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The Effect of Profitability, Capital Structure and Dividend Policy on Company Value

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ABSTRACT

This study aims to find out the Influence of Profitability, Capital Structure and Dividend Policy on Company Value in Conventional Banking Listed on the Indonesia Stock Exchange for the 2019-2022 Period. Data is taken from financial statements from 2019-2022. The selection of samples in this study uses the purpose sampling method. The number of companies sampled based on the criteria set was 16 companies. Hypothesis testing uses normality tests, t-tests, F tests and determination tests using SPSS (Statistical Package for the Social Sciences) as a tool in calculations.
The results of the study show that (1) Profitability has a significant positive effect on Company Value (2) Capital Structure has a significant negative effect on Company Value. (3) The Dividend Policy has a positive effect on the company's value. For the next research, it is recommended to explore other factors that may affect the Company's Value.

Keywords: Profitability, Capital Structure, Dividend Policy and Company Value

INTRODUCTION

Maximizing the value of the company by introducing financial management functions. The value of a company carries out the function of financial management through the financial decisions made and influences financial decisions that affect the value of the company. The goal of financial management is to maximize the value of the company. The value of a company is considered important in reflecting the company's performance so that it can affect investors' perception of a company. Company value is defined as market value because it can provide maximum wealth to shareholders when the share price of a company increases (Sondakh et al., 2019).

Efforts to increase shareholder value can be achieved through profits. According to Kasmir (2019), the profitability of a company can be assessed in various ways depending on profits and assets or capital compared to each other (Novika & Siswanti, 2022). Profitability is also a measure of the effectiveness of the management of a company and is measured from the profits generated from the company's main activities (sales) and investments.

Bank profitability is also used to determine the bank's ability to generate profits within a certain period of time. The profitability displayed is an example of the company's operational efficiency in generating profits. According to the findings of Brigham and Houston (2006), the achievement of profitability depends on a series of strategic decisions and managerial actions that companies take in their optimal markets to achieve optimal price and quantity levels.

Profitability refers to a company's ability to generate profits. Kasmir (2014) explained that profitability is used as a measuring tool to test how effective operational activities a company is in generating profits. According to Rahayu and Sari (2018), profit is important for a company because it can reflect the company's performance. Profit also has an important role in making decisions for potential investors to invest their capital in the company, because the amount of profit is the distribution of profits from shareholders.
In general, the company's goal is to generate profits and create wealth for business owners and shareholders. To achieve these goals, financing policies must be considered in determining the capital structure that helps optimize the company's profits. Capital structure is a part of the financial structure that reflects the balance (absolute or relative) between total external capital (both short-term and long-term) and the level of equity capital (Hermuningsih, 2013). Brighnam and Houston (2019) state that a capital structure is a combination of debt, preferred stock, and common stock used to finance a company's resources.

LITERATURE REVIEW

Profitability

According to Hanafi (2013), profitability is the ability of a company to generate profits. Investors invest in the company's stock to make a profit. Profit consists of capital gains and gains. The more opportunities to make a profit, the greater the return received by investors and the greater the value of the company. According to Brigham and Houston (2019), profitability is the end result of a series of management policies and decisions, and these policies are related to the source and use of funds in the company's operations, as well as related to the balance sheet report and its factors are summarized in the balance sheet.

Capital Structure

Capital structure is part of the financial structure that reflects the balance (absolute and relative) between the overall external capital (both short-term and long-term) and the amount of capital itself. According to Mangondu and Diantimala (2021), the capital structure is a balance between the amount of short-term permanent debt, long-term debt, preferred shares, and ordinary shares. The policy of capital structure is to maintain the expected risk and return. According to research by Brigham and Houston (2019), the optimal capital structure of a company is defined as a structure that maximizes the company's stock price. For creditors, this means that the money invested in the company is more likely to suffer losses. The level of risk of a company affects its value because it looks bad in the eyes of investors.

Dividend Policy

The dividend payment policy is a very important decision for a company. This policy involves two parties, meaning that the first party is the shareholder and the second party is the company itself (Rakhmsyah and Gunawan 2011). According to Ambarwati (2010), the dividend policy is a decision of the company's management to distribute part of the company's profits to shareholders rather than withholding it as retained earnings and reinvesting it to generate capital gains. Capital gains are capital gains that shareholders receive by reinvesting their profits over a long period of time.

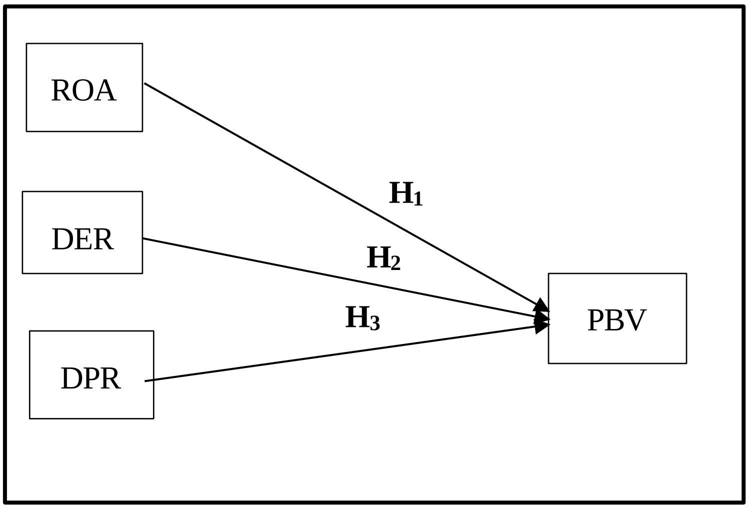
Company Value

Increasing company value is the goal of every company. Shareholders invest their capital in the company because the higher value of the company increases the happiness of shareholders (Fendi Harman 2007). A company's value reflects an investor's view of a company's success and is often associated with its stock price. Therefore, when the stock price is high, the value of the company is also high. Sementara itu, according to Massie and Tommy (2017) in Mislia (2020) the value of a company is defined as the price that potential investors are willing to pay if a company is to be sold, the value of the company can reflect the assets owned by the company such as securities.

Theoretical Framework

This research model consists of 4 variables; Profitability (X_1), Capital Structure (X_2), Dividend Policy (X_3), Company Value (Y). The following is the proposed research framework:

Picture 1



The Effect of Profitability on Company Value

Profitability is the ability of a company to generate profits through a set of policies set by management. The more profitable a company is, the more efficient it will be. The level of profitability that a company achieves can affect the value of the company. If a company obtains high profits, it can attract investors to invest existing capital. In order for a company to survive, it must make a profit. In order for a company to survive, it must make a profit. The relationship between signaling theory and profitability is that high profits or returns are a positive signal, and high profits can attract investors because they increase investors' interest in investing. In research conducted by Ridha and Rosita (2023), Misilia, Lela and Bambang (2020), Aliffa (2023), Irwan, Abdul, Budiandriani and Baharudin (2023), Nike and Moch Irsad (2021) that profitability has a positive effect on company value. So the greater the profitability of a company, the greater the value of the company.

H_1 : Profitability has a significant positive effect on Company Value

The Effect of Capital Structure on Company Value

Capital structures are used by financial managers to finance a company's operating activities. The determination of the capital structure consists of selecting sources of financing, both from equity and loan capital in the form of debt capital, namely external funds that affect the value of the company. According to Dewi and Astika (2019), the capital structure is a company's financing that is sourced from the company's internal and external sources and can be used to finance the company's operational activities. Internal sources of funds are retained earnings and depreciation, and external sources are long-term debt and equity. Trade-off theory explains that if the position of the capital structure is below the optimal point, then any additional debt will increase the value of the company. Conversely, whenever the position of the capital structure is above the optimal point, any additional debt will decrease the value of the company. In research conducted by Mislia Ambar, Lela Nurlela (2020), Miha Hanida, Edwin Agus (2023), and Jihan Nur (2023) that capital structure has a positive effect on the value of a company

H_2 : Capital Structure has a significant positive effect on the Company's Value

The Effect of Dividend Policy on Company Value

Dividend policy is one of the elements that can be predicted by a company. Dividends are one of the goals of investors to make investments. The high dividend payment to shareholders will increase the company's value. If the amount of dividends is not in accordance with what investors expect, investors do not buy the shares or sell the shares if they already own them. Based on Signalling Theory, Modigliani and Miller in Brigham and Houston (2010) stated that a dividend increase greater than the previous one is a signal to investors that company management predicts a good income in the future. In research conducted by Aliffa Defelia (2023), Jihan Nur Faidah (2023), and Ichlasul, I Gede, Edy (2023) explained that dividend policies have a positive effect on the company's value

H_3 : Dividend policy has a significant positive effect on the company's value

The Influence of Profitability, Capital Structure and Dividend Policy on Company Value
Trade-off theory explains that if the position of the capital structure is below the optimal point, then any additional debt will increase the value of the company. Conversely, whenever the position of the capital structure is above the optimal point, any additional debt will decrease the value of the company. Therefore, assuming that the target point of the optimal capital structure has not been reached, the trade-off theory predicts a positive relationship with the company's value. Based on Signalling Theory, Modigliani and Miller in Brigham and Houston (2010) stated that a dividend increase greater than the previous one is a signal to investors that company management predicts a good income in the future. This phenomenon can be considered as proof that investors prefer dividends to capital gains.
H_4 : Profitability, Capital Structure and Dividend Policy have a significant positive effect on the Company's Value

RESEARCH METHODS

This study uses a quantitative approach, the study is aimed at testing the hypotheses that have been formulated and analyzing the relationship between related variables statically. This study consists of 4 variables. Size. Profitability as an independent variable (X_1), Capital Structure as an independent variable (X_2), Dividend Policy as an independent variable (X_3), and the last one is the company's value as a dependent variable (Y).

The type of data that will be used in this study is secondary data in the form of financial report data (annual report) of National Banking Companies listed on the Indonesia Stock Exchange for the 2019-2022 period obtained through idx.co.id. The analysis method used in this study is a quantitative analysis method with linear regression. Data processing will be carried out using SPSS 25.

RESULTS

Table 1. Descriptive Statistics

	N	Minimun	Maximum	Mean	Std. Deviation
ROA (X_1)	64	.01	3.11	1.4258	.76219
DER (X_2)	64	3.16	16.08	6.1706	2.70813
DPR (X_3)	64	.01	3.13	.5025	.64620
PBV (Y)	64	0.13	5.36	1.5019	1.30245

Based on the table above, it can be seen that the data analyzed is 64 company sample data. With dependent variables of Profitability, Capital Structure and Dividend Policy and independent variables of Company Value. With the minimum value as the lowest value and the highest value for each variable.

Table 2. Normality Test Results

N		**20**
Normal Parameters[a,b]	Mean	**-.3776**
	Std. Deviation	**1.14966**
Most Extreme Differences	Absolute	**.104**
	Positive	**.077**
	Negative	**-.104**
Test Statistic		**.104**
Asymp. Sig. (2-tailed)		**.200[c,d]**

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Based on the table above, it can be seen that the significance value is 0.200 which means greater than 0.05, so the data is distributed normally and is suitable for use in research.

Table 3 Test Results t

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.179	.375		.478	.634
ROA	.891	.136	.648	6.536	.000
DER	-.017	.036	-.046	-.458	.648
DPR	.308	.151	.201	2.036	.046

a. Dependent Variable: PBV

From the results of the t-statistical test in the table above, a t-table value of 1.671 was obtained. The table above shows that:

1. The test results obtained a calculated value of 6.563 profitability variables and a ttable of 1.671, it can be concluded that 6.563 > 1.671 with a significant value of 0.000 < 0.05. On the basis of these statistical values, it shows that Profitability has a significant positive effect on the Company's Value. So that H1 stating that Profitability has a significant positive effect on the Company's Value is accepted.
2. The test results obtained the calculated value of the capital structure variable of -0.458 and the table of 1.671, it can be concluded that -0.458 < 1.671 with a significant value of 0.648 > 0.05. On the basis of these statistical values, it shows that the Capital Structure has a negative effect on the Company's Value. So H2 which states that the Capital Structure has a significant positive effect on the Company's Value is rejected.

3. The test results obtained a calculated value of 2.036 dividend policy variables and a table of 1.671, it can be concluded that 2.036 > 1.671 with a significant value of 0.046 < 0.05. On the basis of these statistical values, it shows that the Dividend Policy has a significant positive effect on the Company's Value. So that H3 which states that Profitability has a positive effect on the Company's Value is significantly accepted.

Table 4. Test Results F

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.471	3	9.490	16.986	.001[b]
	Residual	33.522	60	.559		
	Total	61.994	63			

The results of the simultaneous test in table 4.12 above obtained a ftable value of 3.15. The table above shows that the value of Fcal 16,986 > Ftable 3.15 and the significance value is 0.001 (0.1%) < alpha level 0.05 (5%), then it can be concluded that Profitability, Capital Structure and Dividend Policy equally or simultaneously have a positive and significant effect on the Company's Value, so the 4 H4 hypothesis is declared accepted.

Table 5
Test Results R^2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.678[a]	.459	.432	.74747

Based on the results of the table test above, the magnitude of R Square is 0.459, this means that together Profitability, Capital Structure and Dividend Policy affect the Company's Value by 45.90% and the remaining 54.1% is explained by other variables that are not analyzed in this study**.**

DISCUSSION

The Effect of Profitability on Company Value

Based on the test results, the Profitability variable with a calculation of 6.563 > a table of 1.671 and with a significance value of 0.000 < 0.05, then from these results it is stated that Profitability has a positive and significant effect on the Company's Value, H1 is accepted. The higher the Profitability value of a company, the higher the company's efficiency level. If the company has high profits, it can attract investors to invest capital.

The Effect of Capital Structure on Company Value

Based on the test results, the Capital Structure variable with a calculation of -0.458 > a table of 1.671 and with a significance value of 0.648 < 0.05, then from the results it is stated that the Capital Structure has a negative and insignificant effect on the Company's Value, so H2 is rejected. The direction of the negative coefficient indicates that the higher the company's Capital Structure, the lower the company's value. If a company decides to use debt, the company must bear the business risk.

The Effect of Dividend Policy on Company Value

Based on the test results, the Dividend Policy variable with a calculation of 2.036 > a table of 1.671 and with a significance value of 0.046 < 0.05, then from the results it is stated that the Dividend Policy has a positive and significant effect on the Company's Value, H3 is accepted. The Dividend Policy is the decision on whether a company's profits are distributed as dividends or reinvested. The dividend policy shows the profits paid to the company's shareholders as dividends. The effect of dividend policy on company value shows that the dividend policy distributed to shareholders increases, the company's value increases, but it is not significant to increase the company's value.

The Influence of Profitability, Capital Structure and Dividend Policy on Company Value

Based on the results of the simultaneous test in the table above, a ftable value of 3.15 was obtained. The table above shows that the value of Fcal is 16.986 > Ftable is 3.15 and the significance value is 0.001 (0.1%) < alpha level of 0.05 (5%), then it can be concluded that Profitability, Capital Structure and Dividend Policy together or simultaneously have a positive and significant effect on the Company's Value.

CONCLUSION

In this study, it was found that there are several variables that affect and do not affect the value of the company, profitability has a positive influence because the higher the value of a company's profitability, the higher the level of efficiency of the company. If the company has high profits, it can attract investors to invest capital. The effect of dividend policy on company value shows that the dividend policy distributed to shareholders increases, the company's value increases, but it is not significant to increase the company's value. This research is in accordance with the signaling theory proposed by Miller (2013) that the greater the increase in dividends, the greater the manager's confidence in profit growth. Growing dividends give investors signals about the company's performance. Investors buy company shares When dividends are high, this of course increases the stock price.

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