

**THE EFFECT OF PROFITABILITY, LIQUIDITY, AND LEVERAGE
ON FIRM VALUE WITH DIVIDEND POLICY AS INTERVENING
VARIABLE
(Case Study on Finance Sector In Indonesian Stock Exchange 2016-2020 Period)**

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Abstract: The purpose of this study aims to examine the effect of profitability, liquidity, and leverage on firm value of dividend policy as an intervening variable. This have a look at uses quantitative methods by collecting secondary data, specifically financial statements and annual reports of companies in the financial sector listed on the Indonesia Stock Exchange (IDX). The sampling technique used purposive sampling and obtained a total sample of 26 companies. This study uses path analysis using the SmartPLS 3.3.3 statistical tool. The results of the study prove that profitability has a negative and insignificant effect on dividend policy, liquidity has a negative and significant effect on dividend policy, leverage has a positive and significant effect on dividend policy, profitability has a positive and significant effect on firm value, liquidity has a negative and significant effect on firm value, leverage has a positive and significant on firm value, dividend policy has a negative and insignificant effect on firm value, dividend policy is not able to mediate profitability on firm value, liquidity has no direct effect on firm value through dividend policy, dividend policy has an indirect effect of leverage on firm value in the financial sector listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period.

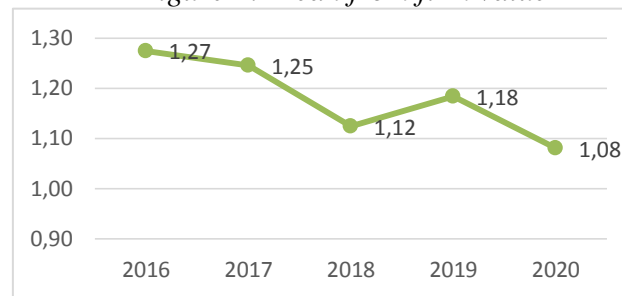
Keywords: *Profitability, Liquidity, Leverage, Dividend Policy, Firm Value*

1. Introduction

The firm value is a mirrored image of the stock price and valuation of the company, so that the higher the valuation of the company, the call for shares inside the capital market will increase and the better the stock price, the price of the enterprise also will increase. Stock offer high return opportunities, so risk is also high. When conducting an analysis, an investor can do the analysis in two ways: fundamental analysis or technical analysis. A basic analysis is an analysis based on a company's financial performance. On the other hand, technical analysis is an analysis that allows investors to predict future stock movements by looking at past charts and focusing on stock movements.

Inside the era of pandemic that hit Indonesia in 2020, the financial quarter has skilled a decline in the cost of business, as indicated by the *Price to Book Value* (PBV). This may be visible within the following figure:

Figure 1: Mean from firm value



Based at the figure 1, the firm value as an indicator by Price to Book Value (PBV) in the financial sector at some stage in 2016-2020. From 2017 to 2018 it reduced. In which in 2016 it change into at 1,27 and in 2017 dropped 1,25 in 2018 dropped 1,12. In 2019 the value of PBV multiplied through 1,18. However in 2020 there has been a substantial drop in the PBV value of 1,08. In 2020, the Covid-19 virus in Indonesia and the full PSBB were introduced in the midst of financial instability due to the corona pandemic, resulting in instability in PBV prices within the currency region, ARB is also called (www.cncbindonesia.com).

Profitability is the employer's potential to make a income. Companies that earn very excessive earnings are declared a success in working their business. The usage of ROA in this observe, the better the profit, the greater the company's ability to pay dividends and the better the organization's value in see of investors (Masrifa, 2016). Samrotun (2015 : 95) ROA is used to measure the effectiveness of the company in assets and has an impact on dividend policy because dividends are a part of the acquired corporation's earnings.

According to Kasmir (2015 : 130), liquidity is a description of a company's ability to pay short term debt. The greater liquid a corporation is the more the trust in creditors who lend money to increase the price of the company from the point of view of creditors and traders. Liquidity affects the size of dividends paid to shareholders. According to Handayani (2020 : 160), a higher CR level reflect the adequacy of cash so that it becomes a liquid company and increase investor confidence to improve the image of the company in showed of investors so that it enhances the value of the company can affect the company. According to Samrotun (2015 : 95), the better CR indicator, the company is at meeting its long term obligations, including dividend payments.

Leverage is a ratio that has a courting between the company's debt to capital and assets, this ratio can see the volume to which the business enterprise is financed by means of debt or external parties with the organization's wealth describe through capital. The higher level of debt held by a company, the greater the investment risk that affects the price of the employer. A company using debt is fully liable for interest and costs. DER is a comparison of long term debt and equity or equity of a company's funds. The smaller the DER rasio the better companies can live on in negative situations (Pattiruhu & Paais, 2020). According to Munawar (2019), the better DER the lower the income and decrease the dividend paid.

Dividend policy is largely a dedication of the size of the part of earnings this is given to shareholders. The higher the *Dividend Payout Ratio* (DPR), the better for investors. On the other hand, if the DPR is low, it incurs loss to traders, but the company's internal finance become stronger. On the one hand, dividend distributions are expected to satisfy investor's expectations that they will receive returns as a result of their investment, whereas dividend distribution are not expected to threaten the survival of the company. A organization's dividend policy may be affected by several factors. The better the DPR advantages investors,

however has a small effect on the employer's inner budget as it reduces retained profits and vice versa.

2. Literature Review

Signalling Theory

According to Suganda (2018), signal theory is an action by management that communicates information to investors that can ultimately change the investor's decision to view the states of a company. The theory of signaling blue-chip companies by consciously giving signals to the stock market. Profitable companies avoid selling stocks and try to generate the new capital they need by other means. Meanwhile, investors with bad prospects tend to sell shares. The financial report is used for decision making by shareholders and is the most important part of performing basic analysis. The financial statements of interest are external users (external management). Since internal users (control managers) have a direct relationship with the company and are well aware of the corporation's activities, their dependence on accounting information is less than of external users. Information asymmetry can be reduced by providing signals to shareholders in the form of *Internet Financial Information* (IFR) and establishing an internal control structure to prepare financial statement at the request of investors. When information is released, market participants analyse it and interpret it as a good signal (good information) or a bad signal (bad information). If the release of information is a good signal, investors will be interested in the stock and the marketplace will react to changes in volume.

Profitability

Profitability is a ratio that measures a company's ability to generate earnings at the level of sales, assets and capital. According to Kasmir (2013), this ratio measures the effectiveness of a corporation's management, expressed as profit from sales and investment income. Profitability relates to effectiveness of management in operating a company's operations over a specific period of time, which is reflected in a company's ability to generate earnings. Good company management affects the level of profit a company generates. The higher this is, the greater the wealth earned by the company's owners increases as profitability increases. The essence of using the profitability ratio is to show the effectiveness of the company's.

There are previous studies by Sugastuti et al (2018), Abrar et al (2017), Dewi and Abundanti (2020) showing the results that profitability has a positive and significant effect on dividend policy. Meanwhile, research from Pattiruhu and Paais (2020) states that profitability does not have a positive and significant effect on dividend policy. And research conducted by Lembong (2020) states that profitability has a negative and significant effect on dividend policy.

Previous research conducted by Setyabudi (2021), Mulyani et al (2017), Tui et al (2017), and Mubyarto (2020) stated that profitability had a positive and significant effect on firm value. Research conducted by Markonah et al (2020) stated that profitability has a significant effect on firm value.

Previous research conducted by Putri and Wiksuana (2021), Tahu and Susilo (2017) stated that dividend policy was not able to mediate profitability on firm value. Meanwhile, research conducted by Santosa et al (2020) states that profitability has a positive effect on firm value through dividend policy as an intervening variable.

Liquidity

Is the ability of a business enterprise to meet its short term obligations in a timely manner. This is a company's ability to meet its financial obligations that must be met immediately, or a corporation's ability to meet its financial obligation upon billing. Sudana (2011), liquidity ratio serves as a measure of employer's ability to meet its short term financial obligation. Liquidity is a component of corporation's cash flow and current assets and current liabilities, and its ability to convert certain current assets into cash to pay current liabilities (for example, a enterprise must collect receivables or promote inventory to receive cash funding). Depends on if the above understanding, it is possible to describe a corporation that has the ability to pay and meet any financial obligations it has to fulfil immediately. The company can be said to be liquid and vice versa if it has no solvency. It is declared as illiquid.

There are previous research conducted by Ahmad and Wardani (2014), Mauris and Rizal (2021) stated that liquidity has a negative and significant effect on dividend policy. Meanwhile, research by Adityo and Heykal (2020), Angelia and Toni (2020), Admi et al (2019) said that liquidity has no significant effect on dividend policy.

Previous research conducted by Kristianti and Foeh (2020), Sukmawardini and Ardiansari (2018) stated that liquidity has a negative and significant effect on firm value. Meanwhile, the research conducted by Tahu and Susilo (2017) and Sondakh (2019) stated that liquidity has a positive and significant effect on firm value. And research conducted by Ningsih and Sari (2019) states that liquidity has no effect on firm value.

Previous research conducted by Sutrisno and Panuntun (2020) stated that dividend policy was not able to mediate liquidity on firm value. Research conducted by Rahmasari et al (2019) states that liquidity has no effect on firm value through dividend policy. Meanwhile, research conducted by Kristianti and Foeh (2020) states that dividend policy is able to mediate the effect of liquidity on firm value.

Leverage

According to Kasmir (2014 : 153), leverage ratios are used to measure a company's ability to pay all its long-term and short-term obligations if the company is liquidated. The leverage ratio is the ability to of a company to finance its business by comparing its own and foreign capital. This ratio shows the comparison of the funds provides by the owner to the funds borrowed from the creditors. Therefore, the more debt the capital structure has the higher the risk and the higher the interest cost the lender charges the corporation.

There are previous research conducted by Endang et al (2021) and Wahjudi (2018) suggest that leverage has a negative effect on dividend policy. Meanwhile, research conducted by Hadian (2019) and Abrar et al (2017) stated that it has a significant effect on dividend policy.

Previous research performed by Ibrahim and Isiaka (2020) and Kanta et al (2021) stated that leverage has a negative effect on dividend policy. Meanwhile, research conducted by Mulyani et al (2017) said that it had a positive and significant effect on firm value. And the research conducted by Butar-butur et al (2021) states that it has no direct effect on firm value.

Previous studies conducted by Ramadhani et al (2018) and Setyabudi (2021) stated that dividend policy cannot mediate leverage on firm value. Meanwhile, research by Kanta et al (2021) states that dividend policy is able to mediate the effect on firm value in a negative direction.

Dividend Policy

According to Sartono (2010), dividend policy is a decision to dividend the income earned by shareholders or investors as dividends or to hold them in the form of retained earnings to uses to finance future investment. A policy related to the determinention of income (revenue) distribution among users of income to be paid to shareholders as dividend or used by the company. Income can be invested in the company. The corporation's management may make decision regarding the distribution of dividends, whether these dividends will be distributed to shareholders or will be held in the form of retained earnings to finance future investments.

Previous research conducted by Sugiastuti et al (2018) said that dividend policy has a negative and insignificant effect on firm value. Meanwhile, research conducted by Santosa et al (2020), Sudiani and Wiksuana (2018) states that it has a positive effect on firm value. And research conducted by Tandean et al (2021) and Soewignyo et al (2020) states that dividend policy doesn't directly affect firm value.

Frim Value

According to Muchtar (2021), this is a certain condition achieved by a corporaton showing public trust in the company after years of operation since its establishment. If the company is evaluated, so good future prospect, the value of the stock will be high. On the other hand, if the price of the company is significantly lower, the outlook for the stock price will also be lower.

Hypothesis

There is a hypothesis in this study as follows:

- H1: Profitability has a positive and significant effect on dividend policy.
- H2: Liquidity has a negative and significant effect on dividend policy.
- H3: Leverage has negative effect on dividend policy.
- H4: Profitability has a positive and significant effect on firm value.
- H5: Liquidity has a negative and significant effect on firm value.
- H6: Leverage has positive and significant effect on firm value.
- H7: Dividend policy has a negative and insignificant effect on firm value.
- H8: Profitability has a positive and significant effect on firm value through dividend policy.
- H9: Liquidity has an indirect effect on firm value through dividend policy.
- H10: Leverage has an indirect effect on firm value through dividend policy.

3. Research Method

The amount of sample in study were 94 companies that financial sector. This study applies a *purposive sampling* technique to determine the quality of the population obtained, there are the following criteria:

1. 94 companies listed on the Indonesia Stock Exchange (IDX) in addition to those inside the financial sector.
2. 25 non income monetary quarter business.
3. 43 economic companies do now not distribute dividends.

Data collection technique in this study using documentation technique. According to Siyoto and Sodik (2015 : 77) stated that the documentation method is a data collection technique by searching for and collecting data on variables in the from of notes, books, magazines, newspapers, agendas, and so on. Thus, data collection is in the from of annual report between 2016 until 2020 obtained from the aunthentic internet site of the Indonesia Stock Exchange (IDX). Data observe approach using path analysis. So that the analysis uses

descriptive statistical analysis, validity tests, reliability tests, and structural models (*inner models*) using statistical tools, namely Partial Least Square (PLS).

4. Results And Discussion

Results

Descriptive Statistical Analysis

In this study, descriptive statistical have the aim of knowing the variable used. The results of the statistical descriptive analysis are shown in tabular from as follows:

Table 1. Descriptive Statistical Analysis

Variable	Minimum	Maximum	Mean	Std. Deviation
ROA	0,001	0,139	0,038	0,029
CR	1,136	7,627	1,999	1,536
DER	0,151	10,218	2,872	2,163
DPR	0,032	1,760	0,351	0,285
PBV	0,000	5,921	1,181	1,195

Source: Data processed by SmartPLS, 2022

Table 1 shows the statistical descriptive results of the ROA, CR, DER, DPR, and PBV variables which include the minimum, maximum, mean, and standard deviation values.

PLS Algorithm Output Results

Below is a summary of the results of the Partial Least Square (PLS) technique by applying SmartPLS 3.3.3 by showing a path diagram as follows:

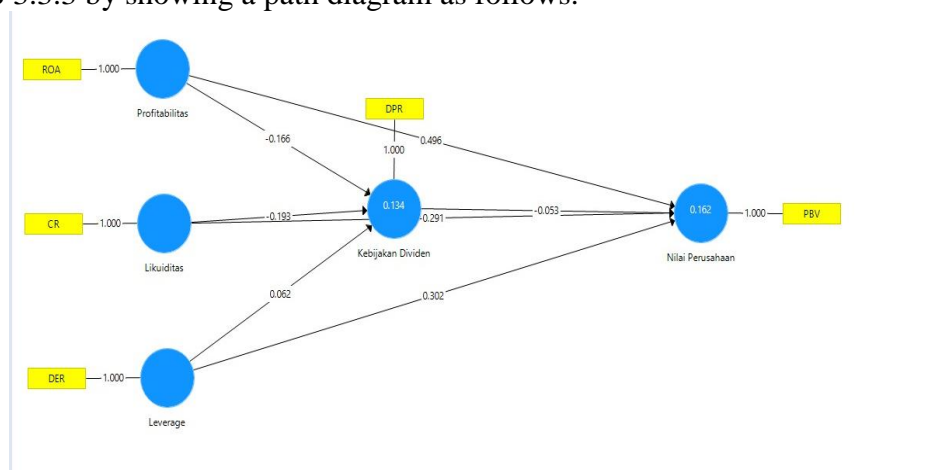


Figure 3. PLS Algorithm Output Results

1. Analysis of the From Assessment (*Outer Model*)

In the PLS output results, the results of the latent variables of profitability, liquidity, leverage, dividend policy, and firm value show the number 1,000 which means these indicators have an influence on profitability, liquidity, leverage, dividend policy, and firm value.

2. Structural Model Analysis (*Inner Model*)

- 1) The direct effect coefficient of profitability on dividend policy is -0,166. This shows a negative results, so the conclusion is that profits can reduce the quality of dividends.

- 2) The direct effect coefficient of liquidity on dividend policy is -0,193. Showing negative results, the conclusion is that the lower the CR acquisition will affect the distribution of dividends.
- 3) The direct effect coefficient of leverage on dividend policy is 0,062. With this showing a positive results, the conclusion is that the higher the leverage, the lower the profit and the lower dividend paid.
- 4) The direct effect coefficient of profitability on firm value is 0,496. So the results are positive, so the conclusion is that the higher the profits, the higher firm's valuation.
- 5) The direct effect coefficient of liquidity on firm value is -0,291. So the negative, conclusion is that the lower level of liquidity, the lower the firm value.
- 6) The direct effect coefficient of leverage on firm value is 0,302. The positive results conclude that the lower the leverage, the higher firm value.
- 7) The direct effect coefficient of dividend policy on firm value is -0,053. Which is a negative results, which means that dividends will be distributed more and more so that investor's can evaluate the company well.

Validity Test

1. Convergent Validity Test

Table 2. Convergent Validity Test

Variable	Index	Loading Factor	Description
Profitability	ROA	1,000	Valid
Liquidity	CR	1,000	Valid
Leverage	DER	1,000	Valid
Dividend Policy	DPR	1,000	Valid
Firm Value	PBV	1,000	Valid

Source: Data processed by SmartPLS 2022

Based on the results of the table above, the results of the loading factor get the acquisition of $1,000 > 0,7$. So the results are valid.

2. Discriminant Validity Test

This test has a function to measure each latent variable with the AVE indicator ($\sqrt{\text{AVE}}$, if the AVE value $> 0,5$ is considered very good).

Table 3. Discriminant Validity Test

Variable	AVE	$\sqrt{\text{AVE}}$	Description
Profitability	1,000	1,000	Valid
Liquidity	1,000	1,000	Valid
Leverage	1,000	1,000	Valid
Dividend Policy	1,000	1,000	Valid
Firm Value	1,000	1,000	Valid

Source: Data processed by SmartPLS 2022

Reliability Test

Serves to measure the internal coefficient of the measuring instrument using two ways, namely *cronbach's alpha* with a number exceeding 0,6 and *composite reliability* with a number greater than 0,7.

Table 4. Reliability Test

Variable	Cronbach's alpha	Composite reliability	Description
Profitability	1,000	1,000	Reliable
Liquidity	1,000	1,000	Reliable
Leverage	1,000	1,000	Reliable

Dividend Policy	1,000	1,000	Reliable
Firm Value	1,000	1,000	Reliable

Source: Data processed by SmartPLS 2022

Based on the table above, the results show that the value of *cronbach's alpha* is greater than 0,6 and *composite reliability* has results above 0,7. So, the variable is declared reliable.

Structural Model (Inner Model)

The structural model uses R-square projections to measure the level of transition of independent variables which will be presented in the following table:

Table 5. Structural Model (*Inner Model*)

Variable	R-square
Dividend Policy	0,134
Firm Value	0,162

Source: Data processed by SmartPLS 2022

Hypothesis Test

In PLS, statistical test on each relationship are assumed by calculation. Bootstrapping testing aims to minimize errors in the data. There is table 8 which describe the results of each variable in this study as follows:

Table 6. Path Coefficient Table

Variable	Original Sample (O)	Sample Mean (M)	Std. Deviation (STDEV)	T Statistic	P Value
Profitability → Dividend Policy	-0,166	-0,170	-0,092	1,813	0,070
Liquidity → Dividend Policy	-0,193	-0,191	0,074	2,601	0,010
Leverage → Dividend Policy	0,062	0,062	0,108	0,569	0,570
Profitability → Firm Value	0,496	0,490	0,144	3,432	0,001
Liquidity → Firm Value	-0,291	-0,290	0,074	3,905	0,000
Leverage → Firm Value	0,302	0,308	0,100	3,024	0,003
Dividend Policy → Firm Value	-0,053	-0,052	0,067	0,796	0,426
Profitability → Firm Value → Dividend Policy	0,009	0,009	0,014	0,625	0,532
Liquidity → Firm Value → Dividend Policy	0,010	0,010	0,014	0,730	0,466
Leverage → Firm Value → Dividend Policy	-0,003	-0,002	0,010	0,327	0,744

Source: Data processed by SmartPLS 2022

Discussion

Profitability on Dividend Policy

The study of the first hypothesis suggests the relationship between profitability on dividend policy. It can be seen that the significance value of the profitability variable as indicated by *Return on Assets* (ROA) is $0,070 > 0,05$ and coefficient value is -0,166. The results display that profitability has a negative and insignificant effect on dividend policy. The effect show that at low ROA levels, the enterprise continues to pay high dividends to maintain the company's reputation in the eyes of traders. This means that the company's inability to generate profitability can affect the employer's dividend distribution. So it is not in accordance with the first hypothesis showing that has a positive and significant effect, and

there are research that support the results of the hypothesis, namely Lembong (2020). The conclusion 1 is rejected.

Liquidity on Dividend Policy

The second hypothesis shows the relationship among liquidity on dividend policy. it can be seen that the significance value as indicated by *Current Ratio* (CR) is $0,010 < 0,05$ and coefficient value is $-0,193$. The results of the calculation of liquidity statistics have a negative and significant effect on dividend policy. Which means an increase in the CR price held by a company affects the change in the dividend policy decline. Too much liquidity means that proportion of current assets is not profitable, which reasons financial institution to apply working capital and reduces the employer's efficiency in paying dividends to investors. So a liquid doesn't necessarily mean a better dividend payout. So the results coincide with previous research from Ahmad and Wardani (2014), Mauris and Rizal (2021). With this it can be concluded that hypothesis 2 is accepted.

Leverage on Dividend Policy

The hypothesis when proving that the relationship between leverage and dividend policy. It can be seen that the significance value as indicated *Debt to Equity Ratio* (DER) is $0,570 > 0,05$ and coefficient value is $0,062$. The results show that leverage has a positive and insignificant effect on dividend policy. This means that its ability to pay dividends is not affected by the size of the debt it owns. The leverage ratio of the company increase and the debt (liabilities) has to perform is high and vice versa. That is inversely proportional to the initial hypothesis that leverage has a negative effect on dividend policy. studies that supports the results of the hypothesis from Hadian (2019) and Abrar et al (2017). So in conclusion hypothesis 3 is rejected.

Profitability on Firm Value

In the fourth hypothesis, the relationship between profitability and firm value. It can be seen that the significance value as indicated by ROA is $0,001 < 0,05$ and coefficient value is $0,496$. The results show that profitability has a positive and significant effect on firm value. This is in accordance with the initial hypothesis which assumes positive and significant. This means that the high value of the company's ROA affects the excessive price of that it. ROA is a tool that measures the level of return of an asset used to generate revenue. It can be said that a corporate can create it profits that affect its corporate value by managing its assets. Previous studies that support the results of this hypothesis are from Setyabudi (2021), Mulyani et al (2017), Tui et al (2017), and Mubyarto (2020). Then hypothesis 4 is rejected.

Liquidity on Firm Value

This hypothesis shows the relationship between liquidity and firm value. It can be seen that the significance value as indicated by CR is $0,000 < 0,05$ and coefficient value is $-0,291$. The results show that liquidity has a negative and significant effect on firm value. This is in accordance with the initial hypothesis which states that liquidity has a negative and significant effect. This means that better the value of the CR held by the business enterprise, the lower the impact on the corporate value can be. If liquidity is too high, there will be a lot of idle cash and the company may not meet its short-term obligations, which can hamper a company's ability to make a income. There are previous studies that support this hypothesis,

namely from Kristianti and Foeh (2020), Sukmawardini and Ardiansari (2018). Then hypothesis 5 is accepted.

Leverage on Firm Value

The sixth hypothesis, shows the relationship among leverage to firm value. It can be seen that the significance value as indicated by DER is $0,003 < 0,05$ and coefficient value is 0,302. The results show that leverage has a positive and significant effect on firm value. In other words, the higher the DER value obtained by the company, the higher the price of the company. That is because there is a positive effect between the two variables. You could say that a company uses debt to save taxes. However, the company's use of debt implies a certain amount of profit. Previous research that is in line with the results of the hypothesis is that of Sugiasuti et al (2018). The hypothesis 6 is accepted.

Dividend Policy on Firm Value

The seventh hypothesis shows the relationship between dividend policy and firm value. It can be seen that the significance value as indicated DPR is $0,426 > 0,05$ and coefficient value is -0,053. The results show that dividend policy has a negative and insignificant effect on firm value. This is contrary to the results of the initial hypothesis which explains that it has a positive and significant effect. When the dividend decreases, the company value increases this is because, when the dividend is low, the business enterprise's retained earnings increase, which strengthens the internal funds of the company, and the company's performance increase, which increase the agency value. Previous research that is in line with the results of the hypothesis is that of Sugiasuti et al (2018). The conclusion is hypothesis 7 is rejected.

Profitability on Firm Value through Dividend Policy

The hypothesis suggest that there is a relationship between profitability and firm value through dividend policy. it can be seen that the significance value is $0,532 > 0,05$ and coefficient value is 0,009. Where those results have an indirect effect and show a positive and insignificant intermediary dividend policy. The results of this hypothesis are supported by previous research from Putri and Wiksuana (2021), Tahu and Susilo (2017). Then hypothesis 8 is rejected.

Liquidity on Firm Value through Dividend Policy

This hypothesis show the relationship of liquidity to firm value through dividend policy. It can be seen that the significance value is $0,466 > 0,05$ and coefficient value is 0,010. These results indicate that the indirect effect so that dividend policy is not able to mediate liquidity on firm value. The results of this hypothesis are in accordance with previous research from Sutrisno and Panuntun (2020), Rahmasari et al (2019). The conclusion is hypothesis 9 is accepted.

Leverage on Firm Value through Dividend Policy

This hypothesis shows the relationship of leverage to firm value through dividend policy. it can be seen significance value is $0,744 > 0,05$ and coefficient value is -0,003. The results show that dividend policy cannot mediate leverage on firm value. That is in line with previous research from Ramadhani et al (2018) and Setyabudi (2021). It may be concluded that hypothesis 10 is accepted.

5. Conclusion

This study looks at the effect of profitability, liquidity, and leverage on firm value with dividend policy as an intervening variable in the study of the financial sector. There is a sample of 94 financial sector companies in Indonesia for 5 year from 2016-2020, and this study uses path analysis the SmartPLS statistical tool. The conclusion results of thi study reveal that profitability has a negative and insignificant effect on dividend policy, liquidity has a negative and significant effect on dividend policy, leverage has a positive and insignificant on dividend policy, profitability has a positive and significant effect on firm value, liquidity has a negative and significant effect on firm value, leverage has a positive and significant effect on firm value, dividend policy has a negative and insignificant effect on firm value, dividend policy is not able to mediate profitability on firm value, liquidity has no direct effect on firm value through dividend policy, dividend policy has an indirect effect on leverage on firm value in the financial sector.

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