X2)	Profitability is the company's ability to gain profits. This ratio also provides a measure of the level of effectiveness of a company's management. Profitability ratios are used to measure how effective company management is in managing the assets and capital owned by the company to generate profits company	ROE = $\frac{Earning\ After\ Interest\ and\ Tax}{\text{Total Equity}}$
4.	Dividend policy (Z)	Dividend policy is a decision regarding whether profits obtained by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings to be used to finance the company's investment in the future. coming.	DPR = $\frac{Dividen\ Per\ Share}{Earning\ per\ Share}$ x100%

Source: Processed data, 2022

4. RESULT AND DISCUSSION

Results and Discussion of Descriptive Analysis Results

Table 2 Descriptive Statistics

Variabel	Minimum	Maksimum	Mean	Std Deviasi
Leverage (DER)	0,17	2,21	0,75	0,71
Profitability (ROE)	0,01	0,15	0,08	0,05

Dividend Policy (DPR)	0,11	2,01	0,50	0,52
Company Value (PBV)	0,75	1,48	1,09	0,21

Source: Processed data, 2022

Based on the information presented in the table above, Between 2018 and 2021, the leverage ratio ranged from a minimum of 0.17 to a maximum of 2.21. The mean leverage is 0.75 with a standard deviation of 0.71. The average annual leverage is 0.75, with a standard deviation of 0.71. During the period from 2018 to 2021, the lowest level of profitability was 0.01, while the maximum level of profitability was 0.15. The mean profitability is 0.08, and the standard deviation is 0.05. This indicates that the profitability is concentrated around a value of 0.15, with a standard deviation of 0.05. Moreover, between 2018 and 2021, the minimum dividend policy stood at 0.11, while the maximum dividend policy reached 2.01. The mean dividend policy is 0.50, with a standard deviation of 0.52. The dividend policy has a mean of 0.50 and a standard deviation of 0.52. From 2018 to 2021, the company's value ranged from a minimum of 0.75 to a maximum of 1.48. The mean company value is 1.09, with a standard deviation of 0.21. The company's worth from 2018 to 2021 has a mean of 1.09 and a standard deviation of 0.21.

Structural Model Evaluation (inner model)

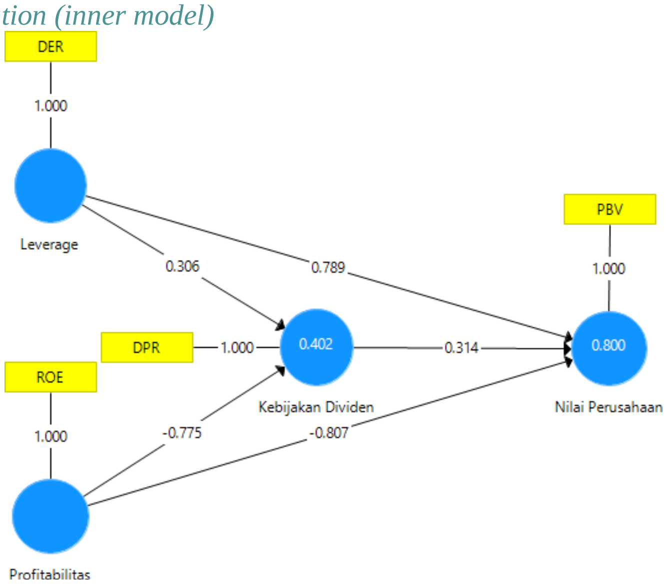

Figure 2. Inner Model Output

Table 3. Structural Model Evaluation Results with R square

	R Square	Adjusted R Square
Dividend Policy	0,402	0,270
The value of the company	0,800	0,726

Sumber : Output PLS 3.0, 2023

The evaluation of the structural model involves examining the R square (R^2) value, which serves as a measure of the model's goodness of fit and predictive capability for each variable. The R2 value for the dividend policy variable is 0.402, indicating a moderate level of mediation. The dividend policy variable can be attributed to the leverage and profitability factors by 40.2%, with the remaining 59.8% being influenced by other variables. Furthermore, the coefficient of determination (R^2) for the company value variable is 0.800. The firm value variable can be attributed to 80% of the influence from the leverage, profitability, and dividend policy factors, while the remaining 20% is controlled by other variables.

Hypothesis Testing Results

Table 4 Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Diviation (STDEV)	T Statistick (│O/STDEV│)	P Value
Leverage -> Company Value	0,789	0,807	0,248	3,189	0,002
Profitability -> Company Value	-0,807	-0,850	0,285	2,831	0,005
Leverage -> Dividend Policy	0,306	0,332	0,265	1,155	0,249
Profitability -> Dividend Policy	-0,775	-0,793	0,281	2,763	0,006

Dividend Policy -> Company Value	0,314	0,275	0,228	1,374	0,170
Leverage -> Dividend Policy -> Company Value	-0,243	-0,214	0,263	0,925	0,356
Profitability -> Dividend Policy -> Company Value	0,096	0,081	0,152	0,631	0,528

Source: PLS Output 3, 2023

The initial hypothesis posits that leverage exerts a favorable and substantial impact on the value of a company. The test findings indicate that the leverage variable has a t-statistic value of 3.189, which is greater than the critical value of 1.96 from the t-table. Additionally, the p-value for the leverage variable is 0.002, which is less than the significance level of 0.05 or 5%. This demonstrates that the leverage variable has a direct, positive, and statistically significant impact on firm value. In other words, the hypothesis H1 is supported. Consequently, as the level of leverage increases, so does the value of the company. According to the second hypothesis, there is a clear and significant negative relationship between profitability and firm value. The profitability variable has a t-statistic value of 2.831, which is greater than the critical value of 1.96 from the t-table. Additionally, the p-value of 0.005 is less than the significance level of 0.05 or 5%. This demonstrates that the profitability variable has a direct, positive, and statistically significant impact on the value of the company. In other words, hypothesis H2 is confirmed. Consequently, when profitability increases, the value of the company would decline.

The third hypothesis posits that leverage exerts a favorable and statistically significant impact on dividend policy. The test findings indicate that the leverage variable has a t-statistic value of 1.155, which is less than the critical value of 1.96 from the t-table. Additionally, the p-value of 0.249 is greater than the significance level of 0.05 or 5%. This indicates that the leverage variable has a direct positive effect on dividend policy, but this effect is not statistically significant. In other words, the hypothesis H3 is rejected. This indicates that the dividend policy is not affected by leverage.

The fourth hypothesis posits that profitability exerts a detrimental and statistically significant impact on dividend policy. The test findings indicate fluctuating leverage. The study examines the impact of leverage on an unknown variable, denoted as "12". The t-statistic value of 2.763 above the critical value of 1.96 from the t-table, indicating statistical significance. Additionally, the p-value of 0.006 is less than the significance level of 0.05 or 5%. This demonstrates that the profitability variable has a direct, positive, and statistically significant impact on dividend policy. In other words, hypothesis H4 is supported. Consequently, when profitability increases, the dividend policy will drop. The fifth hypothesis posits that the dividend policy exerts a favorable and substantial impact on the value of the company. The test findings indicate that the measured dividend policy variable has a t-statistic value of 1.374, which is less than the critical value of 1.96 from the t-table. Additionally, the p-value of 0.170 is greater than the significance level of 0.05 or 5%. This indicates that the dividend policy variable has a direct positive effect on firm value, but the effect is not statistically significant. In other words, we reject the hypothesis H5. Consequently, the dividend policy does not have a direct impact on the value of the company. The sixth hypothesis posits that leverage exerts a detrimental and substantial impact on the value of a company, with this effect being mediated by the dividend policy. The test findings indicate that the leverage variable has a t-statistic value of 0.925, which is less than the critical value of 1.96 from the t-table. Additionally, the p-value of 0.356 is greater than the significance level of 0.05 or 5%. This demonstrates that the leverage variable has an indirect and statistically small impact on firm value, which is influenced by dividend policy. In other words, hypothesis H6 is not supported. raising indebtedness and raising dividend policy have little impact on company value.

The seventh hypothesis posits that profitability exerts a favorable and substantial impact on the value of a company, with this effect being mediated by the dividend policy. The test findings indicate that the profitability variable has a t-statistic value of 0.631, which is less than the critical value of 1.96 from the t-table. Additionally, the p-value of 0.528 is greater than the significance level of 0.05 or 5%. This indicates that the profitability variable has an indirect and statistically insignificant impact on the value of the company. This impact is mediated by the dividend policy, meaning that the hypothesis H7 is rejected. Therefore, the correlation between higher profitability and a more generous dividend policy does not impact the overall worth of the company. The t-test results indicate that the variable leverage (DER) has a statistically significant and positive impact on the variable firm value (PBV). If the level of leverage increases, the value of the company will also increase. The t-test results indicate that profitability exerts a statistically significant negative impact on firm value. The findings of this study align with the research conducted by Nur (2018), which asserts that a company's profitability does not necessarily define its overall value. The t test results indicate that leverage has a beneficial effect on dividend policy, although this effect is not statistically significant. Consequently, the company's dividend policy remains unaffected by high leverage. The t-test results indicate that profitability has a statistically significant negative impact on dividend policy. In contrast to the viewpoint expressed by Ramadhani et al (2018), who argue that an increase in profitability leads to a higher share of dividend payments. As the company's profitability rises, dividends will be disbursed to investors for multiple purposes, including reinvestment with the aim of achieving higher profits than previously.

The t test results indicate that the dividend policy has a positive but statistically negligible impact on the value of the company. Put simply, whether or not dividends are distributed does not impact the company's worth, as shareholders are primarily interested in generating immediate profits through capital gains. The t test results indicate that the impact of leverage on company value through dividend policy is both negative and statistically negligible. The findings of this study confirm the findings of Sriwahyuni & Wihandaru (2016) that the extent of debt utilization does not have an impact on the magnitude of dividend distribution. This is because the company's debt is perceived to carry minimal risk, and therefore it does not influence the decision to allocate funds for dividend distribution. The t test results indicate that the impact of profitability on firm value through dividend policy is positive but not statistically significant. The company's valuation remains unaffected by its dividend policy, which is contingent upon the company's profitability. This is due to the company's utilization of debt for the purpose of expanding its operations. The corporation is encumbered by interest expenses and the obligation to repay its debts. The company's gains are utilized to settle its commitments, namely to repay debts, resulting in a modest return.

5. CONCLUSION

The conclusions were derived from the data analysis of the impact of leverage and profitability on business value, with dividend policy as an intervening variable, in plantation companies that were publicly listed on the Indonesia Stock Exchange between 2018 and 2021. In plantation companies that go public on the Indonesia Stock Exchange, leverage has a positive and significant impact on company value. However, profitability has a negative and significant impact on company value. Leverage does not affect the value of dividend policy, and profitability has a negative and significant impact on dividend policy. Dividend policy does not affect the company value of plantation companies. Additionally, leverage and profitability do not have an effect on company value when mediated by dividend policy in plantation companies.

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