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PROFITABILITY AND LEVERAGE ANALYSIS OF CONSUMER GOODS TO COMPANY VALUE WITH DIVIDEND POLICY AS INTERVENING VARIABLE

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ABSTRACT

This study aims to examine and analyze the effect of profitability and leverage on firm value and to analyze whether dividend policy can mediate the relationship between profitability and leverage on firm value. The population in this study were 62 companies included in the consumer goods index during the 2016-2020 period. This research method uses purposive sampling, so 21 companies are obtained and use a statistical program called SmartPLS version 3. The results of this study show that profitability and leverage have a significant positive effect on dividend policy, profitability has a significant positive effect on firm value, while leverage has no effect on firm value. Dividend policy has no effect on firm value and does not mediate between profitability and leverage on firm value.

Key Word: Profitability, Leverage, Dividen Policy, Firm Value

1. INTRODUCTION

There are two sources of corporate funding, namely funding from internal companies and funding from external companies. The company's internal funding comes from retained earnings which are obtained from operating profits. External funding comes from shareholders and debt securities issued by the company. The profit generated by the company will affect the funding policy. The funding policy here includes whether the profits will be retained or distributed to shareholders.

The decision to determine the percentage of retained earnings to finance future investments and the percentage to be distributed to shareholders as dividends is a dividend policy. Dividend policy is a company's decision to determine how much dividend portion is distributed to shareholders (Gitman & Zutter, 2015). This policy is decided by management on net profit after tax to be distributed in the form of dividends and the rest as retained earnings which is one of the most important sources of funds to finance the company in the form of capital.

Sudana (2015) states that the dividend policy is part of the company's spending decisions, especially with regard to the company's internal spending. This is because the size of the dividends distributed will affect the size of retained earnings. Investors prefer companies that run a stable and predictable dividend policy, regardless of how much dividends are paid. Companies in developed countries, run a stable dividend policy. The stability of the company's dividend policy is generally associated with the response of dividend payments to changes in earnings.

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One of the sector stocks that has always grown from 2016 to 2020 is the consumer goods sector. It can be said that the consumer goods sector is still very potential and relatively stable in the future. In addition, issuers in the consumer goods sector tend to regularly distribute dividends to shareholders. The amount of dividends distributed fluctuates from year to year depending on the profits earned by the company.

This shows that consumer goods companies have relatively high dividend returns, which can attract long-term investors to invest in the consumer goods sector. In addition, companies need to consider very carefully for the distribution of this dividend because dividend policy is a company's financial decision whether the profits earned will be distributed to shareholders or retained earnings. Dividend policy often creates conflicts between company management and shareholders. This happens because company managers often have different interests from the shareholders. (Sugiarto, 2011).

2. LITERATURE REVIEW

Dividend policy is a decision on how the company uses the net income obtained whether it will be reinvested or distributed to shareholders as dividends. Dividend policy is often considered as a signal by investors in assessing the company, because dividend policy can have an influence on the value of the company. Dividend policy is measured by the Dividend Payout Ratio (DPR). The dividend payout ratio compares the dividends paid to the company's net profit.

Profitability is the level of profit achieved by the company within a certain period of time running its operations (Eryawan in Arifin, 2015). The purpose of the company's profitability is to increase company profits to attract investors or shareholders to invest in the company. Profitability itself has benefits, namely for company owners, company management, as well as external parties of the company, especially parties who have interests, and direct relationships with related companies.

Good information is complete, precise and relevant information that is needed by investors as a tool for analysis in making investment decisions. Published information is an announcement that will give a signal to investors in making decisions. If the announcement is positive, it is expected that the announcement will be accepted by the market. When the information has been announced and all market participants receive the information, market participants first interpret the information whether it is a good signal or a bad signal. If the signal is good for investors, there will be a change in the volume of stock trading (Sartono, 2008).

According to signaling theory, the investment decisions taken by the company will give a positive signal about the company's growth in the future, so that it can increase the stock price which is used as an indicator of company value (Suwardika and Mustanda, 2017). Signal theory states that companies that have good quality will intentionally give signals to the market, so that the market can distinguish the quality of the company from other companies. Once the role of dividends is so important, companies are reluctant to cut dividends.

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The relationship between dividend policy and firm value is based on signaling theory that dividends are a tool for managers that are used as a signal to shareholders about the company's performance and the company's prospects in the future (Bringham and Houston, 2019).

Profitability ratio is used to measure the income or operational success of a company for a certain period of time. Profitability is the level of net profit that can be obtained by the company when running its operations. The purpose of the company's profitability is to increase company profits to attract investors or shareholders to invest in the company. The company's profit will be a reference in paying dividends. The level of profit will affect the level of dividend payments distributed to shareholders.

The relationship between profitability and firm value is built using signal theory. Stating that investors expect a high rate of return for the funds they invest. The higher the level of profitability owned by the company, the higher the value of the company according to (Akhmadi and Kuswantoro, 2018). Paying dividends can give a positive signal to investors because high dividend payments reflect the high level of profitability of a company. The profitability ratio was measured using return on equity (ROE). This ratio is important for investors to know the effectiveness and efficiency of the management of their own capital carried out by the company's management.

Leverage shows a proportion or use of debt to finance company investments. The use of debt that is too large in carrying out operational activities has a bad impact on the company, because indirectly or directly the company must incur costs to pay its obligations and will reduce dividends received by investors. The leverage ratio was measured using debt to equity (DER). Debt to equity (DER) is a comparison between the amount of long-term debt and the company's equity. This ratio shows the company's ability to fulfill all its obligations with its own capital.

Firm value is created by the company through company activities from time to time in order to achieve maximum company value above book value. The value of the company can be assessed through the balance sheet of the financial statements, according to investors, the value of the company is associated with the stock price, where a high stock price makes the value of the company also high.

There are several values related to stocks, namely book value, market value, and intrinsic value. Market value and intrinsic value investors can judge which stocks are cheap (undervalued) or expensive (overvalued). Firm value is the company's performance as reflected by the stock price formed by supply and demand in the capital market which reflects the public's assessment of financial performance (Harmono, 2016). This is reflected in the main goal of the company in the theory of the company is to maximize the wealth or value of the company (Salvatore, 2005). So, if the value of the company increases, it will be directly proportional to the prosperity of shareholders. The value of the company itself projects the state of a company, if the value of the company increases it will be a positive signal and is viewed favorably by investors.

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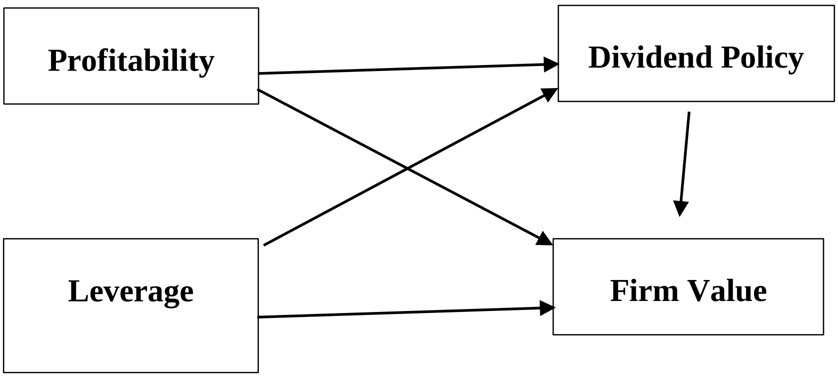
Firm value was measured using the price to book value (PBV) approach. Price to book value (PBV) is a ratio to measure the size of the stock price in the market compared to the book value of the stock.

Picture 1. Framework



RESEARCH HYPOTHESIS

H_1 : Profitability has an effect on dividend policy

H_2: Profitability has an effect on firm value

H_3 : Leverage has an effect on dividend policy

H_4 : Leverage has an effect on firm value

H_5: Dividend policy affects firm value

H_6: Dividend policy is able to mediate the effect of profitability on firm value

H_7: Dividend policy is able to mediate the effect of leverage on firm value

3. FINDING AND DISCUSSION

This research uses secondary data in the form of financial statements of companies listed in the consumer goods index in the period January 2016 to December 2020. The data source is obtained from the official website of IDX

Measurement Model Evaluation (outer model)

Convergent Validity is done by looking at item reliability (validity indicator) which is indicated by the loading factor value. The loading factor is a number that shows the correlation between the score of a question item and the indicator score of the indicator construct that measures the construct. A loading factor value greater than 0.70 is said to be valid. However, according to Hair et al. (1998) for an initial examination of the loading factor matrix, approximately 0.30 was considered to have met the minimum level, and for a loading factor of approximately 0.40 was considered better, and for a loading factor greater than 0.5 was generally considered significant. In this study the limit of loading factor used is 0.70.

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Cronbranh's Alpha test is a test to prove the accuracy, consistency and accuracy of the instrument in measuring constructs. The value of cronbranh's alpha must be greater (>0.70) for confirmatory research. Based on Table 4.3 Cronbranh's Alpha and Composite Reability values of the four latent variables are above 0.60 and 0.70, this shows that the measure of each construct is highly correlated.

Structural Model Evaluation (inner model)

After testing the outer model with validity and reliability tests, the estimated model shows a good level of validity and reliability. Furthermore, it can be tested on the structural model (inner model) using PLS Boostrapping. Structural model testing (inner model) is done by looking at the value of R Square (R^2).

Table 1. Inner Model

	R Square	R Square Adjusted
DPR	0,232	0,206
PBV	0,853	0,846

Based on table 1. the results of the R^2 test for the DPR variable or dividend policy are 0.232. This value indicates that the dividend policy variable can be explained by profitability (ROE) and leverage (DER) of 23.2% while the remaining 76.8% is influenced by other variables not included in this research model. Based on table 1. the results of the R^2 test for the PBV variable or firm value of 0.853. This value indicates that the PBV variable or firm value can be explained by profitability (ROE), leverage (DER) and dividend policy (DPR).

Table 2. Formative Construct Model

	Original Sample (O)	**Sample Mean (M)**	**Standard Deviation (STDEV)**	**T Statistics (|O/STDEV|)**	**P Values**
DER -> DPR	-0,298	-0,301	0,089	3,335	0,001
DER -> PBV	0,071	0,051	0,061	1,167	0,244
DPR -> PBV	0,001	-0,010	0,059	0,014	0,989
ROE -> DPR	0,480	0,485	0,144	3,331	0,001
ROE -> PBV	0,899	0,919	0,055	16,349	0,000

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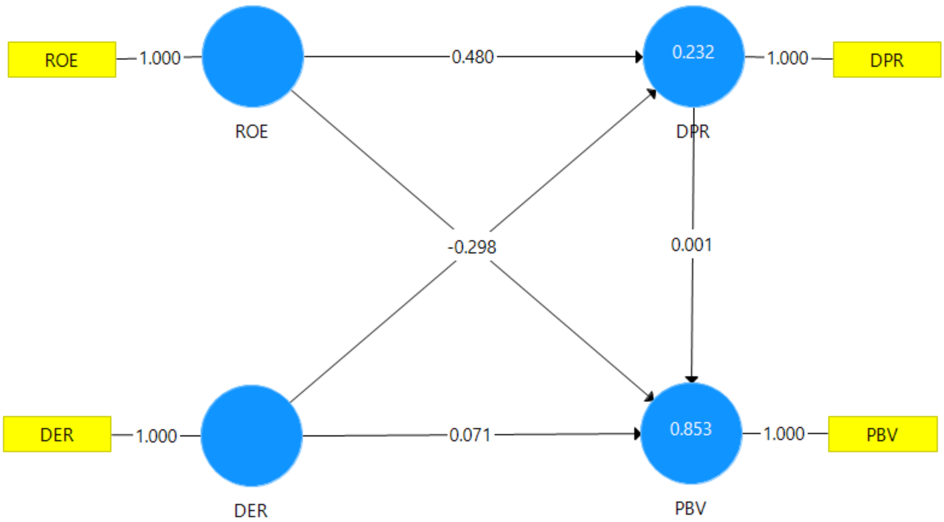
Table 3. The Result of Model



Based on the results of the outer loading above, there are several formative construct indicators that have no significant effect where the resulting T statistic value is < 1.96 and the P Values value is > 0.05. The T value of dividend policy on firm value is 0.014 < 1.96 and P Values is 0.989 > 0.05. The T value of the leverage statistic on the firm value is 1.167 < 1.96 and the P Values 0.244 > 0.05.

Based on the results of the outer loading above, there are several formative construct indicators that have a significant effect where the resulting T statistic is > 1.96 and the P Values is < 0.05. The T value of the leverage statistic on dividend policy is 3.335 > 1.96 and the P Values is 0.001 < 0.05. The T value of profitability statistics on dividend policy is 3.331 > 1.96 and P Values is 0.001 < 0.05. The T value of profitability statistics on firm value is 16.349 > 1.96 and P Values 0.000 < 0.05.

Mediation Test

Table 4. Spesific Indirect Effect Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
DER -> DPR -> PBV	0,000	0,004	0,019	0,013	0,990
ROE -> DPR -> PBV	0,000	-0,007	0,030	0,013	0,989

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Using the Bootstrapping method in the Smart PLS program, the results are obtained in table 3, where the P-values of the dividend policy that mediate profitability to firm value is 0.989. P-values of dividend policy that mediate leverage on firm value are 0.990.

4. CONCLUTION

The results of data analysis regarding the effect of profitability and leverage on firm value with dividend policy as an intervening variable in companies included in the consumer goods index in the 2016 - 2020 period, (1). profitability has a significant positive effect on dividend policy; (2). profitability has a significant positive effect on firm value; (3). leverage has a significant positive effect on dividend policy; (4). Leverage has no effect on firm value; (5). dividend policy has no effect on firm value; (6). dividend policy is not able to mediate the effect of profitability on firm value; (7). dividend policy is not able to mediate the effect of leverage on firm value.

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