The Influence of Profitability and Liquidity on Firm Value with Dividend Policy as a Moderating Variable Indonesia Emerging Market: Conceptual Review

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Abstract. This study aims to develop a theoretical model that explains how a company's profit and cash flow affect its overall worth, with the dividend strategy playing a role in this relationship. The method employed uses a detailed conceptual model that brings together previous research to help build and assess the model. The Return on Assets (ROA) metric indicates how lucrative a firm is. The Current Ratio (CR) checks for cash. The Price-to-Book Value (PBV) metric determines how much a firm is valued, while the Dividend Payout Ratio (DPR) indicates how much it pays out in dividends. The findings indicate that a company's worth increases when it produces a lot of money. This is because purchasers believe that a profitable firm is performing well and has promising future potential. Having adequate cash on hand demonstrates that a company can pay its payments on time and maintain financial stability, increasing its value. Furthermore, the dividend strategy helps build a stronger link between profitability, liquidity, and the company's value because paying dividends regularly makes investors more confident. As a result, this theoretical model provides an academic contribution to understanding how these elements interact and sets the stage for further research.

Keywords: Dividend Policy, Firm Value, Liquidity, Profitability

1 Introduction

The competition in today's business environment is rising rapidlyThe fact that 956 new companies have joined the Indonesia Stock Exchange by March 2026's end is proof of this (Baresta.com). Every business aims to maintain its stock price at an optimal level to attract investors and encourage them to invest. This is due to the positive correlation between rising stock prices and increased firm value. Estimating a firm's value is how investors evaluate how efficiently a firm generates profits for shareholders through rising stock prices. A high firm value indicates the well-being or success of shareholders. An increase in a firm's value is directly linked to a rise in its stock price, which ensures the well-being of shareholders [1]. Profitability, liquidity, and dividend policy are a few of the variables that could affect a company's worth. Profitability is an

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important element that investors examine to gauge how well a company may perform in the future. Companies with higher profitability ratios tend to attract more investors [2].

When a firm has a lot of liquidity, it means it has many assets that can easily be turned into cash quickly.This helps the company handle its day-to-day expenses and debts, which makes investors more confident and can make the company more valuable [3]. When a company has more liquidity, creditors and possible investors feel more confident about putting their money into that company. This can make the company more valuable to lenders and possible investors [4].

The dividend policy of a corporation is its decision about the distribution of earnings to shareholders or the retention of profits for internal use. It is based on the profits earned over a certain time. This ratio can be used to assess the connection between the earnings generated per share by the company and the amount of money distributed to shareholders as dividends [5].

When it comes to Indonesia's economic growth, the food and beverage sector is crucial. In 2023, it is projected that this sector will contribute 39.10% of the GDP from industries other than oil and gas, and 5.55% of the total national GDP. In the second quarter of 2025, the food and beverage sector reportedly grew by 6.15 percent, a figure higher than the national economic growth rate of just 5.12 percent. This situation indicates that the food and beverage sector possesses strong resilience and potential to drive the performance of the manufacturing industry as well as the national economy as a whole. This study is unusual in that it analyses dividend policy as a moderator. This component intends to investigate the ability of the dividend policy to increase or decrease the link between the study's dependent and independent variables. Thus, this study makes a new contribution because it not only tests the direct effects between variables but also analyzes the role of dividend policy as a factor that moderates that relationship.

2 Literature Review

2.1 Signaling Theory

Signal theory pertains to the variations in stock market prices, which can sway the choices of investors regarding a company's investment. The signals include all the data produced by a firm to satisfy the expectations of investors. This research utilizes signaling theory as it elucidates how businesses communicate with investors through affirmative signals. Within this investigation, profitability is regarded as a significant factor that catches the attention of investors. When a business exhibits substantial profitability, it reflects that the company has optimized its capability to generate income from its operations. This communicates a favorable signal that the business is thriving and has encouraging future growth potential. The greater the achieved profitability, the more investors believe in the firm. The entire worth of the firm will rise as a result of investors' enthusiasm for buying its shares, which will be stimulated by this confidence.

2.2 Firm Value

What makes a firm valuable to investors is how those investors perceive the company's achievements. A high stock price enhances a company's worth, which is one method to estimate its value. Companies with great value tend to attract investors confidence as a result of their optimistic performance and future commercial possibilities, making it simpler to recruit investors [6]. An rise in a company's worth will immediately result in more wealth for shareholders. Consequently, increasing the value of their firms is a primary objective for shareholders and investors. The Price-to-Book value ratio is employed in this investigation to ascertain the value of a company. The Price-to-Book Value ratio is an essential financial indicator that compares a company's stock price to its book value per share. An organization's net worth is calculated by subtracting its assets from its liabilities, as shown in its financial statements. This is referred to as the "book value." The current price at which a stock can be purchased and sold on the stock exchange is referred to as the market price. The PBV demonstrates how closely a stock's price matches to the company's worth as revealed in its financial filings.

2. 3. Profitability

Profitability is a financial metric that evaluates a company's ability to generate revenue over a specific period [7]. This metric reflects how well a company handles its resources, capital, and operational activities to yield profits. When profitability is high, it suggests that a company is proficient in leveraging its assets to create earnings [8]. According to signalling theory, shareholders may learn a lot about a company's stability and development potential from its ability to produce a profit. Increased profitability sends a positive message that the firm is financially successful and capable of generating profits. Such a statement may increase investors' faith in the company. Through the computation of ROA, or Return on Assets, profitability is assessed in this investigation. The efficacy with which a company converts its assets into profit is denoted by the financial metric return on assets (ROA). This indicator shows how well a business can turn its assets into cash. A greater return on assets suggests the firm is performing better, demonstrating that it is employing its resources efficiently to generate more profit. In contrast, a lower ROA means the company isn't making the best use of its assets.

2.4 Liquidity

The liquidity of a corporation is the extent to which it can satisfy its immediate obligations by accessing its readily convertible assets. The availability of extra cash helps a corporation pay its short-term bills on promptly [2]. According to signalling theory, a company's liquidity may show investors how financially stable it is. Having a substantial quantity of liquid assets shows that the corporation can handle its upcoming commitments well. This implies that the organization is financially sound and is less susceptible to experiencing difficulties in fulfilling its obligations.

The current ratio (CR) is employed in this investigation to ascertain liquidity. A company's ability to satisfy its short-term debt obligations solely through its current assets can be assessed using the current ratio. With a greater current ratio, a corporation

has a better chance of paying back its short-term loans. The company may not be utilizing its current assets in a manner that generates additional value if the number is excessively high.

2.5 Dividen Policy

A dividend policy describes a company's stance on dispersing its earnings to its shareholders and investors. Dividends are one of the benefits investors receive from owning shares in a firm. Since dividend payments are a reflection of a company's financial health and capacity to produce profits, they are often the centre of attention for investors. In general, investors see solid financial performance and promising future prospects in companies that can reliably pay dividends.

Dividend payments can produce a favorable impression by demonstrating that the company is financially stable, has the potential to generate revenue, and has a high likelihood of growth. The potential for the company's worth to rise is directly proportional to the level of confidence among investors [9]. According to Signalling Theory, shareholders may learn a lot about a company's health and future prospects from the way it deals with dividends. An rise in dividend payments or payouts is a sign of a financially stable, profitable, and potentially growing corporation. To evaluate the dividend policy, this enquiry makes use of the Dividend Payout Ratio (DPR). The term "dividend payout ratio" (DPR) refers to the percentage of a company's net income that remains after all expenses have been paid. The dividend payout ratio increases when a greater percentage of a company's earnings are distributed to shareholders as dividends. To the contrary, a lower DPR suggests that a larger amount of the company's profits stays put for ongoing operations, growth, and new ventures.

3 Methodology

The theoretical foundation and the concepts that underpin the research are described and developed through the use of a conceptual method in this study. It offers new views based on the existing research and writings. The conceptual analysis helps find where current studies are lacking and sets the stage for future real-world research. This method creates a framework that can be tested with real research later on. The return on assets (ROA) calculation was employed to ascertain profitability in the research. Divide the net profit by the total assets, and then multiply the result by 100% to get the return on assets (ROA). It's that simple. One way to measure a company's liquidity is via the current ratio (CR), which is calculated by dividing its current assets by its present liabilities. The PBV ratio, on the other hand, compares the book value of a company to its share price in order to determine its value. The dividend payout ratio (DPR) is an additional metric for dividend policy. One method of determining this is to divide the earnings per share by the distributions per share.

The fundamental idea behind this model is to look into important questions about how different things affect a company's worth.The following questions have been posed: (1) How does a company's profitability impact its value? (2) Do liquidity factors influence a company's value? (3) Is it possible for a corporation's dividend management approach to impact the way its profitability affects its valuation? (4) Is it conceivable that the relationship between liquidity and a company's value can be influenced by

dividend decisions?

4. Results & Discussion

4.1 The Effect of Profitability on Firm Value

To be profitable, a business must be able to turn a profit while making good use of its resources and capital. An increase in profitability signifies an enhanced ability of the company to earn profits from its operations. This suggests that the business is proficient in utilizing its resources in terms of assets, capital, and operational functions. A firm with elevated profitability is seen as having robust financial outcomes and has the potential for substantial growth ahead. According to signaling theory, a company's high profitability tells buyers good things about its current state and future possibilities. Companies with a track record of maximum profitability are often seen to have strong financial performance, effective management, and plenty of room to develop going forward. These factors can boost investor confidence in the firm. When investors believe a firm has strong performance and promising prospects, their interest in purchasing the firm's stock tends to increase. The price of the company's stock may increase if there is a significant amount of interest in purchasing it. This rise in share price can eventually enhance the company's worth. However, when considering, meager profit margins can convey an unfavorable message to shareholders. This suggests that the company has not succeeded in optimizing its earnings or efficiently utilizing its assets. Such situations may undermine investor trust, resulting in less excitement for the company's shares and a possible fall in value. As previously said, research demonstrates that profitability increases a company's worth [10], [11], [12] [13].

4.2 The Effect of Liquidity on Firm Value

A corporation is considered liquid if it can meet its short-term obligations with current assets. A company exhibiting a significant degree of liquidity showcases its capability to settle immediate debts, address everyday operational demands, and uphold fiscal stability. Organizations with increased liquidity are perceived to possess a higher potential for growth in the future [14].

An elevated liquidity level may serve as an advantageous indicator for investors, according to signaling theory. This condition demonstrates that a corporation has the financial means to meet its short-term commitments. Firms with strong liquidity are typically viewed as more reliable, exhibit a decreased chance of default, and can sustain their business activities without interruption. When investors notice that a business possesses strong liquidity, their trust in that firm may grow. Investors may acquire the organization's shares as a consequence of this increased confidence. An increase in the price of a company's stock can reflect an increase in demand for its shares, thereby increasing its value. The corroborating sources of this study indicate that liquidity has a beneficial impact on business value [3], [15], [16], [17].

4.3 Dividend Policy As A Balance Between Profitability And Firm Value

A policy regarding dividends pertains to how a company allocates its net earnings to its investors, whereas the Dividend Payout Ratio (DPR) reflects the section of profits designated for dividends as opposed to the portion kept by the company [18]. The payments a company makes in the form of dividends are directly associated with its capability to earn profits. As a firm's earnings grow, its ability to pay out dividends also rises, and paying out large dividends may boost the value of the company [19].

In In principle, the approach to dividend distribution has the potential to enhance how profitability influences a company's worth, as dividends indicate that the company's earnings are, in fact, being returned to its shareholders. Profitability indicates a firm's capability to earn revenue, whereas dividends showcase its potential to distribute those earnings. The integration of the two elements may offer investors a more thorough comprehension of the company's financially robust and optimistic future. The relationship between a corporation's earnings and its total value may be influenced by its dividend policy. Because of this, businesses should try to keep their dividend payout ratio steady and not change it too much.This helps make shareholders feel more confident about the company's future. From the view of signaling theory, paying dividends regularly shows that the company's leaders think the business will do well in the future, as stated in [20]. So, when a company is making good profits and also paying steady dividends, investors might think the company is worth more. This is also supported by [21], [22], [23], which say that a company's dividend policy can change how much profitability impacts the firm's value.

4.4 Dividend policy as a balance between profitability and firm value

The word "liquidity" refers to a business's capacity to pay its obligations in the short term using its current assets. The ability of a corporation to pay for looming obligations, sustain operations, and meet daily business expenditures with a considerable amount of liquid cash demonstrates its financial stability. The capacity of a firm to pay for impending commitments, continue operations, and meet daily business expenses with a significant quantity of liquid cash displays financial stability. Businesses with high liquidity generally enjoy greater investor trust, as it demonstrates their ability to maintain financial stability and execute their obligations, as per [12].

Financial stability is demonstrated by a company's ability to meet daily business expenses, continue operations, and pay for imminent commitments with a substantial amount of liquid currency. Companies that have a lot of cash on hand are believed to be able to pay their bills on time, which makes it less likely they will fail to pay. Because the company is seen as having strong financial stability and being a more secure investment, this can help build a better image in the minds of investors. A company's dividend policy determines how much of its profits should be given to shareholders and how much should be preserved for internal reasons. Investors look at how well a company can cover its immediate expenses and give money back to shareholders if it has good liquidity and can pay dividends. As a result, dividends can reinforce the favourable signal that liquidity sends regarding a company's value [18], [24]. These sources substantiate our findings by asserting that dividend policy has the capacity to mitigate the influence of liquidity on firm value.

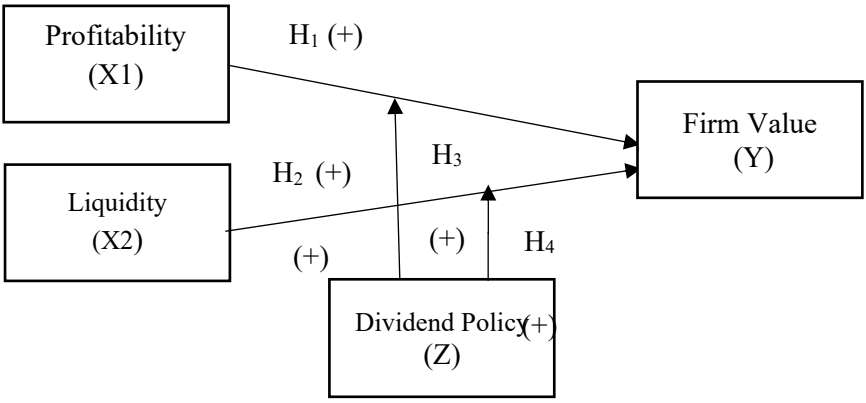


Fig. 1 Conceptual Framework

The anticipated effects of a dividend policy on a company's profitability, liquidity, and valuation are illustrated in Figure 1. The objective of this model is to ascertain the impact of a company's liquidity and profitability on its overall value, as well as the potential for dividend payments to modify this relationship. A company's value is substantially enhanced by profitability, as per this theoretical framework. This implies that an increase in a company's profitability is likely to result in an increase in its value. A company's profitability might signal to investors that it is well-managed, has strong financial performance, and has room for future expansion. Furthermore, liquidity is seen to have a favourable and considerable influence on a business's value. A company's capacity to pay bills and other short-term commitments as they become due is reflected in its liquidity. This situation may suggest to investors that the firm is doing well, since organizations with large cash reserves are often seen as more safe, less likely to collapse, and more skilled at sustaining the smooth functioning of their business. In addition, the dividend policy moderates the relationship between the variables. This shows that how a firm handles its dividends may enhance the influence of its earnings and capital flow on its total worth. This study shows that the way in which a business pays dividends is a significant aspect in understanding the link between the firm's value, liquidity, and profitability.

5 Conclusion

The conceptual study's findings show that profits and liquid assets are both important components of a company's worth. High profit means the business is good at making money, leading investors to have a positive view of its financial situation and potential for expansion. Conversely, strong liquid assets show that the business can meet its short-term debts on time, creating a sense of stability and lower financial risk.

Furthermore, the way a company handles its dividend payments can influence the relationship between profit, liquid assets, and the company's worth. Regular dividend payments can reassure investors, indicating that the company is financially strong, profitable, and has a bright future. So, the dividend policy is not only about giving a share of the company's profits to shareholders, but it also plays a key role in making investors feel confident about the company. In summary, the model presented in this article shows that a company's potential to grow its value depends on how well it can earn profits, keep enough cash on hand, and choose a good strategy for paying out dividends. This study is meant to help future research explore how profitability, liquidity, dividend payouts, and company value are connected, with a focus on the food and beverage industry.

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