



# The Influence of Dividend Policy, Debt Policy, and Profitability on the Firm Value of Banking Companies Listed on the Indonesia Stock Exchange from 2019 to 2022

Sarah Aulia Rahim<sup>ID</sup>, Imas Purnamasari<sup>ID</sup>, and Maya Sari<sup>ID</sup>

<sup>1,2,3</sup> Universitas Pendidikan Indonesia, Bandung, Indonesia  
sarahauliar15@gmail.com

**Abstract.** This research aims to investigate the influence of dividend policy, debt policy, and profitability on the firm value of banking companies listed on the Indonesia Stock Exchange from 2019 to 2022. The research object consists of 12 banking companies listed on the Indonesia Stock Exchange. The analysis method employed is multiple linear regression with tests for normality, heteroscedasticity, autocorrelation, and t-test. The findings indicate that dividend policy has a significant positive effect on firm value, whereas debt policy does not have a considerable effect. Additionally, profitability has a significant positive influence on firm value. In conclusion, dividend policy and profitability play substantial roles in determining the firm value of banking companies.

**Keywords:** Dividend policy, Debt policy, Profitability, The value of the company

## 1 Introduction

The company's goal is to achieve maximum welfare for the company owners by increasing the company's value. The value of a publicly traded company is reflected in the stock price, while the value of a privately held company is realized when the company is sold (based on total assets) and also involves the company's prospects, business risks, business environment, and other factors [1]. Dividend policy is related to the company's value. An optimal dividend policy is one that creates a balance between current dividends and future growth, thereby maximizing the company's stock price. The total return to shareholders over a specific period consists of stock price appreciation plus received dividends. If a company sets a higher dividend than the previous year, investors will receive a higher rate of return.

Debt policy is also related to the company's value [2]. Debt policy refers to a company's policy regarding the extent to which it uses debt financing. The higher the proportion of debt, the higher the company's stock price. To conduct its operational activities, a company must generate profits or be profitable. Without profits, a company will

face difficulties in attracting external funding. Companies with high profitability will attract investor interest in their stocks. Therefore, profitability can influence the company's value.

The important role of managerial parties cannot be ignored in financial decision-making [3], [7]. Shareholders or investors entrust managers to oversee the company and make business decisions that are expected to enhance the owners' wealth. Managerial ownership occurs when managers own company shares and directly become shareholders.

Dividend policy is a decision made by a company regarding dividend payments to shareholders. Dividend policy is considered to have an impact on the company's stock price. There are several conditions that cause the policy to be relevant or irrelevant. The condition of irrelevant dividend policy states that there is no relationship between dividend policy and stock value [3]. According to this perspective, dividend policy is merely a technical detail that does not affect the company's value. The value of a company is determined by its ability to generate profits from its assets, not by dividend policy [8],[9].

The condition of relevant dividend policy states that dividend policy has an influence on the company's value. The "bird in the hand" theory assumes that dividend income is more valued by investors than capital gains because dividends are considered more certain than income from stock price appreciation[9]. This is known as the information content theory or signaling hypothesis. Changes in Dividend Policy are considered signals from company management regarding earnings forecasts and company performance. This assumes the presence of information asymmetry between management and investors [4].

The Clientele Effect theory occurs when a company attracts specific types of investors with consistent Dividend Policies. Companies may establish certain Dividend Policies to attract investor groups that favor such policies. This effect refers to the tendency of companies to select investors based on Dividend Policy preferences [5] Debt Policy refers to the decisions made by a company regarding the extent to which they will use debt financing. There are several theories related to debt financing and its impact on firm value [10].

Miller and Modigliani's Capital Structure Theory. This theory states that, in the absence of taxes, bankruptcy costs, information asymmetry between management and shareholders, and assuming efficient markets, the value of a company is independent of its capital structure [11]. However, when tax assumptions are eliminated, debt can generate tax savings that can enhance firm value. Trade-off theory, this theory explains that the higher the use of debt by a company, the greater the financial risk faced by the company. This is due to the fixed interest payments that the company must make to debtholders, regardless of uncertain net earnings. Agency approach, this approach focuses on reducing conflicts among various stakeholders within a company. One potential conflict is between shareholders and managers regarding the free cash flow of the company.

Debt can be used as a way to mitigate this conflict because managers will be compelled to use company cash to pay interest on debt [4]. Signaling theory. This theory argues that if managers are confident in the company's good prospects and want to

increase the stock price, they will use more debt as a stronger signal. The addition of debt can be seen as a sign that the company has good future prospects. Investors are expected to capture this signal and interpret it as an indication that the company has positive prospects. Thus, debt can serve as a positive signal for the company.

Profitability refers to the company's ability to generate profits from its business activities. Profitability ratios are used to measure the company's efficiency in utilizing assets and running its operations to achieve profits. These ratios incorporate the effects of liquidity, asset management, and debt on the company's operating results. By analyzing profitability ratios, investors can gain an overview of how well the company generates profits [4].

Profitability ratios are the end result of various policies and decisions made by the company. It encompasses factors such as operational efficiency, asset management, debt management, and overall business strategy. These ratios provide important information to investors and other stakeholders about the company's financial performance and potential for future development. In conducting profitability ratio analysis, companies need to consider these factors and make appropriate decisions to enhance their profitability. The use of sound profitability ratios can help companies identify weaknesses and opportunities in their business operations and provide guidance for optimizing the company's financial performance [12].

The value of a company reflects the strength of supply and demand for its stock [15]. If a company is perceived to have bright prospects in the future, its stock price will be high. Conversely, if a company is considered to have less favorable prospects, its stock price will be low. This concept illustrates that the value of a company is reflected in its stock [6]. To measure the value of a company, the market value ratio is used. The market value ratio is a ratio that shows the relationship between the company's stock price and its earnings and book value. This ratio provides information to management about how investors respond to the company's performance and prospects. By looking at this ratio, management can evaluate how the market values the company and understand investors' response to the company's performance.

Measuring a company's value through market value ratio provides an indication of whether investors have confidence and trust in the company. A high company value indicates that investors perceive the company to have good growth potential and profitability in the future. Conversely, a low company value may suggest that investors have doubts or lack confidence in the company's performance and prospects [6],[16].

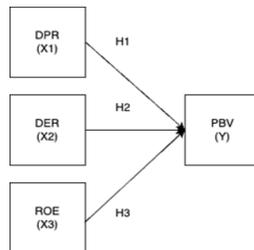


Fig. 1. Research framework

This framework analyzes the influence of Dividend policy, measured by Dividend Payout Ratio (DPR), debt policy, measured by Debt to Equity Ratio (DER), and profitability, measured by Return on Equity, on company value, measured by Price to Book Value Ratio (PBV).

## 2 Methods

In this study, a quantitative method was employed to examine the influence of Dividend Policy (X1), Debt Policy (X2), and Profitability (X3) on firm value (Y) in the banking sector listed on the Indonesia Stock Exchange during the period from 2019 to 2022.

The population refers to all the research objects that consist of various types of entities, such as concrete objects, abstract concepts, or events that serve as data sources and possess specific characteristics determined by the researcher to be studied and drawn conclusions from. In this study, the population consists of all banking companies listed on the Indonesia Stock Exchange (BEI) during the period from 2019 to 2022, totaling 49 companies. The research sample includes 12 banking companies listed on the BEI during the same period, from 2019 to 2022, with a total sample size of 35 companies. The sampling technique employed in this study is purposive sampling, which means that the sample is selected based on available information and in accordance with the research objectives, thus ensuring the sample's representativeness to the population can be justified.

## 3 Result and Discussion

Descriptive data is utilized to provide an overview of the data obtained from the conducted research. The presented information includes the maximum value, minimum value, mean, and standard deviation.

**Table 1.** Kolmogorov-Smirnov Test

	N	Minimum	Maximum	Mean	Std. Deviation
Dividend Policy	35	0,065	0,964	0,36521	0,179420
Debt Policy	35	0,182	1,480	0,56530	0,278931
Profitability	35	0,032	0,368	0,13975	0,073431
Firm Value	35	464160.200	23851488.082	3006186,02456	3972953.755223
N Valid	35				

Source: author's work

The results of the One Kolmogorov-Smirnov test on the table below indicate a significance value of 0.200. This value is significantly higher than the predetermined significance level, leading to the conclusion that the data is normally distributed and the regression model used is appropriate for further analysis.

**Table 2.** The Presence of Multicollinearity

		Understandardized Residual
<b>N</b>		35
<b>Normal Parameter</b>	Mean	0,0000000
	St. Deviation	0,6143144
<b>Most Extreme differences</b>	Absolute	0,078
	Positive	0,0780
	Negative	-0,068
<b>Test Statistic</b>		0,078
<b>Asymp.Sig. (2-tailed)</b>		.200 <sup>cd</sup>

Source: author’s work

To determine the presence of multicollinearity in a model, it can be assessed through Tolerance and Variance Inflation Factor (VIF). Multicollinearity occurs when the Tolerance value exceeds 0.10 and the VIF is less than 10. The results of the multicollinearity test calculations in Table 4 above indicate that Dividend policy, Debt policy, and profitability have tolerance values above 0.10. This suggests that there is no correlation among the independent variables. Furthermore, the variance inflation factor (VIF) calculations reveal that all three dependent variables have VIF values smaller than 10.

The analysis of multicollinearity shows that Dividend policy, Debt policy, and profitability are not correlated with each other in this study. These variables can be considered independently and contribute uniquely to the research. Additionally, the low VIF values indicate that there are no serious issues regarding multicollinearity among these variables.

**Table 3.** The Presence of Heteroscedasticity

<b>Model</b>	<b>Colinearity Statistic</b>	
	<b>Tolerance</b>	<b>VIF</b>
Dividend Policy	.945	1.058
Debt Policy	.942	1.061
Profitability	.997	1.003

a. Dependent Variable: (PBV) (Y)

Source: Secondary Data Analysis Results, (2023)

To determine the presence of heteroscedasticity in a model, it can be observed from the table above. The table indicates that all the significance values of the Dividend policy, Debt policy, and Profitability variables are greater than 0.05, indicating the absence of heteroscedasticity in these variables.

**Table 4.** The Autocorrelation Test

Model	Understandirdized Co-efficients B	Std. Error	Standad-ized Coefficients Beta	t	Sig.
Constant	,761	,225		3,383	,001
Dividend Policy	-.075	,085	-,112	-,881	,382
Debt Policy	,011	,095	,014	,112	,911
Profitability	,165	,083	,245	1,982	,052

a. Dependent Variable:  
ABRESID

Source: author's work

The autocorrelation test is employed to examine whether there is a correlation between the disturbance errors in period  $t$  and the disturbance errors in the previous period ( $t-1$ ) within the linear regression model. The results of the autocorrelation test are presented in the table, where the Durbin-Watson (D-W) statistic is obtained as 1.440. The D-W statistic ranges from -2 to +2, thus indicating that there is no autocorrelation in the utilized regression model.

**Table 5.** Multiple Regression Analysis

Model	R	R Square	Adjust Square	R	Std. Error of the estimate	Durbin Watson
1	,691 <sup>a</sup>	,477	,451		,44370	1,440

Source: author's work

Multiple regression analysis is employed by researchers to predict changes in the dependent variable when two or more independent variables, acting as predictor factors, are manipulated.

Based on the multiple linear regression equation presented in Table 7, it can be formulated as follows:  $Y = 17.355 + 0.689X_1 + 0.129X_2 + 0.962X_3$ . From this regression equation, we obtain information that the value of a (intercept) is 17.355, indicating that if the values of Dividend policy, Debt policy, and Profitability are all 0, the company's value will reach 17.355%.

Furthermore, the regression coefficient ( $X_1$ ) has a value of 0.689, which means that if the Dividend policy value increases by 1%, the company's value will increase by 68.9%. Similarly, the regression coefficient ( $X_2$ ) has a value of 0.129, indicating that if the Debt policy value increases by 1%, the company's value will increase by 12.9%. Lastly, the coefficient of regression ( $X_3$ ) is 0.962, indicating that if the Profitability value increases by 1%, the company's value will increase by 96.2%.

**Table 6.** Variable Correlation

Model	Understandird- ized Coefficients B	Std. Er- ror	Standadized Coefficients Beta	t	Sig.
Constant	Error	,395		43,904	,000
Dividend Policy	17,355	,149	,423	4,618	,000
Debt Policy	,689	,167	,071	,772	,443
Profitability	,962	,146	,588	6,585	,000

a. Dependent Variable: (PBV)(Y)

Source: author’s work

A small or close to 0 R2 value indicates that the ability of the independent variables to explain the dependent variable is limited. Conversely, if the R2 value approaches 1, it means that the independent variable provides almost all the information required by the dependent variable.

In this study, the calculation results in the table show an adjusted R-Square value of 0.451 or 45.1%. This means that the ability of the independent variables (Dividend policy, Debt policy, and Profitability) to explain the dependent variable, namely firm value, is 45.1%. The remaining 54.9% (100% - 45.1%) is influenced by other variables outside the model that were not examined in this study.

**Table 7.** Variable Test.

Model	R	R Square	Adjust Square	R	Std. Error of the esti- mate	Durbin Watson
1	,691 <sup>a</sup>	,477	,451		,44370	1,440

Source: author’s work

The Dividend Policy (DPR) has a positive and significant partial influence on firm value. This is evident from the significance of the DPR variable, which is less than 0.05 or 5%, specifically 0.00 or 0%. Therefore, hypothesis H1 is accepted, indicating that the Dividend Policy (DPR) has a significant influence on firm value (PBV). The influence of the Dividend Policy (DPR) on firm value (PBV) is positive, meaning that the higher the Dividend Policy, the higher the firm value.

The Debt Policy (DER) does not have a partial influence on firm value. This can be seen from the significance of the DER variable, which is above 0.05, specifically 44.3%. Therefore, hypothesis H2 is rejected, indicating that the Debt Policy (DER) does not have an influence on firm value (PBV).

Profitability (ROE) has a positive and significant partial influence on firm value. This is evident from the significance of the ROE variable, which is less than 5%, specifically 0%. Therefore, hypothesis H3 is accepted, indicating that profitability (ROE) has a significant influence on firm value (PBV). The influence of profitability (ROE) on firm value (PBV) is positive, meaning that the higher the profitability, the higher the firm value.

## 4 Conclusion

Based on the research findings regarding the influence of Dividend Policy, Debt Policy, and Profitability on firm value, it can be concluded that Dividend Policy (DPR) has a positive and significant impact on Firm Value (PBV). Dividend Policy refers to the company's decision regarding the distribution of profits to shareholders, aiming to ensure shareholder satisfaction as the primary objective of the company. On the other hand, Debt Policy (DER) does not have an influence on Firm Value (PBV). This is due to the fact that information about high debt levels and future investment opportunities, according to signaling theory, does not affect investors. However, the market is more receptive to the information that companies with high debt levels have higher bankruptcy risk.

Profitability, measured by Return on Equity (ROE), has a positive and significant impact on Firm Value (PBV). This is because profitability levels reflect the company's ability to generate earnings or profits, which are considered as the company's success by investors. Such success encourages investors to increase their demand for the company's shares.

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