



Does dividend policy mediate liquidity and profitability on firm value ?

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ABSTRACT

This research aims to analyze the effect of liquidity and profitability on firm value mediated by dividend policy. This research employs the panel data regression analysis method by employing Eviews 12. This research analyzes 19 companies on the LQ45 index during 2018-2022, which were selected using a non-probability purposive sampling method. The data source in this research is secondary data obtained through the Indonesia Stock Exchange (IDX) website and several company websites selected as samples for this research. The findings of this research indicate that liquidity (CR) doesn't have any influence on dividend policy (DPR), profitability (ROE) has a negative effect on dividend policy (DPR), liquidity (CR) and profitability (ROE) have a positive impact on firm value (PBV). However, dividend policy (DPR) doesn't influence firm value (PBV). In addition, the findings of this research also indicate that dividend policy (DPR) can not be a mediator in the interaction between profitability (ROE) and liquidity (CR) with firm value (PBV).

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1. INTRODUCTION

A firm is an organization that has a vision and mission in conducting its activities. The activities undertaken by the firm undoubtedly have objectives. The general aim of a firm is to maximize profit by effectively managing its resources (Oktaviarni et al., 2019). The primary objective of a firm is to enhance its value. The firm's value becomes the objective in establishing a firm to achieve maximum profit, leading to the prosperity of shareholders (Sembiring & Trisnawati, 2019). The intense business competition makes companies constantly strive to enhance their firm value (Devi & Manuari, 2021).

Firm value is an economic concept that can depict the worth of a business and reflect the health of the company (Jihadi et al., 2021). Firm value is an essential indicator that the market can use to perceive the condition of a firm (M. Hirdinis, 2019). Firm value is the performance belonging to a firm reflected in stock prices, which can portray the community's assessment of the firm's success level. Several indicators, including liquidity, profitability, and dividend policy, can influence firm value.

Liquidity is the firm capability to pay its short-term debts when it matures. A firm will be considered liquid if it can fulfill its short-term obligations when it develops (Iman et al., 2021). Liquidity can exhibit the firm's capacity to use its current assets to pay its liabilities. The larger the existing assets ratio to current liabilities, the larger the firm can fulfill its immediate financial

obligations (Febriani, 2020). Good liquidity in a firm can promote the smooth operation of the business.

Profitability is a firm's ability to make income and serves as a sign of a firm's success by measuring management effectiveness. Profitability is a crucial factor for a firm because, to survive, the firm needs to be in a favourable condition (Sutrisno & Wendy, 2019). The income generated by a firm can indicate that the firm has a promising outlook and can attract investor interest in buying shares, thus impacting the rise in the firm's value (Sukirno, 2019).

Dividend policy is related to decisions regarding the profits obtained by the firm and involves how much dividend will be paid to shareholders rather than retained for reinvestment (Sintyana & Artini, 2019). Dividend policy is the policy of distributing profits, which can take the form of assets, cash, and other benefits resulting from the ownership of shares by their owners (Nugraha et al., 2020). A dividend policy can help assess the firm's growth.

Listing stocks in the capital market is one way to enhance a firm's value. The capital market is typically used as a means of funding for companies. According to information from the Indonesia Stock Exchange's website, in 2022, approximately 778 companies listed their stocks on the capital market (www.idx.co.id). Fierce business competition compels companies to vie for the attention of investors to invest in their firm by increasing firm value. This is a strategy commonly adopted by publicly traded companies. For publicly traded companies, the firm's value is echoed in the stock price; if the stock price is high, the firm's value is also high (Widyastuti et al., 2022). Firms will strive to enhance their value by leveraging their assets and resources.

Research performed by Prasetyo et al. (2021) found that liquidity can positively and significantly impact dividend policy. Meanwhile, according to the research results of Syahirah et al. (2023), liquidity does not affect dividend policy. Research conducted by Ratnasari & Purnawati (2019) shows that profitability has a positive and significant effect on dividend policy. Meanwhile, the study by Hilmi & Lasmanah (2023) shows that profitability does not affect dividend policy. The research results of Dewi & Sujana (2019) found that liquidity positively influenced firm value. Meanwhile, according to Astuti & Yadnya (2019), liquidity does not affect firm value. The research results of Sembiring & Trisnawati (2019) state that profitability influences firm value. Meanwhile, according to research by Suryanto & Risqi (2022), profitability does not affect firm value. Salama et al. (2019) found that dividend policy positively affect firm value. Meanwhile, according to Akbar & Fahmi (2020), dividend policy can not influence firm value. The research results of Khasbulloh et al. (2023) show that dividend policy can mediate the effect of liquidity on firm value. Meanwhile, according to Rahmasari et al. (2019), dividend policy is not able to mediate liquidity and firm value. The research results of Setyabudi (2022) found dividend policy is considered capable of mediating profitability impact on firm value. Meanwhile, according to the research results of (Sukirno, 2019), the relationship between profitability and firm value cannot be mediated by dividend policy.

According to the above description, there are inconsistencies in research results with the variables used, which eventually causes a research gap or gaps in the research results. So, the authors decided to re-test the influence of liquidity and profitability on firm value as mediated by the dividend policy. This research is carried out to provide additional references to further research exploring similar topics to help improve the research results for the better in the future. This research is also expected to contribute to science, particularly in financial management, regarding the influence of liquidity and profitability on firm value mediated by dividend policy. Additionally, this study aims to assist investors in making investment decisions and assist company management in enhancing the firm's value.

2. RESEARCH METHOD

The signaling theory is closely related to the availability of information about a firm's performance from the firm's management to investors (Widyastuti et al., 2022). Signaling theory discusses the issue of information asymmetry. This theory explains how managers can reduce the problem of information asymmetry among the firm's management and investors by sending signals in the form of reliable information to establish investor confidence in the firm's future potential (Adiputra & Hermawan, 2020). The information provided by the firm, such as annual reports containing financial and non-financial information, serves as a signal possessed by a firm and is related to firm

value, thus influencing investors' perceptions of the firm's value (Herninta, 2019). With this information, investors can consider allocating their funds to the firm. Not only show how the firm's management signals to investors, but signaling theory also demonstrates that investors can differentiate between firms with good and bad qualities.

The concept of firm value refers to investors' subjective assessment of a firm, which is related to stock prices and can reflect the prosperity of a company (Saleh, 2023). In this context, stock prices can indicate investors' assessment of the firm's ability to acquire and maximize future profits (Jihadi et al., 2021). Therefore, as the stock price increases, so does the firm's worth and the shareholders' prosperity. Firm value is crucial for the firm's management and potential investors seeking investment opportunities in their chosen firm. Several factors, including liquidity, profitability, and dividend policy, can affect the firm value.

The liquidity ratio measures a firm's ability to settle its maturing financial short-term obligations (Prasetyo et al., 2021). To meet its short-term obligations, the firm must have current asset availability that can be converted quickly (Iman et al., 2021). A firm that is capable of timely meeting its short-term obligations is liquid. This means the firm has a liquid asset payment instrument exceeding its short-term liabilities. Good liquidity in the firm can encourage the stability of its operations because it can timely fulfil its short-term obligations and avoid the risk of failure to pay.

Profitability represents a firm's ability to obtain profits derived from the business activity of the firm during one accounting period. Profitability can assess the effectiveness with which a firm conducts its operational activities to generate a profit from its actions (Iman & Saleh, 2023). In addition to measuring the firm's efficiency in its operating process, profitability can also attract investors, increasing the confidence and interest of potential investors who want to invest (Ramdhonah et al., 2019). Profitability can indicate the condition of a firm, which can reflect its value.

A firm's dividend policy refers to the distribution of its profits, specifying the proportion of earnings allocated to shareholders and how much will be retained as retained earnings (Armereo & Rahayu, 2019). Dividends represent the percentage of profit a firm makes that can be distributed to shareholders. Dividend policy can indicate the firm's financial performance, stability, and prospects to external parties, especially investors (Ovami & Nasution, 2020). Several factors are considered in dividend policy, encompassing the firm's liquidity status, the requirement for funds to fulfill obligations, expansion plans, and corporate supervision (Akbar et al., 2020).

Hypotheses

Liquidity and Dividend Policy

The research result of Bramaputra et al. (2022) and Rahmasari et al. (2019) shows that liquidity can positively impact dividend policy. If a firm can settle its current obligations on time, it will not be burdened with its liabilities. Firm liquidity is related to its dividend policy. The larger the liquidity, the greater the firm's capacity to distribute dividends Prasetyo et al. (2021). A liquid company has more current assets than current liabilities, making decision-making regarding dividend policy quicker due to a lack of funding issues (Aryani & Fitria, 2020). H1 : Liquidity has a positive impact on dividend policy.

Profitability and Dividend Policy

According to the research results of Armereo & Rahayu (2019) and Ratnasari & Purnawati (2019), profitability can positively impact dividend policy. Profitability can influence a firm's dividend policy because dividends are distributed from profits. A firm's profit can affect the dividends to be distributed (Fitriyani, 2020). This implies that if a firm's profitability increases, the larger the dividends shareholders can receive (Sumarlin et al., 2020). firms with a greater capacity to make profits can also distribute more enormous dividends. H2 : Profitability has a positive impact on dividend policy.

Liquidity and Firm Value

According to the research results of Iman et al. (2021) and Yanti & Darmayanti (2019), liquidity can positively influence firm value. Good liquidity will significantly influence the seamless functioning of the firm's activities. Investors will consider a firm that can meet its short-term

obligations on time as a sign that the firm is liquid and can increase the interest of potential investors to invest their funds in the firm. The increased number of investors investing in the firm will impact the increased demand for stocks and increase stock market prices (Dewi & Sujana, 2019). The rise in the price of stocks will affect the increase in firm value (Rahmasari et al., 2019). Therefore, the higher the liquidity in a firm can enhance its firm value. H3 : Liquidity has a positive effect on firm value.

Profitability and Firm Value

Research performed by Devi & Manuari (2021) found that profitability can have a positive influence on firm value. A firm's increasing profits are indicative that a firm has promising prospects and is in a favorable condition. High profitability will make the firm appear capable to investors in managing its capital, including the money invested by investors (Ramdhonah et al., 2019). A firm with profit growth will be seen as having good performance, attracting investors to invest their funds (Sembiring & Trisnawati, 2019). The more investors are intrigued to allocate their funds for investment purposes, the higher the firm value. The growth of the firm's value will be marked by a rise in the stock price of the firm (Ali et al., 2021). H4 : Profitability has a positive effect on firm value.

Dividend Policy and Firm Value

Research performed by Patrisia et al. (2019) and Salama et al. (2019) found that dividend policy can positively influence firm value. The more enormous dividends a firm distributes, the more investors will perceive the firm as having good performance and good ability to generate profits (Rahmawati et al., 2021). The firm's dividend payments can affect stock prices and firm value (Margono & Gantino, 2021). Increasing dividend payments in a firm gave positive sign for investors. An increase in dividends makes investors believe that the firm has favorable prospects, making them interested in investing. The increase in the number of investors investing in the firm will cause the stock price to rise, thus increasing the firm value. H5 : Dividend policy has a positive effect on firm value.

Liquidity and Firm Value Mediated by Dividend Policy

Research conducted by Agustin & Anwar (2022) dan Subekti et al. (2022) shows that liquidity influences firm value through dividend policy as a mediating variable. Liquidity can indicate that the firm can meet its needs, ensuring smooth operations. The firm's ability to pay its short-term debts can demonstrate its ability to distribute dividends to shareholders (Khasbulloh et al., 2023). When a firm has good liquidity, dividend payments are likely to increase. This will attract many investors (Akbar et al., 2020). A more significant number of investors will be attracted to invest their funds the higher the stock price, followed by an increase in firm value because investors regard the firm's performance favorably. H6 : Dividend policy can mediate the relationship between liquidity and firm value.

Profitability and Firm Value Mediated by Dividend Policy

Research conducted by Manuari et al. (2022) and Setyabudi (2022) shows that profitability influences firm value through dividend policy as a mediating variable. High profitability in a firm can enhance shareholder prosperity through dividend policy (Nuryanti et al., 2021). As the profitability level of a firm increases, so do the dividends that the firm distributes. Consequently, the investment amount will increase, causing an increase in the stock prices and the firm value (Lestari & Khuzaini, 2022). H7 : Dividend policy can mediate the relationship between profitability and firm value.

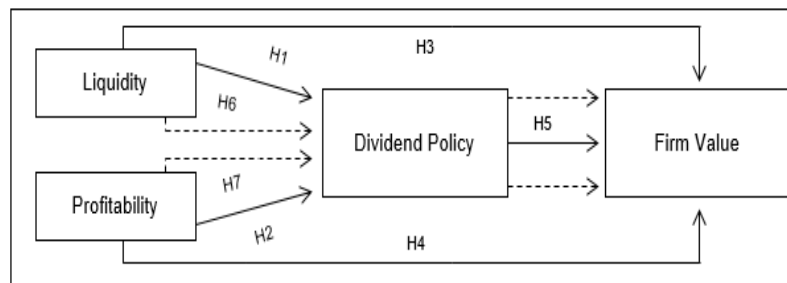


Figure 1. Research Framework

This research employs the panel data regression analysis method by employing Eviews 12. The regression models utilized in this study are as follows:

Substructural Model 1 :

$$DPR = \alpha + \beta_1 CR + \beta_2 ROE + e$$

Substruktural Model 2 :

$$PBV = \alpha + \beta_1 CR + \beta_2 ROE + \beta_3 DPR + e$$

Keterangan :

PBV : Price to Book Value

CR : Current Ratio

ROE : Return On Equity

DPR : Dividend Payout Ratio

α : Constanta

$\beta_1, \beta_2, \beta_3$: Regression Coefficients for CR, ROE, DPR

e : Standard Error

The approach employed in this research is quantitative, utilizing the documentation technique for data collection. The source of data is secondary data extracted from companies' annual reports over five years, from 2018 to 2022. This data is obtained from the Indonesia Stock Exchange (IDX) website at www.idx.co.id and several company websites selected as samples for this research. The population comprises companies listed in the LQ45 from 2018 to 2022. Sample collecting uses the non-probability purposive sampling method. The following outlines the stages of sample selection in the research and the number of observational data.

Table 1. Sample Selection Stage

N	Sample Criteria	(Elimination)	Quantity
1	Companies listed in the LQ45 index for the period 2018-2022	-	67
2	Companies consecutively listed in the LQ45 index for the period 2018-2022	(42)	25
3	Companies not in the banking sector	(5)	20
4	Companies free from data outliers	(1)	19
	Research Sample		19
	Total Observational Data (19 x 5 years)		95

Variable and Measurement

The independent variables in this study are liquidity and profitability, with dividend policy as a mediating variable. Meanwhile, firm value is used as a dependent variable. The following is a summary of the definition for each variable:

Liquidity

The liquidity ratio assesses the firm's ability to pay current liabilities by utilizing total current assets (Iman et al., 2021).

$$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Profitability

A firm's profitability is assessed using its Return On Equity (ROE), which further determines the amount of income it can generate from its equity (Robiyanto et al., 2020).

$$ROE = \frac{\text{Net Income}}{\text{Total Equity}}$$

Dividend Policy

The dividend policy ratio quantifies the proportion of a company's net income allocated to dividend payments (Nugraha et al., 2020).

$$DPR = \frac{\text{Dividend Per Share}}{\text{Earnings Per Share}}$$

Firm Value

Firm value is a market ratio that compares the price of a firm's stock to its book value per share (Widyastuti et al., 2022).

$$PBV = \frac{\text{Stock Price}}{\text{Book Value Per Share}}$$

3. RESULTS AND DISCUSSIONS

Descriptive Statistics

Descriptive statistics were employed to depict the variables used in the research. Descriptive statistics generated mean, maximum, minimum, and standard deviation values to describe the research variables. The descriptive statistics for each variable in this research are presented below.

Table 2. Descriptive Statistics

	CR	ROE	DPR	PBV
Mean	2.282565	0.141178	0.532978	1.872878
Maximum	11.93531	0.614960	2.248694	12.20479
Minimum	0.335592	-0.179735	-0.561701	0.000953
Std. Dev.	1.522204	0.113025	0.493465	1.696769
Observations	95	95	95	95

The table above reveals the outcomes derived from descriptive statistical data. The results of descriptive statistical analysis reveal that the standard deviation values for each variable (CR, ROE, DPR, and PBV) are smaller than the mean value. This implies a relatively good variance in the distribution.

Normality Test

The normality test is employed to ascertain whether the data distribution for independent and dependent variables is normal. The explanation for the normality test in this research will be provided under the assumption of the central limit theorem. Suppose the number of observations is more than 30 (> 30). In that case, the normality test can be ignored or unnecessary because the sample distribution is considered normal (Ajija et al., 2011:42) as cited in (Dzakwan et al., 2023). The research utilized 95 observations, more than 30 (> 30). According to the Central Limit Theorem, the data is considered to be normally distributed and meets the normality test requirements.

Multicollinearity Test

Table 3. Multicollinearity Test

	CR	ROE	DPR
CR	1	0.081330	-0.156419
ROE	0.081330	1	0.113258
DPR	-0.156419	0.113258	1

Multicollinearity arises when the correlation between independent variables surpasses 0.80 (> 0.80) (Ghozali, 2017:73) as cited in (Hanum & Rozaini, 2023). Based on the outcomes of the multicollinearity test, which suggests that all variable values are less than 0.80 (< 0.80), it is possible to conclude that there is no multicollinearity issue.

Hypotheses Testing

The Influence of Liquidity (CR) and Profitability (ROE) on Dividend Policy (DPR)

Table 4. Substructural 1 (Fixed Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	P-value
C	0.905752	0.101972	8.882369	0.0000
CR	-0.042744	0.033438	-1.278320	0.2051
ROE	-1.949374	0.472238	-4.127950	0.0001
Effects Specification				
F-Stat.	6.601114		R ²	0.640816
Prob (F)	0.000000		Adj. R ²	0.543739

The table above shows the regression results between CR and ROE on the variable DPR. The results indicate that CR does not significantly affect DPR, with a significance level of (0.2051 > 0.05) and a coefficient value of -0.042744. Therefore, hypothesis 1 is rejected. Meanwhile, the analysis results also show that ROE significantly negatively affects DPR, with a coefficient value of -1.949374 and a significance level of (0.0001 < 0.05). Thus, hypothesis 2 is rejected. The probability value (F) indicates that CR and ROE simultaneously influence DPR. The adjusted square value indicates that the CR and ROE variables account for 0.543739, or 54% of the DPR variable. The remaining 46% can be attributed to additional variables not considered in this research.

The Influence of Liquidity (CR), Profitability (ROE), and Dividend Policy (DPR) on Firm Value (PBV)

Table 5. Substructural 2 (Random Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	P-value
C	0.605068	0.455054	1.329661	0.1870
CR	0.237332	0.089177	2.661340	0.0092
ROE	3.558379	1.296497	2.744609	0.0073
DPR	0.419760	0.290298	1.445962	0.1516
Effects Specification				
F-Stat.	5.076012		R ²	0.143352
Prob (F)	0.002700		Adj. R ²	0.115111

The table above shows the regression results between CR, ROE, and DPR on the variable PBV. The results indicate that CR has a positive and significant effect on PBV, with a coefficient value of 0.237332 and a significance level of (0.0092 < 0.05). Therefore, hypothesis 3 is accepted. The regression results also show that ROE has a positive and significant effect on PBV, with a coefficient value of 3.558379 and a significance level of (0.0073 < 0.05). Hence, hypothesis 4 is accepted. Meanwhile, the above regression results also indicate that DPR does not significantly affect PBV, with a significance level of (0.1516 > 0.05) and a coefficient value of 0.419760. Therefore, hypothesis 5 is rejected. The probability value (F) indicates that CR, ROE, and DPR simultaneously influence PBV. The adjusted square value indicates that the CR, ROE, and DPR variables account for 0.115111 or 11% of the PBV variable. The remaining 89% can be attributed to additional variables not considered in this research.

Sobel Test

The Influence of Liquidity (CR) on Firm Value (PBV) Mediated by Dividend Policy (DPR)

Table 6. Sobel Test

Model	T-Statistic	P-Value
Uji Sobel	0.95771456	0.33820671

The Sobel test results indicate that the t-statistic value is 0.95771456 < t-table 1.98, and the p-value is 0.33820671 > 0.05. Therefore, dividend policy (DPR) is unable to mediate the

relationship between liquidity (CR) and firm value (PBV). Therefore, hypothesis 6 is rejected. The Influence of Profitability (ROE) on Firm Value (PBV) Mediated by Dividend Policy (DPR)

Table 7. Sobel Test

Model	T-Statistic	P-Value
Uji Sobel	1.36466198	0.17235931

The Sobel test results indicate that the t-statistic value is 1.36466198 < t-table 1.98, and the p-value is 0.17235931 > 0.05. Therefore, the relationship between profitability (ROE) and firm value (PBV) can not be mediated by a Dividend Policy (DPR). Therefore, hypothesis 7 is rejected.

Discussion

The Influence of Liquidity on Dividend Policy

The results indicate that liquidity (CR) does not affect dividend policy (DPR) (Table 4). High liquidity does not guarantee higher dividend payments by the firm. Firms with high liquidity may choose not to pay dividends. This finding aligns with a study by Syahirah et al. (2023), which that firms with high liquidity may not necessarily pay dividends because the decision to pay dividends will be determined at the general meeting of shareholders (GMS). Firms with high liquidity are more likely to focus on meeting their short-term obligations. This implies that liquidity cannot be a consideration in determining the level of a firm's dividends. These research results contradict the findings of Bramaputra et al. (2022), who state that liquidity (CR) influences dividend policy (DPR); if a firm's liquidity increases, its dividend policy will also increase.

The Influence of Profitability on Dividend Policy

A significant negative relationship exists between profitability measured by ROE and dividend policy (DPR) (Table 4). An increase in earnings in a firm does not always positively impact dividend policy. The research results show that the higher the ROE, the lower the dividend policy. In this case, the magnitude of earnings cannot guarantee an increase in dividends. Firms that experience an increase in profits tend to reduce dividend distribution. The profits obtained by the company will be reinvested or retained as retained earnings to fund the firm's operations and achieve more significant gains in the future (Rokhayati et al., 2021). This finding aligns with the research conducted by Hairudin et al. (2020) and Mokoginta et al. (2021). However, this finding contradicts the research undertaken by Armereo & Rahayu (2019), which states that profitability measured by ROE positively and significantly affects dividend policy (DPR), where firms with large profits also allow for more substantial dividend distributions.

The Influence of Liquidity on Firm Value

There is a significant positive relationship between liquidity (CR) and firm value (PBV) (Table 5). Increased liquidity in a firm suggests that it can effectively manage its liquidity, enabling it to meet short-term obligations promptly. If a firm can meet its obligations, its operational activities are less likely to be disrupted, allowing it to maximize profits (Rahmasari et al., 2019). This ability becomes an attraction for investors to invest. The increasing number of investors investing in the firm will increase stock demand and prices. The rising stock prices indicate that the firm value is also growing. On the contrary, Astuti & Yadnya (2019) found no significant effect between liquidity measured by CR and firm value (PBV). In their findings, high liquidity can decrease the firm's profits due to idle funds, potentially reducing the dividend payout ratio.

The Influence of Profitability on Firm Value

A significant positive relationship exists between profitability measured by ROE and firm value (PBV) (Table 5). The outcomes show that a firm's high profitability can enhance its value. This finding aligns with signaling theory, suggesting that high profitability in a firm is perceived as a positive signal for investors regarding the potential dividend amount. The high profitability of a company signifies its ability to manage its capital effectively and positions it as a lucrative investment (Ramdhonah et al., 2019). If a firm is in a favourable condition, many investors will be interested in investing their funds in that firm. The increasing number of investors contributing to the firm will drive up stock prices, consequently impacting the firm's value. However, it contradicts

the outcomes research by Suryanto & Risqi (2022) that ROE does not affect the firm value (PBV). In their findings, the magnitude of a firm's profitability does not influence the increase in firm value.

The Influence of Dividend Policy on Firm Value

Dividend Policy (DPR) does not influence the Firm value (PBV) (Table 5). This research shows that, regardless of the amount of dividends distributed, it cannot significantly increase the firm's value because the higher the dividends distributed, the less profit the firm retains for reinvestment as capital to develop the firm further. These findings are consistent with the research conducted by Akbar & Fahmi (2020), which states that the increase in firm value is not dependent on the magnitude of dividends given to shareholders. However, these research results contradict the findings of the research conducted by Patrisia et al. (2019), which states that dividend policy measured by DPR affects firm value (PBV). In their findings, a high dividend policy in a firm can attract many investors, increasing stock prices and firm value.

Liquidity and Firm Value Mediated by Dividend Policy

Based on the results of the Sobel test, the dividend policy (DPR) cannot mediate the relationship between liquidity (CR) and firm value (PBV) (Table 6). High liquidity in a firm may not necessarily drive an increase in value through a dividend policy. This is because high liquidity in a firm may lead it to prioritize its short-term obligations rather than increasing the dividend payout ratio to shareholders (Astuti & Yadhya, 2019). It does not align with research analyzed by Khasbulloh et al. (2023) found dividend policy (DPR) can mediate liquidity (CR) and firm value (PBV). According to their findings, a firm meeting its short-term obligations can distribute dividends, enhancing firm value.

Profitability and Firm Value Mediated by Dividend Policy

Based on the results of the Sobel test, dividend policy (DPR) is unable to mediate the relationship between profitability measured by ROE and firm value (PBV) (Table 7). The findings of this research indicate that the size of a firm's dividend policy as a result of its earnings cannot drive an increase in firm value. However, high profitability in a firm can directly attract many investors to invest, making the firm considered lucrative and, consequently, increasing firm value. This research shows that investors are more influenced by information on the firm's profitability level than the firm's dividend policy (Sukirno, 2019). These results contradict the findings of the research conducted by Setyabudi (2022), which states that dividend policy measured by DPR can mediate the relationship between profitability (ROE) and firm value (PBV). In his findings, an increase in a firm's profits means the firm can pay dividends, thus encouraging investors to invest and potentially increasing firm value.

4. CONCLUSION

This research aims to analyze the effect of dividend policy as a mediator on the relationship between liquidity and profitability on firm value. The outcomes show that liquidity does not affect dividend policy. Meanwhile, profitability has a significant negative impact on dividend policy. The results of the second structural analysis, which examines the influence of liquidity, profitability, and dividend policy on firm value, show that liquidity and profitability positively and significantly affect firm value. However, firm value is not influenced by dividend policy. Sobel test results found liquidity and profitability influence on firm value cannot mediated by dividend policy, so there is no indirect effect of liquidity and profitability on firm value through dividend policy.

There are two implications based on the results of this research, theoretical implications and practical implications. Some theoretical implications in this study are as follows. First, profitability has a significant negative influence on dividend policy. High profitability in a firm can be a negative signal for investors. In this case, the higher the Return on Equity (ROE), the lower the dividend policy. Companies experiencing increased profits tend to reduce dividend distribution because the earnings obtained by the company will be reinvested or retained as retained earnings. Second, liquidity positively and significantly affect firm value. High liquidity indicates that the firm can meet its short-term obligations on time. This ability will attract many investors to invest, leading to an increase in stock prices and a rise in the firm's value. Third, profitability positively and significantly affect firm value. High profitability can be a positive signal for investors as they

perceive the firm to be in a favourable condition. This will attract many investors to invest, causing stock prices to rise, followed by an increase in the firm's value. The practical implications for investors and company management based on the research findings, which discovered that profitability has a significant negative impact on dividend policy, liquidity and profitability positively and significantly affect firm value, are that it can provide information that investors can use as a reference for making investment decisions in a company. It also serves as a reference for company management in efforts to enhance the firm's value.

Several recommendations can be conveyed based on the analysis conducted in this research. First, for company management, it is advisable to continue monitoring the profitability and liquidity levels to encourage an increase in firm value. Second, investors must pay attention to a firm's liquidity and profitability factors when considering investing in that company to achieve optimal results. This is because, in this research, liquidity and profitability have a significant influence. Third, a limitation of this research lies in the use of limited variables to liquidity (CR), profitability (ROE), and dividend policy (DPR). Therefore, future research should consider adding other variables and incorporating control variables such as company size, leverage, managerial ownership, and others to obtain better results and models, providing a broader scope of observation.

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