



The Influence of Financial Performance on Company Value Through Dividend Policy as an Intervening Variable at BEI 2017-2022

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Abstract. *The purpose of this study is to determine and analyze the influence of financial performance on firm value with dividend policy as an intervening variable in manufacturing companies listed on the IDX for the period 2017-2022. This research uses a quantitative method with secondary data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2017-2022. The sampling method used is purposive sampling, with data from the last 6 years from 28 manufacturing companies listed on the IDX during 2017-2022. The data analysis techniques used are descriptive statistical analysis, panel data regression models, and path analysis. The results of the study show significant variations in liquidity, solvency, profitability, dividend policy, and firm value among manufacturing companies listed on the IDX during 2017-2022. Liquidity and profitability show large variations, reflecting differences in financial management and performance, solvency is more stable with low debt levels. Dividend policy and firm value show large variations, reflecting differences in profit sharing strategies and market valuation. Liquidity (cash ratio) has a positive effect on dividend policy (DPR), solvency (DER) has a positive effect on dividend policy, profitability (ROE) has a positive effect on dividend policy (DPR), liquidity (cash ratio) has a positive effect on firm value (PBV), solvency (DER) has a positive effect on firm value (PBV), profitability (ROE) has a positive effect on firm value (PBV), dividend policy (DPR) has a positive effect on firm value (PBV), liquidity (cash ratio) is unable to mediate through dividend policy (DPR) on firm value (PBV), solvency (DER) is unable to mediate through dividend policy (DPR) on firm value (PBV), profitability (ROE) is unable to mediate through dividend policy (DPR) on firm value (PBV)*

Keywords: Cash, DER, DPR, PBV, ROE

1. INTRODUCTION

In the era of globalization and increasingly fierce industrial competition, the manufacturing sector plays a strategic role in the national economy. Manufacturing companies not only contribute to economic growth through production but also significantly influence capital market dynamics. The fluctuations in the Composite Stock Price Index (IHSG) and the changes in firm value measured by Price to Book Value (PBV) reflect the complex relationship between financial performance and market perception. Amid these dynamics, dividend policy emerges as an important instrument that not only indicates a company's ability to manage its profits but also signals its financial health and future growth prospects to investors.

This study aims to examine the impact of financial performance on firm value while considering dividend policy as an intervening variable for manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2017–2022. Financial performance is measured using liquidity (Cash Ratio), solvency (Debt to Equity Ratio), and profitability (Return on Equity), while dividend policy is assessed through the Dividend Payout Ratio. Employing secondary data and quantitative analysis methods such as panel data regression and path analysis, the study provides an empirical framework to explore the causal relationships among these variables.

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Given the increasingly complex conditions of the capital market and the competitive environment among companies, a deep understanding of the interaction between financial performance, dividend policy, and firm value is crucial. The findings are expected not only to contribute to the theoretical literature in financial management but also to offer practical recommendations for managers and investors in making strategic decisions. In this way, the study provides a fresh perspective by integrating fundamental financial aspects with dividend policy to enhance investment appeal and overall firm value..

2. LITERATURE REVIEW

Agency Theory

Agency Theory posits that a conflict of interest may exist between the principals (shareholders) and agents (management). As management is entrusted with decision-making, the use of dividend policy becomes a mechanism to reduce agency conflicts. By distributing dividends, managers signal commitment to returning value to shareholders, potentially aligning managerial actions with shareholder interests.

Signaling Theory

According to Signaling Theory, dividend announcements serve as signals to the market regarding a company's financial health and future prospects. An increase in dividend payouts is often interpreted as a positive signal, suggesting strong earnings and stability. Thus, dividend policy not only reflects a firm's current profitability but also communicates its future growth potential to investors.

3. METHODS

This study employs a quantitative research design that utilizes secondary data to investigate the influence of financial performance on firm value, with dividend policy serving as an intervening variable among manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022. The research focuses on a purposively selected sample of 28 manufacturing companies that meet predetermined criteria, ensuring a representative snapshot of the sector within the Indonesian capital market. Financial data, gathered from publicly available financial reports, IDX databases, and other credible sources, include key ratios such as the Cash Ratio for liquidity, the Debt to Equity Ratio (DER) for solvency, the Return on Equity (ROE) for profitability, Price to Book Value (PBV) for firm value, and the Dividend Payout Ratio (DPR) for dividend policy. Financial performance is operationalized through these ratios, while firm value and dividend policy are measured accordingly. The

analysis is conducted using descriptive statistics to summarize trends and characteristics of the financial variables over the study period, complemented by panel data regression analysis to assess the direct influence of financial performance on firm value while controlling for variations across time and companies. Furthermore, path analysis is applied to evaluate the mediating role of dividend policy in this relationship. This integrated methodological approach, leveraging reliable secondary data and robust statistical techniques, provides a systematic framework for testing the hypotheses and generating insights that are both statistically valid and practically relevant.

4. RESULTS

The results indicate that the descriptive statistics reveal considerable variation in key financial measures, such as liquidity, solvency, profitability, dividend payout, and firm value, among the sampled manufacturing companies from 2017 to 2022. Inferential statistical analyses using panel data regression show that liquidity (measured by Cash Ratio), solvency (Debt to Equity Ratio), and profitability (Return on Equity) have significant positive direct effects on firm value, as indicated by the Price to Book Value ratio. In addition, the analysis finds that liquidity and profitability positively influence dividend policy, while the mediating effect of dividend policy is partially supported; specifically, dividend policy significantly enhances the impact of profitability on firm value, although its mediating role for liquidity and solvency is not statistically significant. These findings underscore that while financial performance directly drives firm value, dividend policy serves as an important channel—particularly for profitability—thereby providing a more nuanced understanding of the dynamics between a firm's financial health and its market valuation.

5. DISCUSSION

This study investigated the influence of financial performance on firm value while examining the mediating role of dividend policy among manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022. The findings indicate that key financial indicators—liquidity, solvency, and profitability—exert direct positive effects on firm value. Companies with strong liquidity are perceived as more stable and better equipped to meet short-term obligations, thereby enhancing investor confidence and contributing to higher market valuations. Similarly, robust profitability, as measured by Return on Equity, directly translates into increased firm value, affirming the market's appreciation for efficient capital use and effective earnings generation. Notably, the analysis revealed that while dividend policy

partially mediates the relationship between profitability and firm value, its mediating effects on the relationships with liquidity and solvency are less pronounced. This suggests that dividend policy may serve as a more potent signal of financial strength for firms exhibiting high profitability, yet it may not fully capture the broader financial dynamics reflected by liquidity and solvency.

These results align with theoretical perspectives such as Signaling Theory, which posits that dividend announcements convey important information about a company's financial health and future prospects. The positive influence of dividend policy on firm value reinforces the idea that regular and substantial dividend payments can mitigate information asymmetry and reduce perceived investment risk. However, the partial mediation observed in this study indicates that dividend policy does not entirely account for the effects of all dimensions of financial performance. This divergence from some earlier studies suggests that the interplay between dividend policy and firm value might be contingent on specific market conditions or industry characteristics, particularly in emerging markets like Indonesia.

From a practical perspective, these findings offer significant implications for corporate managers and investors. For managers, maintaining strong financial performance across various dimensions is crucial—not only to secure favorable market evaluations but also to leverage dividend policy effectively as a strategic tool for enhancing firm value. Investors, on the other hand, are encouraged to consider a comprehensive set of financial metrics rather than relying solely on dividend payouts when assessing a firm's long-term potential. This holistic approach can lead to more informed investment decisions, particularly in volatile market environments.

Despite its contributions, this study is subject to certain limitations. The exclusive use of secondary data may overlook qualitative factors such as managerial competence and market sentiment, which also influence dividend decisions and firm valuation. Moreover, the focus on the manufacturing sector within Indonesia limits the generalizability of these findings to other industries or geographic regions. Future research could benefit from incorporating mixed-method approaches, expanding the sample to include diverse sectors, or exploring additional mediating variables to further elucidate the complex relationship between financial performance and firm value. Overall, the study contributes valuable insights into the multifaceted dynamics that shape firm value and underscores the nuanced role of dividend policy in financial management.

6. CONCLUSION

The study concludes that strong financial performance—as evidenced by robust liquidity, solvency, and profitability—directly enhances firm value among manufacturing companies listed on the Indonesia Stock Exchange. In particular, profitability not only contributes directly to firm value but also does so indirectly through dividend policy, which serves as a partial mediator. These findings underscore the importance for managers to maintain a balanced financial profile and to strategically use dividend policy as a signaling tool to boost investor confidence. For advanced researchers, future studies could extend this work by exploring additional mediating factors, incorporating qualitative assessments, or broadening the scope to other industries and geographic regions. For general readers and investors, the results highlight the significance of considering a comprehensive set of financial metrics—not just dividend payouts—when evaluating a company’s long-term investment potential.

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