

## Measuring Company Value with Intervening Profitability Variables in Companies Listed on the Indonesia Stock Exchange's LQ-45 Index for the 2018–2021 Period



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**ABSTRACT:** This study aims to analyze the effect of company size, capital structure and dividend policy on company value with profitability as an intervening variable in LQ-45 Companies Listed on the Indonesia Stock Exchange for the 2018-2021 Period. All companies listed on the Indonesia Stock Exchange's LQ-45 index from 2018 to 2021 comprise the study's population, namely there are 63 companies. Purposive sampling is used in the sampling process. using criteria-based sampling, from a total population of 63 companies only 28 companies meet the criteria and are used as research samples. Data analysis utilizing analysis path and multivariate linear regression. The findings indicated that a company's size had an impact on company's value, While the dividend policy does not impact the value of the company's value, the capital structure does. profitability mediates the effect of company size on company value, profitability does not mediate the effect of capital structure on company value and profitability mediates the effect of dividend policy on company value.

**KEYWORDS:** Company Size, Capital Structure, Dividend Policy, Profitability, Company Value.

### I. INTRODUCTION

One of the key considerations for investors when evaluating a firm as a whole is its company value, which reflects the company's future possibilities. Maximizing company value can be done in various ways, namely by carrying out existing operations within the company more effectively and efficiently. Performance within the company focuses on the final results of operational activities within the company during a certain period, Performance measures are used to assess how well a firm is doing at maximizing shareholder value. The bargaining power of the shares reflects the worth of the firm; if the company is seen to be one with promising future prospects, the value of the shares rises. On the other hand, the stock price will be low if the firm is thought to have poorer prospects. (Abidin et al., 2014).

The company's size is significant, which suggests that it is growing and developing, which will attract investors and raise the company's worth. Positive investor reaction will result in an increase in the company's worth. Due to their higher ability to influence market dynamics and their ability to deal with economic rivalry, large corporations are less susceptible to changes in the economy. Because they have better access to outside sources of information than small organizations have, large corporations have more resources to raise the value of the company.

Companies can increase their worth by having a reliable source of funding or capital structure.. Sources of funding for a company can come from within or outside. The source of funding from within the company can be in the form of additional equity through the issuance of new shares or the use of retained earnings that are reinvested in the company, while sources of funding from outside the company can be in the form of debt. In capital structure theory, According to the trade-off theory, the proportion of the ideal capital structure ratio can be found by balancing the profits of using debt with the bankruptcy costs of the company's debt.

To determine the company's future prospects or its current worth and the returns that investors will get, investors need to assess the decisions of a company, the financial decisions in question are dividend policies. This decision aims to maximize the company's value. The dividend policy of a corporation refers to its decision about the distribution of profits or the retention of profits as kept earnings for the purpose of funding future investment. Companies with high dividends are a good signal for investors, According to the Bird in the Hand hypothesis, high dividends have an impact on share demand and stock prices. If a

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company's stock price increases, it suggests that it is performing well and has the potential to generate additional profits, which will increase the company's worth.

The value of the company will increase over time if it becomes more profitable. The level of profitability is used as a reference for capital owners in determining the choice of whether to invest in the company or not. Companies that can increase their profits stably, The company is seen to be performing well, thus this will raise the worth of the business. (Aulia et al., 2016).

Measurement of company value has undergone many developments, from conventional to more modern, and is more capable of determining the value of a company. Tobin's Q is a ratio used to assess a firm's worth based on the possible movement of stock prices, the potential of managers to effectively manage corporate resources, and the possibility for investment growth. (Sudiyatno, 2010). The following is a table of the average ratio of LQ45 companies for the period 2018 to 2021:

**Table 1. Average Company Ratio LQ-45 for the Period 2018-2021**

No	Information	2018	2019	2020	2021
1	Natural Logarithm of Total Assets	31,05	31,14	31,12	31,28
2	Debt to Asset Ratio (DAR)	50,99	52,68	51,93	52,80
3	Dividend Payout Ratio (DPR)	38,66	35,45	30,99	28,73
4	Return On Assets (ROA)	7,95	7,35	5,42	6,62
5	Tobins Q	3,29	1,84	1,37	1,27

Based on Table 1 above, it can be concluded that the average ratio in LQ45 companies for the period 2018 to 2021 fluctuates and indicates that the company's management is not optimal.

## II. REVIEW OF LITERATURE

The goal of the trade-off theory in capital structure is to weigh the advantages and costs associated with using debt. Additional debt is still permitted if the advantages outweigh the disadvantages. Additional debt is no longer permitted if the cost of using debt is greater (Modigliani & Miller, 1963).

Bird In The Hand Theory explains that the expected probability of capital gains is greater than the fixed dividend yield, As a result, investors will demand a larger rate of profit for each jobless dividend yield (John Lintner, 1956).

The Company's Value of a corporation is what it has managed to collect as proof of public trust through a protracted process, namely since the company was founded until now (Denziana & Monica, 2016). Tobin's Q Ratio was used in this study to calculate the company's worth.

A company's size scope is measured by its company size, which might depend on a variety of criteria, such as the amount of revenue, total assets, and total equity (Brigham & Houston, 2010). This study calculated total assets using the natural logarithm to determine the size of the firm (Juliani & Tanwijaya, 2022). The overall assets owned increase in proportion to the company's size, making resources abundant. The quantity of resources available is optimally used for investment operations, increasing the company's profitability. investors will be drawn to huge corporations because of the potential for significant returns from the profits the company makes, which will raise the stock price of the company. The worth of the company will rise as a result of the rise in stock price.

The capital structure outlines the connection between funding-source own capital and capital derived through long-term debt (long-term liabilities). The Debt to Asset Ratio (DAR) is the metric that this study uses to assess the capital structure.

A company's choice on how much of its net profit will be dispersed as dividends or retained earnings is known as its dividend policy (Deitiana, 2011). The Dividend Payout Ratio (DPR) is the formula employed in this study to assess dividend policy (Gumanti, 2013).

The capacity of a business to turn a profit with the money it has is known as profitability (Permata, 2014). Return On Asset (ROA) is the profitability metric employed in this study.

## III. OBJECTIVES OF THE STUDY

The purpose of this study is to test the level of Effect of Company Size, Capital Structure and Dividend Policy on Company Value with Profitability as an Intervening Variable in LQ-45 Companies Listed on the Indonesia Stock Exchange for the 2018-2021 Period.

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## IV. HYPOTHESES

The total assets possessed by the firm are reflected in the size of the business; the larger the business, the more assets owned by the business, and the more money the business will require to continue its operational operations. The management's judgment about the firm's usage of funds will be influenced by its bigger size in order to maximize the worth of the company (Khoiriyah, 2017). From this explanation, it is hypothesized that H1, namely the Size of the Company has a positive effect on the value of the company.

According to the trade-off theory, businesses that use debt to a certain extent are valued more highly than those that do not, but companies that continuously increase debt indefinitely will increase the company's risk, a higher level of debt will, therefore, boost the company's worth to some extent. From this explanation, it is hypothesized that H2, namely The value of the company is positively impacted by the Capital Structure.

According to the Bird in the Hand Theory, investors favor dividends over capital gains because dividend yields are viewed as being more reliable and secure, besides that high dividends will influence investors' decision to make investments in the business in order to raise its value. The dividend policy that the firm management decides must be more carefully considered because it will impact the company's future value (Yuniningsih et al., 2019). From this explanation, it is hypothesized that H3, namely Firm value is positively influenced by dividend policy.

The size of the company contributes to the value of the company from its profitability. Large companies in general can expand the market and have a greater opportunity to make a profit and show success in developing their business so that the company has investors who are interested in investing. Because the business prospects are so promising and the company's stock price is increasing, the growth in company profits also increases the company's value (Octaviany et al., 2020). From this explanation, it is hypothesized that H4 is that Profitability mediates the influence of Company Size on company value.

In other words, cost savings and tax deductions outweigh the interest costs generated by the loans. Benefits coming from the existence of debts surpass the sacrifices made by the firm from the debts issued. The company's profitability will rise as a result of the increased debt since it will result in more net income. The company's strong profitability will serve as a favorable indicator for potential investors and shareholders, increasing their interest and the demand for the company's shares. A rise in share demand will drive up stock prices and boost the company's value (Dinata & Krisnando, 2020). From this explanation, it is hypothesized that H5, namely The impact of the capital structure on the company's value is moderated by profitability.

The Bird in the Hand Theory states that the prediction of future profit growth is influenced by the size of the dividend payout ratio. Investors will be drawn to investing in companies with high dividend rates and will maximize the performance of companies that have the potential to generate more profits. High profits also signal that a company's prospects are favorable, which can prompt investors to increase stock demand. The value of the firm rises as a result of the increasing demand for stocks. From this explanation, it is hypothesized that H6, namely Profitability, mediates the effect of the Dividend Policy on company value.

## V. RESEARCH METHODOLOGY

Quantitative research techniques were used in this study. The research site is the Indonesia Stock Exchange (IDX), which may be accessed at [www.idx.co.id](http://www.idx.co.id), the Indonesia stock exchange's official website, to obtain information on the financial statements of the firm. Companies that are part of the LQ-45 index and are listed on the Indonesian stock exchange comprise the population considered in this study (IDX), namely there are 63 companies for the period 2018 to 2021. Sampling using purposive sampling technique sampling method based on criteria, from a total population of 63 companies only 28 companies employed as study samples since they satisfied the criteria. Data type is quantitative data. This study's data came from a secondary data source. Data collected from an existing source that is considered a secondary data source, already collected, and processed form by another party.

A non-participant observational approach, which involves observing while acting only as an independent observer, was used to obtain data for this study. Furthermore, Library Research (Literature Study) is by studying theories, concepts from various literature and research pertaining to the issue being studied. The data analysis techniques used are descriptive statistics, classical assumption tests (normality test, multicollinearity test, autocorrelation test, and heteroskedasticity test), multiple linear regression analysis (t-test), and path analysis with the IBM SPSS Statistics program with 2 equations as follows:

$$\text{Equation 1 : } Z = P_{Z.X_1} X_1 + P_{Z.X_2} X_2 + P_{Z.X_3} X_3 + P_Z \epsilon$$

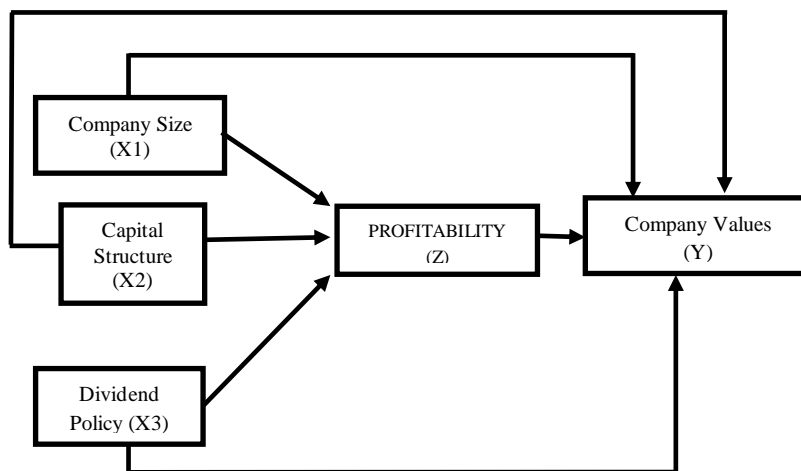
$$\text{Equation 2 : } Y = P_{Y.X_1} X_1 + P_{Y.X_2} X_2 + P_{Y.X_3} X_3 + P_{YZ} Z + P_Y \epsilon$$

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## Description

- Y : Company Values
- $P_{YX_1}$  : Variable path coefficient  $X_1$  to Y
- $X_1$  : Company Size
- $P_{YX_2}$  : Variable path coefficient  $X_2$  to Y
- $X_2$  : Capital Structure
- $P_{YX_3}$  : Variable path coefficient  $X_3$  to Y
- $X_3$  : Dividend Policy
- $P_{YZ}$  : Variable path coefficient Z to Y
- $P_{Y\epsilon}$  : Error Standard path coefficient Y
- Z : Profitability
- $P_{ZX_1}$  : Variable path coefficient  $X_1$  to Z
- $P_{ZX_2}$  : Variable path coefficient  $X_2$  to Z
- $P_{ZX_3}$  : Variable path coefficient  $X_3$  to Z
- $P_{Z\epsilon}$  : Error Standard path coefficient Z

## VI. CONCEPTUAL MODEL



## VII. DATA ANALYSIS RESULTS AND DISCUSSION

Normality test results using the Kolmogorov-Smirnov test obtained the results of the analysis that the value of Asymp. Sig (2-tailed) i.e. 0.69 greater than  $\alpha = 0.05$  (5%) meaning Non-Significant. Thus the research variables have a normal distribution, so it can be concluded that all these data meet the assumption of normal distribution.

**Table 2. Test the Classical Assumptions of Equation 1**

Variable	Collinearity Statistics		Unstandardized Residual (Sig. 2-tailed)	Durbin-Watson
	Tolerance	VIF		
LnTA	0,981	1,019	0,088	1,732
DAR	0,985	1,015	0,462	
DPR	0,989	1,011	0,789	

**Predictors:** (Constant), DPR, DAR, LnTA

Dependent Variable : ROA

The results of the analysis stated that this study showed in equation 1 the absence of symptoms of multicollinearity in all free variables where the VIF value on all variables is smaller than 10 and the Tolerance value is greater than 0.01. And the results of the analysis show that the correlation value between the free variable in equation 1 and the residual, namely in the variables Company Size, Capital Structure and Dividend Policy does not have a significant correlation with the residual because the sig

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value (2-tailed) is greater than 0.05, so the results of this analysis can be concluded that the regression model in equation 1 does not occur Heteroskedasticity. Furthermore, the results of the analysis showed the result that Durbin Watson's value was 1.732. Durbin Watson Table values with data count  $N = 87$  and Number of Independent Variables ( $K$ ) = 3 and  $\alpha = 0.05$  are  $dL = 1.5808$  and  $dU = 1.7232$  and value  $4 - dU = 4 - 1.7232 = 2.2768$  Because the value of  $dw = 1.732 > dU = 1.7232$  and  $dw = 1.732 < 4 - dU = 2.2768$ . Thus no autocorrelation occurs.

**Table 3. Test of Classical Assumptions of Equation 2**

Variable	Collinearity Statistics		Unstandardized Residual (Sig. 2-tailed)	Durbin-Watson
	Tolerance	VIF		
LnTA	0,913	1,095	0,937	2,224
DAR	0,964	1,038	0,266	
DPR	0,934	1,071	0,908	
ROA	0,869	1,151	0,888	

Predictors: (Constant), ROA, DPR, DAR, LnTA

Dependent Variable : TOBINS'Q

The results of the analysis stated that this study showed in equation 2 the absence of symptoms of multicollinearity in all free variables where the VIF value on all variables is smaller than 10 and the Tolerance value is greater than 0.01. And The analysis's findings indicate that the correlation value between the free variable in equation 2 and the residual, namely in the variables Company Size, Capital Structure, Dividend Policy and Profitability does not have a significant correlation with the residual because the Sig value (2-tailed) is greater than 0.05, so the results of this analysis It be deduced that equation 2's regression model does not occur Heteroskedasticity. Furthermore, the results of the analysis showed the result that Durbin Watson's value was 2.224. The value of Durbin Watson Table with the sum of data  $N = 87$  and Number of Independent Variables ( $K$ ) = 4 and  $\alpha = 0.05$  is  $dL = 1.5567$  and  $dU = 1.7485$  and the value of  $4 - dU = 4 - 1.7485 = 2.2515$  Because the value of  $dw = 2.224 > dU = 1.7485$  and  $dw = 2.224 < 4 - dU = 2.2515$ , thus no autocorrelation occurs.

**Table 4. T Test Results Equation 1**

### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	19.320	5.667		3.409	.001		
	LnTA	-.441	.177	-.257	-2.487	.015	.981	1.019
	DAR	-.048	.036	-.141	-1.365	.176	.985	1.015
	DPR	.058	.026	.228	2.220	.029	.989	1.011

a. Dependent Variable: ROA

Based on table 4 shows that the size of the company negatively affects profitability, sig. 0.015 is less than the value of 0.05 (5%) and the path coefficient is -0.257 while Profitability is not significantly impacted by the capital structure, with sig. 0.176 is greater than the value of 0.05 (5%) and the path coefficient of -0.141 furthermore Profitability is significantly affected by the dividend strategy, with sig. 0.029 is less than the value of 0.05 (5%) and the path coefficient is 0.228.

**Table 5. T Test Results Equation 2**

### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-.216	.719		-.301	.764		
	LnTA	.050	.022	.198	2.272	.026	.913	1.095
	DAR	-.011	.004	-.218	-2.563	.012	.964	1.038
	DPR	-.001	.003	-.027	-.316	.753	.934	1.071
	ROA	.089	.013	.614	6.860	.000	.869	1.151

a. Dependent Variable: TOBIN'S Q

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Based on table 5 shows that The worth of the company is significantly influenced favorably by the size of the business, with sig. 0.026 is less than the value of 0.05 (5%) and the path coefficient is 0.198 while The company's worth is significantly impacted negatively by the capital structure, with sig. 0.012 is less than the value of 0.05 (5%) and the path coefficient is -0.218, furthermore, the dividend policy has a non-significant effect on the value of the company, with sig. 0.753 is greater than the value of 0.05 (5%) and the path coefficient of -0.027 and A company's value is significantly increased by profitability, with a sig. 0.000 is less than the value of 0.05 (5%) and the path coefficient is 0.614.

**Table 6. Direct and Indirect Influences**

	Coefficient	Sig.	Result
<b>Direct Influence:</b>			
Company Size → Company Values	0,198	0,026	H <sub>0</sub> Accepted
Capital Structure → Company Values	-0,218	0,012	H <sub>0</sub> Accepted
Dividend Policy → Company Values	-0,027	0,753	H <sub>0</sub> Rejected
Profitability → Company Values	0,614	0,000	
Company Size → Profitability	-0,257	0,015	
Capital Structure → Profitability	-0,141	0,176	
Dividend Policy → Profitability	0,228	0,029	
<b>Indirect Influences:</b>			
Company Size → Profitability → Company Values	$(-0,257) \times (0,614) = -0,158$	0,019	H <sub>0</sub> Accepted
Capital Structure → Profitability → Company Values	$(-0,141) \times (0,614) = -0,086$	0,190	H <sub>0</sub> Rejected
Dividend Policy → Profitability → Company Values	$(0,228) \times (0,614) = 0,139$	0,033	H <sub>0</sub> Accepted

Based on table 5 demonstrates that the impact of firm size on company value is mediated by profitability, by obtaining significant value data of 0.019 smaller than 0.05 (5%) and an indirect influence coefficient of -0.158 subsequently profitability does not affect how The company's value is impacted by the capital structure, by obtaining significant value data of 0.190 greater than 0.05 (5%) and indirect influence coefficient of -0.086 and Profitability mediates the impact of the dividend policy on the company's value, by obtaining significant value data of 0.033 smaller than 0.05 (5%) and an indirect influence coefficient of 0.139.

### The Effect of Company Size on Company Value

The results showed that the size of the company had a significant positive effect on the Company's Value by obtaining data on the value of the direct influence coefficient of 0.198. On significance, the value obtained a result of 0.026. The results of this study can be interpreted as a positive number contained in the t-count which indicates that the bigger a company, The worth of the company will increase, and vice versa.

A large firm will imply that it has stronger control over market circumstances, and in this research, the size of the company is determined by the natural logarithm of total assets. Boosting total assets every year is the company's step in increasing company value, so that the company can face economic competition which makes the company less vulnerable to economic fluctuations.

### The Effect of Capital Structure on Company Value

The data on a direct effect coefficient value of -0.218 on a significance value of 0.012 revealed that the Company's Capital Structure had a substantial negative impact on Firm Value. The results of this study can be interpreted as a negative number contained in the t-count which indicates that the greater the debt of a company, the smaller the company's value and vice versa.

The comparison of debt to total assets is used in this study to determine the capital structure. The higher the value of the comparison of debt to total assets, the higher the risk borne by the company, as assets are one of the indicators that investors use to determine whether the company can pay its debts or not. The likelihood that the firm will be able to repay its debts with its total assets is decreasing as the DAR ratio rises, which would discourage investors from investing and lower the company's value.

### The Effect of Dividend Policy on Company Value

The findings revealed that the dividend policy of the company had no discernible impact on firm value by obtaining a coefficient value of -0.027 at a significance value of 0.753. According to the study's findings, a company's dividend payout will not have an impact on its market value.

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Because dividend yields are viewed by investors as more certain and secure than capital gains, they prefer to invest in companies that pay high dividends. However, paying high dividends will also lower the company's operating costs, which will limit its ability to perform optimally and cause its value to fall. Because of this, the dividend policy has no impact on the company's worth.

### The Effect of Company Size on Company Value Through Profitability

The findings demonstrated that profitability moderate the connection between firm value and company size by obtaining a significance value of 0.019 less than 0.05 (5%) and an indirect effect coefficient of -0.158. Large companies have larger resources than small companies, these resources can maximize company operations so that It will impact the company's profitability and expansion. Increased profitability is one of the factors that investors look for when deciding whether to invest in a company, and indirectly, via profitability, the size of the firm will raise its worth.

### The Effect of Capital Structure on Company Value Through Profitability

The findings demonstrated that, using the data at hand, profitability was unable to mediate the link between capital structure factors and company value with a significance value of 0.190 greater than 0.05 (5%) and an indirect effect coefficient of -0.086. Debt to a certain extent will generate profits because with this debt the company has more sources of funding for its operations so that it will increase profitability and is viewed favorably by investors, but with the continued increase in debt so that interest is greater than profit will actually reduce profitability and will be viewed badly by investors resulting in the value of the company. The uncertainty indicates that profitability cannot mediate the relationship between capital structure and firm value.

### The Effect of Dividend Policy on Company Value Through Profitability

The results showed that profitability was able to mediate the relationship between dividend policy variables and firm value by obtaining a significance value of 0.033 less than 0.05 (5%) and an indirect effect coefficient of 0.139. A high dividend policy will be viewed as good performance by investors and potential investors because it can provide welfare for shareholders so that investors want to invest in the company. The capital that a company gets from the sale of its shares can maximize its performance and get greater profits than before, increasing profits in a company will increase its value of the company.

## VIII. CONCLUSIONS

The worth of the Company is influenced by its size. This identifies that the larger a company is, it is seen as good by investors so the value of the company will be high. The value of the corporation is influenced by the capital structure. This shows that investors view high corporate debt as dangerous, which will cause them not to be interested in investing in it and cause the company's value to fall. The dividend policy does not raise the company's worth. This shows that the amount of the dividend paid by the corporation has no bearing on the rise and fall of a stock's value. Company Size through Profitability can contribute to Company Value. Profitability through capital structure does not increase the company's value. Dividend Policy through Profitability contributes to the Company's Value.

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