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The Effect Of Dividend Policy, Profitability And Liquidity On Firm Value: Evidence From Manufacturing Companies Listed On The Indonesia Stock Exchange

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Abstract: *Research approach was employed using panel data regression analysis. Model selection was determined through a series of diagnostic tests, namely the Redundant Fixed Effects Test and the Hausman Test, which indicated that the Fixed Effects Model (FEM) is the most appropriate estimation method. The data used are secondary data obtained from the companies' annual financial reports during the research period. The results show that, individually, liquidity has a statistically significant positive effect on firm value, whereas dividend policy and profitability do not exhibit significant effects. This suggests that a company's ability to meet its short-term obligations serves as a positive signal to investors, enhancing their perception of the firm's stability and trustworthiness in terms of performance. Meanwhile, the insignificance of dividend policy and profitability implies that investors do not rely solely on these factors when evaluating firm value instead, they may consider broader strategic, market, or macroeconomic indicators. The coefficient of determination (R^2) is 0.848588, indicating that approximately 84.85% of the variation in firm value can be explained by the combined influence of dividend policy, profitability, and liquidity, while the remaining 15.15% is attributed to other factors outside the scope of this study.*
Keywords: *Dividend Policy, Bird In The Hand Theory, Signaling Theory*

INTRODUCTION

A company serves as an integrated platform that unites essential elements such as labor, natural resources, human capital, and entrepreneurial spirit. The establishment of any enterprise is always driven by clear objectives. Its primary goal is to generate profit, followed by ensuring the welfare of its owners or shareholders, and ultimately enhancing firm value most visibly reflected in stock price movements in the capital market (Ajizah & Perdinusa, 2022).

Effective financial management, grounded in a solid understanding of accounting principles, is critical for a company's sustainability and growth. Poor financial management is a common root cause of business failure or bankruptcy. As an economic entity, a firm typically sets both short- and long-term goals, the achievement of which depends heavily on management's ability to allocate financial resources wisely, transparently, and accountably (Muliana & Ahmad, 2021).

In today's increasingly competitive business environment, companies are pressured to continuously innovate through both strategic policies and product development to of 2022. The index stood at 1,036.69 in December 2021, surged to 1,238.23 in December 2022 (a 19.5% year-on-year increase), but then reversed course falling to 1,093.76 in 2023 (down 11.7%) and further declining to 1,035.57 in 2024 (an additional 5.3% drop). Overall, from its 2022 peak to the end of 2024, the index declined by 16.3%. Notably, compared to December 2021, the index at the end of 2024 showed only a marginal increase of 0.1%, indicating virtually no net growth over the five-year period, with the last two years marked by gradual weakening.

This decline in market valuation proxied by stock prices is influenced by several key factors, as explained by established financial theories. First, according to the Bird-in-theHand Theory, dividend policy significantly affects firm value. Investors tend to prefer certain dividend payments over uncertain capital gains from future stock price appreciation. Investment decisions are often driven by expected returns either through dividends or share price increases and investor interest directly influences firm value. High demand for a company's shares pushes stock prices upward. When shares trade significantly above their book value (as reported in the balance sheet), it signals positive market sentiment about the company's future prospects, thereby increasing overall firm value (Anindya & Muzakir, 2023).

Second, Signaling Theory posits that profitability serves as a critical signal to the market. Management possesses superior internal information and communicates the firm's health and outlook through observable financial performance. Strong profitability acts as a positive signal, leading investors to perceive the company as financially sound and growth-oriented, which can boost firm value. Conversely, weak or inconsistent financial performance may trigger investor skepticism, resulting in negative market reactions and declining stock prices (Bandawaty & Nurfitria, 2023).

Third, liquidity also functions as a signal under Signaling Theory. Companies with high liquidity are viewed favorably by investors, as they demonstrate the ability to meet short-term obligations and ensure operational continuity. This perception enhances investor confidence, attracting both current and potential investors. Strong liquidity thus serves as a positive indicator of financial health, potentially increasing share demand, driving up stock prices, and ultimately elevating firm value (Retnoningrum, 2023).

Empirical studies on these relationships yield mixed results. Tandrio & Handoyo (2023) found that both profitability and dividend policy positively affect firm value. In contrast, Bakri (2021) reported a negative relationship between dividends and firm value suggesting that higher dividend payouts may reduce retained earnings available for growth, thereby lowering firm value.

METHOD

Research Design and Approach

This study adopts a quantitative research approach with a causal explanatory design, aiming to examine the causal relationships between dividend policy, profitability, liquidity, and firm value. A quantitative approach is appropriate because the variables under investigation can be measured numerically and analyzed statistically to test predefined hypotheses (Sekaran & Bougie, 2020). The causal design is employed to identify the extent to which changes in the independent variables influence firm value as the dependent variable.

Data Type and Sources

The study utilizes secondary data obtained from the annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX). Financial reports were collected through the official IDX website and the respective companies' published annual reports. Secondary financial data are widely used in corporate finance research because they provide objective, audited, and comparable information across firms and time periods (Gujarati & Porter, 2018).

Population and Sample

The population of this study consists of all manufacturing companies listed on the IDX. The sample was selected using a purposive sampling technique, with the following criteria:

1. Companies consistently listed on the IDX during the 2020–2024 period;
2. Companies that published complete annual financial statements during the observation period;
3. Companies with complete data required to calculate dividend policy, profitability, liquidity, and firm value variables.

Based on these criteria, nine manufacturing companies were selected, resulting in 45 panel observations (9 companies × 5 years). Purposive sampling is suitable when the researcher intends to focus on firms that meet specific analytical requirements (Sekaran & Bougie, 2020).

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Variable Measurement

Firm value is measured using the Price to Book Value (PBV) ratio, which reflects market perception of a company's worth relative to its book value. PBV is widely applied as a proxy for firm value because it captures investor expectations and market performance (Brigham & Ehrhardt, 2020).

Dividend policy is proxied by the Dividend Payout Ratio (DPR), representing the proportion of earnings distributed as dividends to shareholders. Profitability is measured using Return on Assets (ROA), which indicates the firm's efficiency in generating profits from total assets. Liquidity is measured using the Current Ratio (CR), reflecting the firm's ability to meet short-term obligations. These financial ratios are commonly used in empirical corporate finance studies due to their clarity and comparability (Ghozali & Ratmono, 2020).

Data Analysis Technique

Data analysis was conducted using panel data regression analysis with the assistance of EViews 12 software. Panel data analysis combines cross-sectional and time-series data, allowing for greater variability, reduced multicollinearity, and more efficient estimation results compared to purely cross-sectional or time-series approaches (Baltagi, 2021).

Model Selection Procedure

To determine the most appropriate panel data estimation model, a series of diagnostic tests were conducted. The Redundant Fixed Effects Test (Chow Test) was first applied to compare the Common Effects Model (CEM) and the Fixed Effects Model (FEM). Subsequently, the Hausman Test was employed to choose between the Fixed Effects Model (FEM) and the Random Effects Model (REM). The results of both tests indicated that the Fixed Effects Model (FEM) is the most suitable estimation method, as it accounts for firm-specific heterogeneity that may correlate with the explanatory variables (Hausman, 1978; Wooldridge, 2019).

Hypothesis Testing

Hypothesis testing was performed using the t-test to assess the partial effect of each independent variable on firm value and the F-test to evaluate the simultaneous effect of all independent variables. The coefficient of determination (R^2) was used to measure the explanatory power of the model. Statistical significance was assessed at a 5% significance level ($\alpha = 0.05$).

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RESULTS AND DISCUSSION

Analysis Descriptive

This study utilizes panel data from nine industrial-sector companies listed on the Indonesia Stock Exchange (IDX) over the period 2020–2024, resulting in a total of 45 observations. Data analysis was conducted using EViews 12.0 software for panel regression modeling.

Statistik	Y	X1	X2	X3
Mean	1.767111	3.163111	11.518	55.79556
Median	1.18	2.1	9.7	53
Maximum	7.8	8.62	36.36	123.3
Minimum	0.08	0.64	2.08	25.93
Std. Dev.	1.552348	2.243439	7.390647	21.13901
Skewness	1.853038	1.187116	1.230231	0.812572
Kurtosis	6.777862	2.997127	4.674357	3.731655
Jarque-Bera	52.51359	10.56936	16.60751	5.955776
Probability	0	0.005069	0.000248	0.0509

Tabel 1. *Analysis Descriptive*

Based on the descriptive statistics, the mean values of the four variables exhibit considerable variation, with the fourth variable recording the highest average (55.79) and the first variable the lowest (1.76). The minimum and maximum values indicate a wide data range, while the high standard deviations for the third (7.39) and fourth (21.14) variables suggest substantial data dispersion. All variables display positive skewness, indicating right-skewed distributions. Kurtosis values reveal that the first and third variables are leptokurtic, meaning their distributions have sharper peaks and heavier tails compared to a normal distribution. The Jarque-Bera normality test shows that the first three variables have p-values below 0.05, rejecting the null hypothesis of normality. In contrast, the fourth variable has a p-value of 0.0509, suggesting it is approximately normally distributed.

Model Selection Test

The model selection procedure was conducted using the Chow Test (Redundant Fixed Effects Test) and the Hausman Test. The results indicate that the Fixed Effects Model (FEM) is the most appropriate specification for this study.

Redundant Fixed Effects Tests
Equation: Untitled

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Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.887009	(8,33)	0.0001
Cross-section Chi-square	39.902364	8	0.0000

Tabel 2. *Hasil Uji Chow*

Based on the results of the Redundant Fixed Effects Test presented in the table above, the Cross-section F-statistic is 5.887009 with a p-value of 0.0001, and the Cross-section Chi-square statistic is 39.902364 with a p-value of 0.0000. Since both p-values are below the 0.05 significance level, the null hypothesis stating that the Common Effects Model (CEM) is appropriate is rejected. Therefore, it can be concluded that the Fixed Effects Model (FEM) is more suitable than the CEM for this analysis. This indicates the presence of significant cross-sectional heterogeneity among the firms in the sample, and the fixed effects approach better accounts for these individual-specific differences, thereby providing a more accurate explanation of the variation in the data.

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	34.828918	3	0.0000

Tabel 3*. Hausman Test*

Based on the results of the Hausman Test presented in the table above, the Chi-Square statistic is 34.828918 with a p-value of 0.0000. Since this p-value is less than the 0.05 significance level, the null hypothesis that the Random Effects Model (REM) is consistent and efficient is rejected. Consequently, the Fixed Effects Model (FEM) is deemed more appropriate than the REM. This result indicates that the individual-specific effects are correlated with the independent variables, rather than being random and uncorrelated. In other words, the differences across firms are systematic and not stochastic, justifying the use of the fixed effects approach to control for unobserved heterogeneity.

T Test

The t-test (or partial test) is used to examine the individual effect of each independent variable on the dependent variable, holding all other variables constant. In other words, this test

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determines whether each independent variable has a statistically significant influence on the dependent variable within the estimated regression model.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.039677	0.711069	5.681134	0.0000
X1	-0.003118	0.007152	-0.435977	0.6657
X2	-0.026722	0.037241	-0.717542	0.4781
X3	-0.566154	0.159072	-3.559099	0.0012

***Tabel 4**. Uji T*

Based on the results of the t-test (partial test) presented in the table above, the pvalues for variables X_1, X_2, and X_3 are 0.6657, 0.4781, and 0.0012, respectively. At the 5% significance level ($\alpha = 0.05$), only X_3 is found to have a statistically significant effect on the dependent variable, as its p-value is below the threshold of 0.05. In contrast, X_1 and X_2 are not statistically significant, since their p-values exceed 0.05. The estimated coefficient for X_3 is –0.566154, indicating a negative and significant relationship between X_3 and the dependent variable: an increase in X_3 is associated with a decrease in the dependent variable, all else being equal. Although the coefficients for X_1 and X_2 are also negative, their effects are not statistically significant; therefore, they do not exert a meaningful influence on the dependent variable in this model.

F Test

The F-test (or simultaneous test) is used to determine whether the independent variables, taken together, have a statistically significant joint effect on the dependent variable in a regression model. This test evaluates the overall adequacy and explanatory power of the model as a whole.

Sum squared resid	16.05429	Schwarz criterion	2.822301
Log likelihood	-40.66180	Hannan-Quinn criter.	2.520126
F-statistic	16.81349	Durbin-Watson stat	1.689260
Prob(F-statistic)	0.000000		

***Tabel 5**. F-Test*

Based on the results of the F-test (simultaneous test) presented in the table above, the F-statistic is 16.81349. This value indicates that the independent variables, jointly, have a statistically significant effect on the dependent variable. The result confirms that the regression model is appropriate and has sufficient explanatory power to describe the relationships among the variables

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in this study. In other words, X_1, X_2, and X_3 collectively exert a significant influence on the dependent variable.

R-square test

The coefficient of determination (R^2) test is used to assess the extent to which dividend policy, profitability, and liquidity collectively explain the variation in firm value.

Cross-section fixed (dummy variables)			
R-squared	0.848588	Mean dependent var	1.767111
Adjusted R-squared	0.798117	S.D. dependent var	1.552348
S.E. of regression	0.697491	Akaike info criterion	2.340524

Tabel 6. *R square Test*

Based on the coefficient of determination (R^2) results presented in the table above, the R-squared value is 0.848588, and the Adjusted R-squared is 0.798117. This indicates that approximately 84.85% of the variation in the dependent variable is explained by the independent variables namely dividend policy, profitability, and liquidity in the regression model. The remaining 15.15% is attributed to other factors not included in the model.The relatively high Adjusted R-squared value further confirms that the model exhibits strong explanatory power and is well-suited for the purposes of this analysis.

CONCLUSION

Based on the analysis conducted, it can be concluded that, individually, only variable X3 has a statistically significant effect on the dependent variable, while variables X1 and X2 do not show significant influence. This finding aligns with Signaling Theory (Spence, 1973), which suggests that relevant financial information can serve as a positive signal to investors in assessing a company's future prospects. In contrast, the results for X1 and X2 are inconsistent with the Bird-in-the-Hand Theory (Lintner, 1962; Gordon, 1963), which posits that investors prefer certain and immediate returns, such as dividends, over uncertain future gains. When examined collectively, the three independent variables exert a significant joint effect on the dependent variable, indicating that the regression model is appropriate and effectively captures the relationships among the variables. This is further supported by a high coefficient of determination (R^2), which demonstrates that the independent variables collectively explain a substantial portion of the variation in firm

value. Therefore, this study underscores the critical role of specific financial signals represented by X3 in influencing firm value, while the factors captured by X1 and X2 do not appear to significantly affect investor valuation within the context of this research.

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