



# The Influence of Capital Structure, Profitability, and Dividend Policy on Firm Value in the LQ45 Index from 2017–2021

Chyntya Permata Nurutami Nandalena and Zulfa Irawati<sup>(✉)</sup>

Department of Economics and Business, Universitas Muhammadiyah Surakarta, Surakarta, Indonesia

[Zulfa.irawati@ums.ac.id](mailto:Zulfa.irawati@ums.ac.id)

**Abstract.** The purpose of this study is to analyze the effect of Capital Structure, Profitability, and Dividend Policy on Firm Value. The method used in this study is quantitative with panel data regression data analysis techniques. The population of this study is all companies listed on the LQ45 index of the Indonesia Stock Exchange in 2017–2021. The sample was selected using the purposive sampling method in order to obtain a sample of 13 companies. The results showed that the simultaneous Capital structure, Profitability, and Dividend Policy significantly influence the value of LQ45 companies. Partially, capital structure has a negative and significant effect on firm value, profitability has a positive and significant effect on firm value, and dividend policy has no significant effect on firm value. This research measures the influence of Capital structure, Profitability and Dividend Policy on Firm Value, in order to find a consistent finding that has not been obtained yet in previous research. This research also attempted to find out whether the use of the same variables at different times and samples led to different results.

**Keywords:** Capital Structure · Profitability · Dividend Policy · Firm Value

## 1 Introduction

The industrial era 4.0 has increased business competitiveness as a result of globalization and technological advances that have encouraged businesses to be flexible and innovative. To maintain its survival, the company needs to achieve maximum profitability. One of the company's goals is to maximize company value (Nugroho & Halik, 2021). Firm value is an impression of a company's level of success by an investor (Siregar & Dalimunthe, 2019). Therefore, an increase in the value of the company encourages investors to invest in it. Businesses with high corporate value are considered profitable for shareholders. Because, increasing share prices will increase company value and shareholder wealth (Safitri et al., 2022). In order to achieve a good and maximum company value, an appropriate debt-to-equity ratio is required. Business financial performance can be improved and costs can be reduced with a healthy financing mix. If a business goes well, it is hoped that it can increase profits or profits so that it can then pay dividends to shareholders. A prosperous business has a Price to Book Value (PBV) ratio greater than

one which indicates that the stock price is higher than the book value of the company. The market will increasingly trust companies that have a higher PBV (Martha et al., 2018).

The company's capital structure is one of the elements that affect its value. The ratio or comparison between the amount of long-term debt and own capital is known as the capital structure. Every business needs capital, both for operational funds and business expansion funds. The definition of capital is divided into two groups, namely abstract capital, and concrete capital. Concrete capital is located on the right or debit side which describes where the company's investment is made and abstract capital is located on the left or credit side which describes the sources from which funds were obtained (Riyanto, 2001). Sources of funds can be obtained from internal company sources (retained earnings, equity) and foreign sources, or called foreign capital which is usually in the form of debt (Siregar & Dalimunthe, 2019).

Purwanti, (2020) defines Capital Structure as the proportion of financing provided by corporate debt. The debt-to-equity ratio (DER) can be used to measure capital structure. Debt to equity ratio is a financial ratio that calculates how much a company can pay or pay off its debts from its capital. According to Amanda, et al. (2012: 2) a company with a high debt-to-equity ratio (DER) is heavily reliant on outside funding to grow its business (Fitriana, 2021). Modigliani & Miller (1963) explained that by considering the tax element, adding debt in the proportion of the company's Capital Structure will increase Firm Value (Kusumawati & Rosady, 2018) the use of debt at a certain level in the Capital Structure as a source of funding can increase profitability and company value. This is in line with the research by Fitriana, (2021), Purwanti, (2020), and Kusumawati & Rosady, (2018) which state that capital structure has a positive effect on firm value. However, companies must be able to optimize the use of debt in order to maximize company performance, if the amount of company debt is too large or exceeds the specified limit, the value of the company will decrease. This is in line with the research by Siregar & Dalimunthe, (2019) and Merciana, (2020) stating that Capital Structure has a negative effect on Firm Value. Meanwhile, the research by Utomo & Christy, (2017) which is supported by the research by Irawan & Kusuma, (2019) states that Capital Structure does not affect Firm Value. Based on the explanation of previous research, the hypothesis that can be formulated is

$H_1$ : Capital Structure Has a Positive Effect on Firm Value in the LQ45 index from 2017–2021.

Other corporate objectives can be separated into two categories. The company's short-term goal is to increase business profits; the long-term goal is to prosper the owner or shareholder. Profitability is another factor that affects company value. High debt must be balanced with high profitability for the business. High company profitability encourages investors to invest. According to Riyanto (2001), profitability refers to a company's capacity to produce profits over a specific time frame. Profitability is a measure of management's effectiveness in overseeing the wealth of a firm in the form of profits created, as well as one way to determine precisely the level of returns to be attained from investment operations (Purwanti, 2020). Because high profitability indicates whether the business has better prospects in the future and indicates positive business prospects, every business will always strive to increase profitability.

The capacity of an organization to generate sufficient net profit to return shareholder equity is indicated by the Return on equity (ROE). Companies perform better when their ROE results are higher, it shows that the company is highly profitable. According to Hutomo et al., (2020), a high ROE level can encourage investors to put their money in or invest in the company. This is a positive signal and can increase the value of the company. In accordance with the results of previous studies by Safitri et al., (2022), Purwanti, (2020), Siregar & Dalimunthe, (2019), Martha et al., (2018) and Utomo & Christy, (2017) which shows that profitability increases firm value significantly. Whereas according to Mercayana (2020) profitability has a negative impact on company value, because companies with high profitability typically use these profits for retained earnings rather than dividend distribution to shareholders. Based on the explanation of previous research, the hypothesis that can be formulated is

H<sub>2</sub>: Profitability has a positive effect on company value in the LQ45 index from 2017–2021.

High-profit businesses will pay dividends to their shareholders (Martha et al., 2018). A decision about how much dividend should be given to shareholders is called a dividend policy. Dividend policy is an important factor affecting business value (Siregar & Dalimunthe, 2019). According to Lease et al., (2000:29) in Gumanti (2013:7) Dividend Policy can be interpreted as the practice that management follows in making dividend payout decisions or, in other words, The dividend policy, or the size and pattern of cash distributions to shareholders over time, is the policy that determines whether a company's profits, which are usually included in Earning After Tax (EAT), will be distributed to shareholders as dividends or retained as retained earnings. The dividend payout ratio is measured through the DPR (Dividend Payout Ratio), which is a ratio that shows the percentage of each profit that is distributed to shareholders in cash (Purwanti, 2020).

Investors prefer a certain return on their investment, so that the distribution of company dividends is seen as a signal to invest. Investors will be more inclined to put their money in dividend-paying businesses. The value of the company will increase due to an increase in the number of investors buying shares (Fitriana, 2021). This is in line with the findings of Hauser & Thornton, (2017), Fitriana (2021), and Dang et al., (2021) which explain that dividend policy increases company value significantly. However, according to the findings of Ilhamsyah & Soekotjo, (2017) and Martha et al., (2018), dividend policy has a negative effect on firm value. The higher the dividend, the more it can reduce the amount of retained earnings which in turn will inhibit the growth rate of profits and stock prices. According to the client effect theory popularized by Miller and Modigliani (1961), different clients will receive different amounts of dividends (Gumanti, 2013: 8). The research results of Purwanti (2020), Siregar and Dalimunthe, (2019), Safitri, et al (2022) and Sukmawardini and Ardiansari, (2018) state that dividend policy has no effect on firm value, because the company's ability to generate profits is not the main consideration for investors. Buy stock. This might happen if investors only want short-term profits, such as capital gains. This result is also in line with the tax theory by Miller and Scholes' (1978) tax theory, which demonstrates that an investor might be able to save taxes if the individual in question reinvests the tax into tax-free life insurance. Based on the explanation of previous research, the hypothesis that can be formulated is

H<sub>3</sub>: Dividend Policy Has a Positive Effect on Firm Value in the LQ45 index from 2017–2021.

An increase in company value encourages investors to invest in the business. Businesses with high corporate value are considered profitable for shareholders. Therefore, the higher the stock price, the greater the value of the company and the wealth of its shareholders (Safitri et al, 2022). A company will be considered a blue-chip, or a company with a national reputation for quality, ability, and dependability to operate profitably in a variety of economic situations if its stock trading performance over time exhibits real and excellent financial consistency. The LQ45 index is used to track stocks in Indonesia that are included in the blue-chip category. The index named LQ45 shares measures the price performance of 45 stocks that are supported by strong corporate fundamentals and have a large market capitalization and high liquidity. The 45 issuers in the LQ45 index were selected based on predetermined criteria. Based on the differences in the results of previous studies, this prompted researchers to conduct additional research on the factors that influence firm value, particularly including capital structure, profitability, and dividend policy. Therefore, the purpose of this research is to analyze the effect of Capital Structure, Profitability, and Dividend Policy on Firm Value. The main distinction between this study and earlier studies is the use of different data, particularly the companies indexed by LQ 45 in 2017–2021 utilizing the panel data approach to provide reliable and pertinent information. The findings of this study will be important for stakeholders, especially for investors and potential investors as a consideration in making investment decisions in a company.

## 2 Method

This research is a quantitative study using secondary data in the form of panel data sourced from the annual report of LQ45 companies listed on the Indonesia Stock Exchange for the 2017–2021 period. The sample selection was carried out using a purposive sampling method with the following criteria: 1) LQ45 companies registered on the IDX and reporting their financial statements for 2017–2021. 2) the company has never left the LQ45 category during 2017–2021. 3) LQ45 companies reporting their financial statements for 2017–2021 in the rupiah currency. 4) LQ45 companies that always get profit during 2017–2021. 5) LQ45 company which always distributes dividends during 2017–2021. 6) LQ45 non-financial institution companies during 2017–2021. Based on these criteria, the following samples were obtained (Table 1).

The definition of operation and measurement of variables is shown in Table 2.

Data analysis was carried out using the panel data regression model because the observation data is in the form of panel data consisting of several different companies (cross section) and within five years (time series). The measurement tool used for analysis is *Eviews 9.0* software. The tool is used to process descriptive statistics, panel data regression, and classical assumption tests.

**Table 1.** Research Samples

No	Kode	Nama Emiten
1.	AKRA	AKR Corporindo Tbk
2.	ANTM	ANTAM Tbk.
3.	ASII	Astra International Tbk.
4.	HMSP	H.M. Sampoerna Tbk.
5.	ICBP	Indofood CBP Sukses Makmur Tbk.
6.	INDF	Indofood Sukses Makmur Tbk.
7.	INTP	Indocement Tunggal Prakarsa Tbk.
8.	KLBF	Kalbe Farma Tbk.
9.	PTBA	Bukit Asam Tbk.
10.	SMGR	Semen Indonesia (Persero) Tbk.
11.	TLKM	Telkom Indonesia (Persero) Tbk.
12.	UNTR	United Tractors Tbk.
13.	UNVR	Unilever Indonesia Tbk.

**Table 2.** Variable Measurement

Variable	Definition	Indicator	Source
Firm Value	Firm value is defined as market value. Value can be measured by price to book value (PBV), which is the comparison between stock price and book value per share.	$PBV = \frac{\text{Market price per share}}{\text{Book value per share}}$	Brigham dan Gapenski, (2006)
Capital Structure	Capital Structure is the balance or comparison between the amount of long-term debt and equity	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$	Riyanto (2001)
Profitability	Profitability is the ability of a company to generate profits during a certain period	$ROE = \frac{\text{Net income or EAT}}{\text{Average total equity}}$	Riyanto (2001)
Dividend Policy	Dividend Policy is a decision whether the profits obtained by the company will be distributed to shareholders, or will be retained to fund future investments	$DPR = \frac{\text{Dividend per share}}{\text{Earnings per share}}$	Purwanti (2020)

### 3 Results and Discussion

#### 3.1 Descriptive Statistics

Descriptive analysis were performed to describe the observations (N), sample mean (mean), median, maximum value (max), minimum value (min), and standard deviation ( $\sigma$ ) for each variable (lidya). In this study, the results of the descriptive analysis are presented in Table 3.

Table 3 shows the descriptive numbers for each variable. It is known that the amount of data on each variable is 65, this number comes from a sample of 23 companies listed on the LQ45 Index of the Indonesia Stock Exchange (IDX) for 2017–2021. The interpretation of the descriptive analysis is as follows:

- It can be seen that PBV has a minimum value of  $-0,444636$  and a maximum value of  $4.412124$ . These results show that the PBV of the LQ45 companies sampled in this study ranged from  $-0.444636$  to  $4.412124$  with an average value of  $1.126566$  at a standard deviation of  $1.064383$ . This means that the standard deviation from the average firm value is  $1.064383$ .
- it can be seen that DER has a minimum value of  $0.149225$  and a maximum value of  $7.018089$ . These results show that the PBV of the LQ45 companies sampled in this study ranged from  $0.149225$  to  $7.018089$  with an average value of  $0.926815$  at a standard deviation of  $1.008114$ . This means that the standard deviation from the average value of the capital structure is  $1.008114$ .
- it can be seen that ROE has a minimum value of  $0.007382$  and a maximum value of  $1.450882$ . These results show that the PBV of the LQ45 companies sampled in this study ranged from  $0.007382$  to  $1.450882$  with an average value of  $0.264062$  at a standard deviation of  $0.352038$ . This means that the standard deviation from the average profitability value is  $0.352038$ .
- it can be seen that the DPR has a minimum value of  $0.100883$  and a maximum value of  $1.766831$ . These results show that the PBV of the LQ45 companies sampled in this study ranged from  $0.100883$  to  $1.766831$  with an average value of  $0.581140$  at a standard deviation of  $0.350066$ . This means that the standard deviation from the average value of the dividend policy is  $0.350066$ .

**Table 3.** Descriptive Statistical Test Results

	<b>LnPBV</b>	<b>DER</b>	<b>ROE</b>	<b>DPR</b>
<b>Mean</b>	1.126566	0.926815	0.264062	0.581140
<b>Median</b>	0.892929	0.730452	0.147733	0.468814
<b>Maximum</b>	4.412124	7.018089	1.450882	1.766831
<b>Minimum</b>	$-0.444636$	0.149225	0.007382	0.100883
<b>Std. Dev.</b>	1,064383	1.008114	0.352038	0.350066
<b>Observations</b>	65	65	65	65

Source: Results of processing using *Eviews 9.0*

### 3.2 Classical Assumption

#### Normality Test

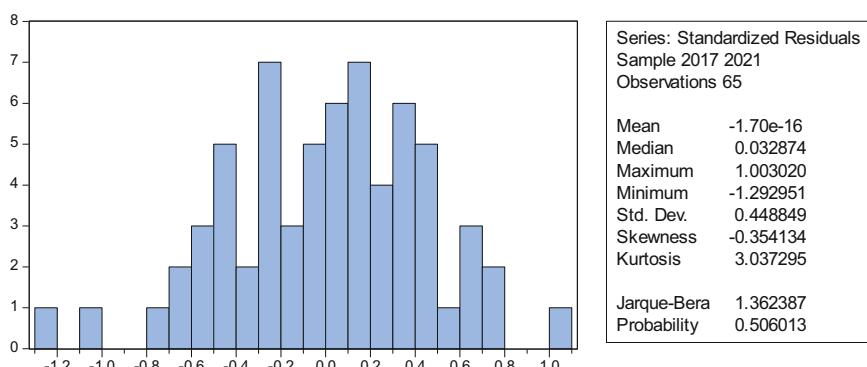
The regression model is said to be good when the data is normally distributed. The normality test in this study used the Jarque-Bera (JB) normality test. If the probability  $\text{Jarque-Bera} > 0.05$  then the data is normally distributed, otherwise if the probability  $\text{Jarque-Bera} < 0.05$  then the data is not normally distributed (Ghozali, 2017: 145).

Figure 1 shows the Jarque-Bera value of 1.3624 with a Jarque-Bera probability of 0.5060 where the magnitude of alpha is 0.05 ( $>0.05$ ) so that it can be concluded that the data is normally distributed.

#### Multicollinearity Test

According to Ghozali (2012: 77), the multicollinearity test aims to test whether the regression found a high or perfect correlation between the independent variables. If the correlation value is above 0.80, it is suspected that there is multicollinearity in the model. Meanwhile, if the coefficient is below 0.80, it is suspected that multicollinearity does not occur in the model.

Based on Table 4 it can be seen if the correlation value between DER and ROE is 0.750634. The correlation value between DER and DPR is  $-0.033996$  and the correlation



**Fig. 1.** Normality Test Results. Source: Results of processing using *Eviews 9.0*

**Table 4.** Multicollinearity Test Results

	<b>DER</b>	<b>ROE</b>	<b>DPR</b>
<b>DER</b>	1.000000	0.750634	$-0.033996$
<b>ROE</b>	0.750634	1.000000	0.350131
<b>DPR</b>	$-0.033996$	0.350131	1.000000

Source: Results of processing using *Eviews 9.0*

**Table 5.** Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
<b>C</b>	0.352317	0.088078	4.000057	0.0002
<b>DER</b>	-0.081280	0.055268	-1.470661	0.1465
<b>ROE</b>	0.291705	0.198860	1.466886	0.1475
<b>EPS</b>	0.011367	0.130061	0.087399	0.9306

Source: Results of processing using *Eviews 9.0*

value between ROE and DPR is 0.350131. So it can be seen that all data is less than 0.80 ( $<0.80$ ). So it can be concluded that there is no multicollinearity problem.

### Heteroscedasticity Test

According to Ghazali (2017) the heteroscedasticity test is used to determine whether or not there is a deviation from the classical assumption of heteroscedasticity, that is, there is an inequality of variance from the residuals for all observations in the regression model. To find out whether there is heteroscedasticity in a model, the Glesjer test can be used with the rule that if the probability value of each variable obtained from the calculation results is greater than  $\alpha = 0.05$  then the regression model is free from symptoms of heteroscedasticity.

Based on Table 5 of the results of the heteroscedasticity test using the Glesjer test, we can see that there is no heteroscedasticity problem. This is because the probability value of each independent variable is greater than 0.05 ( $>0.05$ ).

### 3.3 Panel Data Regression Model Selection

#### Chow Test

The Chow test is used to determine the Common Effect Model or Fixed Effect Model to be used during panel data regression (Widarjono, 2018).

**Table 6.** Chow Test Results

#### Redundant Fixed Effects Tests

##### Equation: FEM

##### Test cross-section fixed effects

Effect Test	Statistic	d.f.	Prob.
<b>Cross-section F</b>	4.879520	(12.49)	0.0000
<b>Cross-section Chi-square</b>	51.101371	12	0.0000

Source: Results of processing using *Eviews 9.0*

**Table 7.** Hausman Test Results**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	7.083488		3	0.0693

Source: Results of processing using *Eviews 9.0*

**Table 8.** Lagrange Multiplier Test Results

		Test Hypothesis	
	Cross-section	Time	Both
Breusch-Pagan	14.10181	0.686724	14.78854
	(0.0002)	(0.4073)	(0.0001)

Source: Results of processing using *Eviews 9.0*

Based on Table 6, it is known that the probability value is 0.0000. This means less than 0.05 ( $0.0000 < 0.05$ ) then statistically  $H_a$  is accepted and  $H_0$  is rejected. So in this chow test, the model chosen is the Fixed Effect Model (FEM).

**Hausman Test**

The Hausman test is used to determine the right model between the Fixed Effect Model (FEM) and the Random Effect Model (REM).

The Chi-Square statistical distribution value based on Table 7 is 7.083488 with a probability value of 0.0693. This means that if it is less than 0.05 ( $0.0693 > 0.05$ ) then statistically  $H_0$  is accepted and  $H_a$  is rejected. So in this Hausman test, the model chosen is the random effect model (REM) (Widarjono, 2018).

**Lagrange Multiplier Test**

The Lagrange Multiplier test is used to determine the right model between the Common Effect Model (CEM) and the Random Effect Model (REM) (Widarjono, 2018) (Table 8).

The results of the LM test above show that the LM value is 0.0001. So we can conclude that the value of  $0.0001 < \text{chi-square}$  ( $0.0001 < 0.05$ ), means that the most appropriate regression model used in this study is the random effect model.

**3.4 Panel Data Regression Analysis Results**

The panel data regression estimation model is carried out using three approaches, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Based on the results of the panel data regression model selection test that has been carried out, the best panel data regression model for this study is the Random

Effect Model (REM). This model will estimate panel data where the disturbance variables may be related to each other over time and between individuals (Widarjono, 2018).

The linear regression model has the weakness of the linear regression equation which is that it is very difficult to interpret the intercept coefficient, and if you are not careful it can result in an interpretation that does not match the actual conditions. To overcome the weaknesses of linear regression, especially for non-linear variables, it is necessary to change the functional form by transforming the data into a semi-log model or a log-log model. The Semi-Log model consists of two kinds of models, namely the Log-Lin and Lin-Log models. The Log-Lin model is a model formed because the dependent variable is transformed into a logarithmic form, while the independent variables are not transformed or remain in linear form (Nachrowi, 2006).

From Table 9, the panel data regression equation can be compiled as follows:

$$\begin{aligned} \ln PBV = & 0,5070 - 0,3817 DER \\ & + 3,6526 ROE + 0,015075 DPR + \varepsilon \end{aligned}$$

Based on these equations, it can be described as follows:

**Table 9.** Panel Data Regression Test Results

Random Effect Model				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.507041	0.166991	3.036329	0.0035
DER	-0.381679	0.092281	-4.136071	0.0001
ROE	3.652593	0.394728	9.253447	0.0000
DPR	0.015075	0.240421	0.062705	0.9502
Effects Specification				
		S.D.	Rho	
Cross-section random		0.305161	0.4518	
Idiosyncratic random		0.336119	0.5482	
Weighted Statistics				
R-Squared	0.684340	Mean dependent var	0.497809	
Adjusted R-Squared	0.668816	S.D. dependent var	0.603293	
S.E. of regression	0.347187	Sum squared resid	7.352870	
F-statistic	44.08194	Durbin-Watson stat	1.134283	
Prob (F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.822170	Mean dependent var	1.126566	
Sum squared resid	12.89380	Durbin-Watson stat	0.646840	

Source: Results of processing using Eviews 9.0

- The value of the constant is positive, namely 3.589072, this indicates that if the variables Capital Structure, Profitability, and Dividend Policy are constant, then the Firm Value is 3.589072.
- The regression coefficient of the Capital Structure variable is negative, which is  $-0.3817$ . This shows that if the Capital Structure increases by 1 unit, it will reduce the Firm Value by 0.3817 assuming the other independent variables are constant.
- Profitability variable regression coefficient is positive, which is equal to 3.6526. This shows that if Profitability increases by 1 unit, the Firm Value will increase by 3.6526 assuming the other independent variables are constant.
- The regression coefficient of the dividend policy variable is positive, namely 0.015075. This shows that if the Dividend Policy increases by 1 unit, the Company Value will increase by 0.015075 assuming the other independent variables are constant.

### 3.5 Hypothesis Test

#### F Test

According to Putra (2017) Simultaneous tests using Eviews 9 can be seen in the estimation results of the selected model by looking at the probability of the F-statistic. Based on the test results in Table 9, it is known that the Prob (F-statistic) value is 0.0000. This shows that the value is smaller than the significance level ( $<0.05$ ). So that Ha is accepted and rejects H0. It can be concluded that Capital Structure, Profitability, and Dividend Policy simultaneously have a significant effect on Firm Value LQ45.

#### t Test

The t statistical test basically shows how far the influence of one explanatory or independent variable individually explains the variation of the dependent variable (Putra, 2017). Partial hypothesis testing aims to determine the effect and significance of each independent variable on the dependent variable. This test was carried out by t-test at a 95% confidence level. The provisions are as follows: 1) If the significance level is  $<5\%$ , then H0 is rejected, Ha is accepted 2) If the significance level is  $>5\%$ , then H0 is accepted, Ha is rejected (Widarjono, 2009).

From this test it is known that the t-statistic value on the Capital Structure variable is  $-4.136071$  and the ttable value is 1.98157 ( $4.136071 > 1.98157$ ) with a probability value of 0.0001 which means it is smaller than the significance level ( $0.0001 < 0.05$ ). So it can be concluded that Capital Structure (DER) has a significant negative effect on Firm Value (PBV).

In the Profitability variable (ROE) the results of the regression table show that the Profitability t-statistic (ROE) value is greater than ttable ( $9.253447 > 1.98969$ ). This is also confirmed by the probability value of the t-statistic which is smaller than the alpha value ( $0.0000 < 0.05$ ). This proves that Profitability has a positive and significant effect on firm value. In contrast to the independent variable Dividend Policy as measured by the DPR where the t-Statistic is  $0.062705 < 1.98969$  and the probability t-statistic is

( $0.9502 > 0.05$ ). This proves that the Dividend Policy has a positive and insignificant effect on the measured company value with PBV at 5% alpha.

### Coefficient of Determination Test

Analysis of the coefficient of determination was carried out to measure how much the independent variables are able to explain changes and their effects on the dependent variable. Based on the calculation for the Adjusted R-Squared value in Table 9, the number is 0.668816. This means that the ability of the variables Capital Structure, Profitability, and Dividend Policy to explain the variable company value is 66.88%. While the remaining 33.12% is influenced by other factors not examined in this study.

## 3.6 Discussion

### Effect of Capital Structure on Firm Value

Based on the results of the analysis, it can be seen that the significance value is  $0.0001 < 0.05$  and the coefficient is -0.3817, which means that Capital Structure has a significant negative effect on LQ45 Company Value listed on the Indonesia Stock Exchange (IDX) in 2017–2021. So from this study, the proposed hypothesis is rejected. The results of this study support research conducted by Siregar & Dalimunthe, (2019) and Meryana, (2020) which state that capital structure has a negative effect on firm value. This explains that the greater the Capital Structure (DER) owned by a company that is identified with a large debt value, the effect is on a decrease in Firm Value (PBV). The high DER value indicates that the company uses more sources of funds from outside parties. Continued addition of debt can increase the likelihood of experiencing financial distress. Because with debt, the company will continue to bear the interest expense. Corporate investors will certainly consider companies with lower DERs. The reason is that a low DER makes investment more protected from the potential decline in business for the company (Siregar & Dalimunthe, 2019). This is in line with the Pecking Order Theory which was first introduced by Donaldson in 1961. This theory explains why companies will determine the most preferred level of funding sources by taking into account the interests of shareholders (Hanafi, 2016). Debt that is too large can cause the company financial difficulties and when a company is unable to meet its obligations, it incurs bankruptcy costs or financial difficulties, resulting in an increase in agency costs and a decrease in corporate trust. If the company increases its debt, the company's financial risk will also increase (Meryana, 2020). So if the company has a large debt, it must be balanced with large profits as well.

### Effect of Profitability on Firm Value

Based on Table 9, the hypothesis is accepted because profitability as assessed by the ROE ratio has a probability value of 0.0000 ( $<0.05$ ) and a coefficient of 3.6526 which indicates that profitability increases firm value significantly. Thus, the higher the value of profitability (ROE), the higher the realized net profit and the higher the profit for shareholders, resulting in even higher corporate value. Companies with high ROE demonstrate their ability to use equity effectively (Sukmawardini & Ardiansari, 2018). Therefore, investors responded positively to this condition (Utomo & Christy, 2017). This study's findings

concur with Safitri et al., (2022), Purwanti, (2020), Siregar & Dalimunthe, (2019), Martha et al., (2018) and Utomo & Christy, (2017). Which state that Profitability has a positive effect on Firm Value. High profits will give an indication of good company prospects. The greater the profit generated, the more attractive it is for investors to buy shares. Rising stock prices can increase the value of the company. The results of this study are also in line with the theory of Husnan (2000) which states that better the company's profitability growth means that the company's prospects in the future are considered to be better, meaning that the company's value will also be assessed as getting better in the eyes of investors, because the higher the ROE value, the better company position or it can be interpreted that the greater the company's ability to cover the investment used.

### **The Effect of Dividend Policy on Firm Value**

Dividend Policy (DPR) has a coefficient of 0.015075 and significance value of 0.9502 ( $>0,05$ ). According to Purwanti (2020), Siregar & Dalimunthe (2019), Sukmawardini & Ardiansari (2018), and Utomo & Christy (2017), Dividend Policy has no significant effect on Company Value. However, contrary to signal theory, which argues that a high DPR can be a favorable indicator for investors to invest in their stocks, this is not the case. According to the findings of this study, DPR has no effect on firm value. Based on these findings, investors do not prioritize the company's ability to pay dividends when purchasing shares (Sukmawardini & Ardiansari, 2018), so the hypothesis is rejected. This is because the amount of retained earnings will decrease due to the high dividends paid. Retained earnings are profits that can be used for business purposes. Additional equity, which can be used to expand the business, will be created from any profit that is not distributed among shareholders (Kieso, 2002). The client effect theory argues that every investor has a different perspective on a company's dividend policy, and this finding is consistent with this. Investors who are only interested in short-term profits prefer businesses with high dividends. Conversely, investors who are interested in capital gains prefer when the company retains most of its net income or has a low dividend payout ratio. They hope that retained earnings can be reinvested into the company's capital, thereby allowing the business to grow and increase its value. This result is also relevant to the tax difference theory which states that the existence of a tax imposed on dividends and capital gains makes investors prefer capital gains over dividends so they can delay paying taxes (Gumanti, 2013: 55).

## **4 Conclusions and Suggestions**

### **4.1 Conclusions**

Based on the results of the research and discussion that have been described, the researcher can draw the following conclusions:

- 4.1.1. Capital Structure has a negative and significant effect on Firm Value proxied by PBV. Because the greater the Capital Structure (DER) owned by the company which is identified with a large debt value, the effect is a decrease in Company Value. A capital structure that is not optimal will provide a greater level of risk to the company.

- 4.1.2. Profitability proxied by ROE has a significant positive effect on firm value. A higher profit for a company is a positive signal for investors because it indicates a good prospect for the company.
- 4.1.3. Dividend Policy has no significant effect on Firm Value because the high dividends distributed will reduce the amount of retained earnings. In addition, not all investors tend to prefer returns from dividends, but some investors prefer returns from capital gains.

## 4.2 Limitations and Further

Research This study has several limitations. As for some of the limitations, namely:

- 4.2.1. The variables used to predict the effect on firm value in this study are only Capital Structure, Profitability, and Dividend Policy.
- 4.2.2. The total sample data only uses LQ45 within five years which fulfills purposive sampling.

## 4.3 Implications/Suggestions

This study has several suggestions, as for suggestions, namely:

- 4.3.1. In order for this research as reference material for those who will carry out further research on this topic. In order to be able to add research variables not only Capital Structure, Profitability, and Dividend Policy but you can also use other variables to find out what factors affect Firm Value.
- 4.3.2. The results of this study can provide information to investors and potential investors regarding the value of the company. The higher the value of the company, the better the viability of a company, so that it can be used as material for consideration before deciding to invest.

**Acknowledgement.** The author's thanks are dedicated to parents, siblings, friends, supervisors and all parties who have provided support and motivation to the author so that this article can be published.

## References

- Brigham, E.F. dan L.C. Gapenski. 2006. *Intermediate Financial Management. 7th edition. Sea harbor Drive: The Dryden Press*, New York
- Dang, H. N., Vu, V. T. T., Ngo, X. T., & Hoang, H. T. V. (2021). Impact of dividend policy on corporate value: Experiment in Vietnam. *International Journal of Finance and Economics*, 26(4), 5815–5825. <https://doi.org/10.1002/ijfe.2095>
- Fitriana, A. (2021). Analisis Pengaruh Struktur Modal, Kebijakan Dividen Terhadap Nilai Perusahaan. *Perwira Journal of Economics & Business*, 1(1), 55–65. <https://doi.org/10.54199/pjeb.v1i1.10>
- Ghozali, Imam. 2012. *Aplikasi Analisis Multivariante Dengan Program IBM SPSS 20, Edisi Enam*. Semarang: Universitas Diponegoro

- Ghozali, I. (2017). *Model Persamaan Struktural Konsep Dan Aplikasi Program AMOS 24*. Semarang: Badan Penerbit Universitas Diponegoro
- Gumanti, Tatang. 2013. *Kebijakan Dividen Teori, Empiris, dan Implikasi*, Edisi Pertama. Yogyakarta: UPP STIM YKPN
- Hanafi, Mamduh M. 2016. *Manajemen Keuangan*. Edisi kedua, Cetakan pertama. Yogyakarta: BPFE
- Hauser, R., & Thornton, J. H. (2017). Dividend policy and corporate valuation. *Managerial Finance*, 43(6), 663–678. <https://doi.org/10.1108/MF-05-2015-0157>
- Husnan, S. (2000). *Manajemen Keuangan Teori dan Penerapan Keputusan Jangka Panjang*. Yogyakarta: BPFE
- Hutomo, A., Marditama, T., Limakrisna, N., Sentosa, I., Lee, J., & Yew, K. (2020). *Green Human Resource Management, Customer Environmental Collaboration and the Enablers of Green Employee Empowerment: Enhanching an Environmental Performance*. 1(2), 358–372. <https://doi.org/10.38035/DIJEFA>
- Ilhamsyah, F. L., & Soekotjo, H. (2017). Pengaruh Kebijakan Dividen, Keputusan Investasi, dan Profitabilitas Terhadap Nilai Perusahaan. *Ilmu Dan Riset Manajemen Sekolah Tinggi Ilmu Ekonomi Indonesia (STIESA)*, 6(2), 4. <http://jurnalmahasiswa.stiesia.ac.id/index.php/jirm/article/download/720/730/>
- Irawan, D., & Kusuma, N. (2019). Pengaruh Struktur Modal Dan Ukuran Perusahaan Terhadap Nilai Perusahaan. *Jurnal AKTUAL*, 17(1), 66. <https://doi.org/10.47232/aktual.v17i1.34>
- Kusumawati, R., & Rosady, I. (2018). Pengaruh Struktur Modal dan Profitabilitas terhadap Nilai Perusahaan dengan Kepemilikan Manajerial sebagai Variabel Moderasi. *Jurnal Manajemen Bisnis*, 9(2), 147–160. <https://doi.org/10.18196/mb.9259>
- Kieso, Donald E., Jerry J. Weygandt, and Terry D. Warfield, 2002. Intermediate Accounting, Emil Salim Translation, Tenth Edition. Jakarta: Erlangga
- Martha, L., Sogiroh, N. U., Magdalena, M., Susanti, F., & Syafitri, Y. (2018). Profitabilitas Dan Kebijakan Dividen Terhadap Nilai Perusahaan. *Jurnal Benefita*, 3(2), 227. <https://doi.org/10.22216/jbe.v3i2.3493>
- Mercyana, C. ; H. ; K. D. (2020). Pengaruh Struktur Modal, Profitabilitas, Ukuran Perusahaan dan Likuiditas terhadap Nilai Perusahaan Infrastruktur yang Terdaftar di Bursa Efek Indonesia Periode 2016- 2020. *Jurnal Bisnis, Manajemen, Dan Keuangan*, 3(2), 101–113. <http://pub.unj.ac.id/index.php/jbmk/article/view/628>
- Nachrowi Djajal Nachrowi dan Hardius Usman, ( 2006) *Pendekatan Populer dan Praktis Ekonometrika untuk Analisis Ekonomi dan Keuangan*, Jakarta: Lembaga Penerbit Fakultas Ekonomi Universitas Indonesia
- Nugroho, M., & Halik, A. (2021). The Effect of Growth and Systematic Risk on the Firm's Value: Profitability as a Mediating Variable. *Journal of Economics, Business, & Accountancy Ventura*, 23(3), 466–476. <https://doi.org/10.14414/jebv.v23i3.2468>
- Purwanti, T. (2020). The Effect of Profitability, Capital Structure, Company Size, and Dividend Policy on Company Value on the Indonesia Stock Exchange. *International Journal of Seocology*, 01(02), 060–066. <https://doi.org/10.29040/seocology.v1i02.9>
- Putra, Z. Y. (2017). Pengaruh Arus Kas, Profitabilitas, dan Ukuran Perusahaan terhadap Kebijakan Utang. *Jurnal Ilmu dan Riset Akuntansi*, 6(3), 1126- 1147
- Riyanto, Bambang, 2001, Dasar-Dasar Pembelanjaan Perusahaan, Edisi Keempat, Cetakan Ketujuh, BPFE, Yogyakarta.
- Safitri, R., Lidyah, R., & Rachmania, R. (2022). Profitability, Good Corporate Governance, Dividend Policy, and Firm Value at ISSI. *Etikonomi*, 21(1), 139–152. <https://doi.org/10.15408/etk.v21i1.16524>
- Siregar, M. E. S., & Dalimunthe, S. (2019). *Pengaruh profitabilitas, ukuran perusahaan, kebijakan dividen dan struktur modal terhadap nilai perusahaan pada perusahaan manufaktur*

- yang terdaftar di Bursa Efek Indonesia periode 2015-2017. *Jurnal Riset Manajemen Sains Indonesia (JRMSI)*, 10(2), 356–385.
- Sukmawardini, D., & Ardiansari, A. (2018). The Influence of Institutional Ownership . Profitability .. *Management Analysis Journal*, 7(2), 212–222.
- Utomo, N. A., & Christy, N. N. A. (2017). Pengaruh Stuktur Modal, Profabilitas, Ukuran Perusahaan Terhadap Nilai Perusahaan pada Perusahaan LQ45 di Bursa Efek Indonesia. *Bingkai Manajemen*, 20, 398–415.
- Widarjono, A. (2018). *Ekonometrika Pengantar dan Aplikasinya Disertai Panduan Eviews Edisi Kelima*. Yogyakarta: UPP STIM YKPN

**Open Access** This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

