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The Effect of Profitability, Liquidity, and Company Size on Dividend Policy and Company Value (Case Study on Property and Real Estate Sector Companies listed on The Indonesia Stock Exchange for the 2015-2020 Period)

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Abstract: For investors, a company’s value is reflected through share price performance. Meanwhile, the company’s financial performance and the company’s dividend decisions are considered to have an impact on the company’s value. This study aims to analyze the effect of profitability, liquidity, and company size on dividend policy and company value. The population used in this study is property and real estate companies listed on the Indonesia Stock Exchange in 2015-2020 with a sample of 78. The sample method used is purposive sampling using the Structural Equation Model-Partial Least Square (SEM-PLS) analysis approach. The conclusion of this study is that liquidity and company size positively affect dividend policy, while profitability doesn’t have a significant effect on dividend policy. Meanwhile, company size has a positive effect on company value, while liquidity has a negative effect on company value. Profitability and dividend policy don’t have a significant effect on the company’s value.

Keyword: Profitability, Liquidity, Company Size, Dividend Policy, Company Value

INTRODUCTION

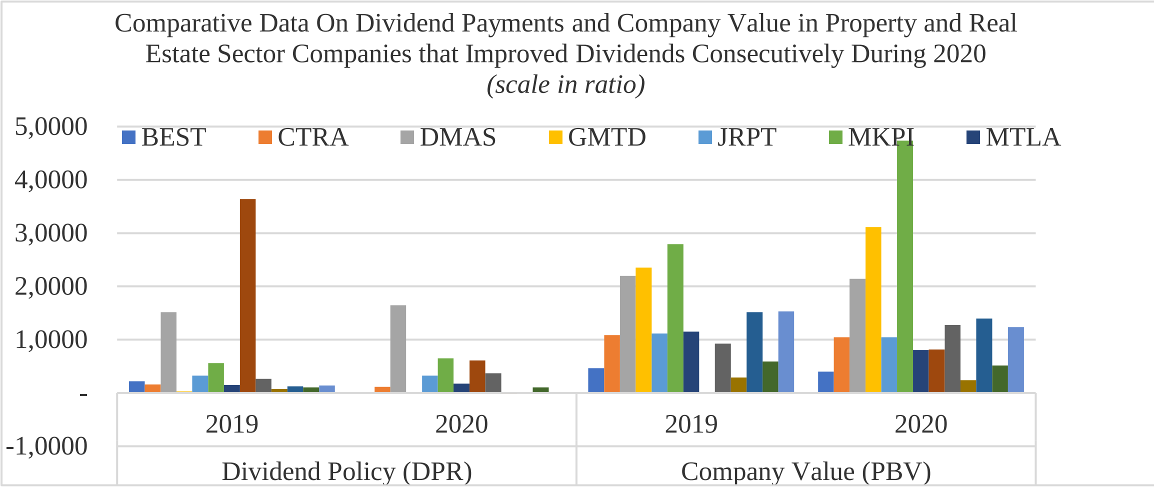
In financial management, optimization of corporate value can be achieved through the implementation of three financial functions that are interrelated with each other an impact on company value. Weston and Copeland in Wahyuni *et al* (2013) stated that the function of financial management includes three important financial decisions including investment decisions, funding decisions, and dividend decisions. These financial decisions must be combined optimally to increase the value of the company while increasing the wealth of shareholders. Based on empirical studies that have been conducted, it was found that there are several factors that are thought to affect the value of company including funding decisions, financial performance measured through profitability and liquidity levels, company size, and company dividend policy. Within the scope of the capital market, stock price performance is considered able to reflect the company’s value picture for investors. Stock price performance measured through Price to Book Value (PBV) and Price Earning Ratio (PER) indicators will strengthen market assessment and confidence in the company's prospects while also affecting the improvement of shareholders's welfare. The prosperity of shareholders is related to the benefits distributed in the form of dividens. The proportion of dividend distribution paid, measured using the Dividen Payout Ratio (DPR) and Dividend Yield (DY) approaches. The decisions of the size of dividends distributed is one of the financial policies that concern investors. When cash dividend payments are considered to be a signal that the company is creating profits, so the effect of dividend policy like this is considered capable of influencing investor perception of the company's value.

The property and real estate sector is quite attractive to investors to invest in the capital market. This sector is a leading indicator that has a multiplier effect on the development of other sectors in the country's economic growth, such as service sector, development sector, to the financial sector which will also have an impact on employment. The value of companies in the property and real estate sector is very important because this sector relies heavily on increasing the value of products that are able to provide a large level of investment return in the future. Conditions of economic uncertainty and recession issues that have occurred in recent years are also assumed to have an impact on stock prices in the property and real estate sectors. Table 1 contains comparative information on the value of property and real estate sector companies during the period 2015-2020.

Table 1. Comparison of company values based on the performance of the company's share price in the property and real estate sector for the period 2015-2020

Year	Market Capitalization (in trillion rupiah)	Total Trades			Company Value	
		Volume (in billion shares)	Value (in trillion rupiah)	Frequenc (million 'x)	PER (x)	PBV (x)
2015	290,41	309,76	155,87	7,27	14,03	1,73
2016	317,11	540,69	215,99	8,59	29,62	1,62
2017	297,47	787,40	177,12	7,38	29,62	1,62
2018	289,34	527,53	131,40	7,43	31,69	2,08
2019	389,91	919,79	180,53	10,15	8,76	2,42
2020	304,65	421,94	94,09	14,04	5,72	1,40

The fluctuating stock price performance in the property and real estate sector index reflects the inconsistent development of company values. This condition is also assumed to be influenced by the decision to distribute cash dividends by the issuer. In Indonesia, there are still limited studies in establishing the relationship between dividend policy and company performance. The phenomenon that dividend securities as profits distributed directly to investors is considered as well as a signal of company performance. When a company's projected performance of stock price performance is able to influence investors' perception of the company's value, then sustainable cash dividend payments also have an impact on company value. Graph 1 illustrates the comparison of dividend and company value in property and real estate sector companies that distribute dividends consecutively during 2020.



Graph 1. Comparison of dividend payments and company value in property and real estate sector companies that paid dividends consecutive during 2020

Several large companies in the property and real estate sector have distributed dividends during 2020. The proportion of dividend distribution that changes each year is assumed to affect the value of the company. Dividend Payout Ratio (DPR) at PT.Plaza Indonesia Realty (PLIN) in 2019 was 3.64, and Price to Book Value (PBV) as an indicator of company value was recorded at 0.01. Furthermore, in 2020, there was a decrease in DPR at PT.Plaza Indonesia Realty (PLIN) to 0.61, while PBV was recorded to have increased from the previous year to 0.82. The proportion of dividend distribution to shareholders is considered to have an effect on the performance of the company's stock price that reflects the value of the company. Historically, the value of companies in the property and real estate sector companies listed on the Indonesia Stock Exchange has experienced fluctuating developments, where the previous studies have also found that financial performance indicators and dividend policy show different correlations to company value.

Companies with good financial performance will produce good stock performance so as to increase the value of the company. But sometimes good financial performance has not been able to maximize the value of the company. In addition, dividend policy also has an impact on the value of the company because it is directly related to the welfare of shareholders or investors. Good financial performance through the level of profitability, liquidity, and company size shows the amount of the company's financial ability to distribute dividends. Sometimes high dividend payments can increase market appreciation of a company's stock performance as a reflection of the company's value. However, the large level of dividend payments sometimes has not been able to maximize the performance of stocks that describe the value of the company. Some previous studies have also shown the research gap phenomenon in looking at factors that affect company value in the property and real estate sector. Various factors are thought to affect dividend policy directly or indirectly which can also have an impact on company value, among them are profitability factors (Nurhayati, 2013); (Astuti & Yadnya, 2019); company liquidity factors (Sukoco, 2013); (Uttari & Yadnya, 2018); and company size factors (Sukoco, 2013) and (Khasanah & Aryati, 2019).The phenomenon of gaps and research gaps form previous studies encourages the need to reexamine the effects of profitability, liquidity, and company size on dividend policy and company value in property and real estate sector companies.

LITERATURE REVIEW

Company Value

Brigham and Houston (2014) view that company value can be expressed as the prosperity of owners and shareholders reflected in stock prices. The higher the stock price will provide a large rate of return to investors so that the value of the company will increase. Weston and Copeland in Indrarini (2019) explain that the measurement of company value can use valuation ratios or market ratios. Some assestment ratios used as a measure of overall company performance include Price Earning Ratio (PER) and Price to Book Value (PBV). In addition to the performance of stock prices in the market, dividend decisions are also considered to affect the value of the company in the eyes of investors. Dividend payments to shareholders demonstrate the company's ability to generate profits that increase shareholders prosperity so that it will affect investors' assessment of the company's performance and prospects.

Dividend Policy

Dividend policy is a policy carried out by company management to decide whether part of the company's net profit will be distributed in the form of dividends to shareholders or be retained earnings for reinvestment needs. Specifically, Brigham and Houston (2014) grouped three dividend policy theories based on investor preferences, namely 1) *Dividend Irrelevance Theory; 2) Bird In The Hand Theory*; and 3) *Tax Preference Theory*. According to the *Dividend Irrelevance Theory* proposed by Miller and Modigliani (MM), the value of a company is not determined by the size of the *Dividend Payout Ratio*, but the value of a company is only determined by its basic ability to generate profits and business risks. Baker *et al.* (2007) in Gumanti (2013) also mentioned several theories about dividends, such as *Signaling Theory, Tax Prevalence Theory, Client Effect Theory, Agency Theory*, to *Life Cycle Theory* which states that dividend payments tend to follow the company's life cycle pattern. Meanwhile, Darmawan (2018) mentioned several factors that can affect dividend policy, including liquidity position factors, the need to pay off debt, the rate of expansion of assets, the rate of profit, the stability of profit, opportunities to the capital market, shareholder positions, to cantrol factors. To measure the proportion of dividend distribution, investors or analysts can use Dividend Payout Ratio and Dividend Yield approaches.

Profitability

Munawir (2014) defines profitability as acompany's ability to generate profits over a certain period. Profitability is a picture of the final results of a number of policies and decisions made by the company. In line with the purpose of establishing the company is to obtain profit, profitability is used as a tool in analyzing management performance where the level of profitability describes the profit position of the company. This makes profitability one of the factors that are quite considerd by analysts or investors in assessing the company. Some types of profitability ratios that are often used include Return on Assets (ROA) and Return on Equity (ROE).

Liquidity

According to Asnawi (2017), liquidity describes the company's ability to meet immediate obligations (current or short-term liabilities). Analysts use liquidity ratios to assess a company's ability to meet short-term obligations through measuring cash availability and current assets. Meanwhile, Nurhayati (2013) mentioned that companies that are able to pay off all short-term debts in a timely manner will provide a positive stigma about the company's future prospects that affect the value of the company for investors or shareholders. Several approaches can be used to measure the level of company liquidity such as *Quick Ratio (QR)* and *Current Ratio (CR).*

Company Size

The size of the company as a characteristic of a company that shows the size of the company. Measures to represent the size of the company are total assets, total sales, and market capitalization. Brigham and Houston, (2014) mentions that large companies that reach the maturity stage have the ability to total large assets, the company's cash flow condition increases and relatively stable. While the size of the company with the total sales indicators shows that large-scale companies will produce sales levels that have an impact on increasing company profits. While from the perspective of stock value, market capitalization describes the growth potential of a good company and has low risk so it can be categorized in large and small capitalization company sizes. In this case, the size of the company is a consideration in investing and has an effect on the value of the company in the eyes of investors.

Relationships between variables

Profitability describes the company's financial performance in generating profits from assets used for company operations. Based on the *signalling hypothesis*, management will pay higher dividends to signal investors about the company's success in increasing profits. The greater the profit obtained, indicating the company's ability to pay dividends is also higher (Nurhayati, 2013; Samrotun, 2015; Sari & Suryantini, 2019; Astuti & Yadnya, 2019; Gul et al., 2020).

H1: profitability has a positive and significant effect on dividend policy.

Liquidity describes a company's ability to meet its short-term obligations (*current liability*). Companies that are able to pay off all their short-term debts in a timely manner will lead to a better perception for investors about the company's prospects in the future. The higher the liquidity ratio, the better the company's cash ability to meet its short-term obligations while providing signals to investors about the company's ability to pay dividends (Samrotun, 2015; Sari et al, 2016; Sari & Suryantini, 2019).

H2: liquidity has a positive and significant effect on dividend policy.

The size of the company describes the ability of the company's assets. Large and established companies have easy access to the capital market in obtaining funding sources and having a performance commitment in increasing profits and shareholder propsperity through higher dividend payout ratios. The larger the size of the company, the greater the dividend payout rate (Islam, 2018; Ihsaniah et al., 2020; Gul et al., (2020).

H3: company size has a positive and significant effect on dividend policy.

There is a tendency for profit-oriented investors to assess the company through the profits genertaed by the company. High profitability will have an impact on increasing shareholder prosperity. In line with the *"signalling theory", a* good company prospects can affect the market so that demand and stock prices increase and result in higher company value. The higher value of the company is reflected in the performance of stock prices assessed through the *Price to Book Value* indicator *(*Wahyuni et al., 2013; Oktaviarni et al., 2018; Husna & Satria, 2019; Mohammed & Ani, 2020).

H4: profitability has a positive and significant effect on company value.

Furthermore, companies with high liquidity have more ability to finance their operations and investments, so that investor perceptions of the company's performance will also increase. The company's performance that continues to increase is considered to affect stock prices because it has an impact on high *Price to Book Value* (Rompas, 2013; Oktaviarni et al., 2018; Mohammed & Ani, 2020).

H5: liquidity has a positive and significant effect on company value.

Companies with large size are considered more able to provide a return on investment and reduce the risk of investor uncertainty towards the company. When the value of a company is reflected from the share price, so the size of the company becomes one of the factors that

affect the value of the company. The larger the size of the company will increase the valuation of the stock price in the market (Wahyuni et al.,2013; Oktaviarni et al., 2018; Husna & Satria, 2019).
H6: company size has a positive and significant effect on company value.

Meanwhile, dividend payments will increase market appreciation of shares of companies that distribute dividends, where the demand and stock price of the company as a reflection of the value of the company tend to increase. Dividend payments are considered as a "signal" for investors who view that the company has better prospects and growth in the future. High dividend payments can minimize the cost of capital while increasing the value of the company (Senata, 2016; Budagaga, 2017; Oktaviarni et al., 2018).
H7: dividend policy has a positive and significant effect on company value.

METHOD

This research uses quantitative approach method. Data and information collection is carried out by literature study. The data used is secondary data in the form of the company's financial statements for 2015-2020 version of an independent auditor. The sample in this study is property and real estate sector companies listed on the Indonesia Stock Exchange in 2015-2020. To obtain a representative research sample was carried out using purposive sampling techniques. The sample used must meet several criteria, namely: a) property and real estate sector companies listed on the Indonesia Stock Exchange; b) companies that published financial statements ended December 31 in full in the version of independent auditors for the period 2015-2020; c) the company paid cash dividends to shareholders consecutively during the period 2015-2020; and d) the company recorded profit during the period 2015-2020. Based on these criteria, the sample obtained was as many as 13 companies for 6 years, so the number of observational samples was 78. Furthermore, data testing and analysis was carried out with the *Structural Equation Model -Partial Least Square (SEM-PLS) approach.* Data processing using *software* SmartPLS 4 version 4.0.8.2. Hair *et al*. (2018) mentions several stages of calculation used in data processing on SmartPLS such as *PLS algorithm*, *bootsrapping*, dan *blindfolding*. The analysis techniques carried out in the *SEM-PLS* method are through model test approaches and hypothesis tests.

RESULTS AND DISCUSSION

The result of testing the inner model using the PLS algorithm show the value of the estimation coefficient as follows:

Table 2.
Sub Structure 1 *Hirarchial Component Model* (Profitability, Liquidity, Company Size-→Dividend Policy)

Variable	Indicator	*Weights*	*Path Coefficients*	R Square
Profitability	ROA	0,414	0,212	0,129
	ROE	0,612		
Liquidity	CR	0,684	0,255	
	QR	0,393		
Company Size	Ln Total Asset	0,306	0,157	
	Ln Market Capitalization	0,722		

Table 3.
Sub Structure 2 *Hirarchial Component Model* (Profitability, Liquidity, Company Size, Dividend Policy-→Company Value)

Variabel	Indicator	*Weights*	*Path Coefficients*	R Square
Profitability	ROA	0,414	0,181	0, 248
	ROE	0,612		
Liquidity	CR	0,684	-0,251	
	QR	0,393		
Company Size	Ln Total Asset	0,306	0,277	

	Ln Market Capitalization	0,722	
Dividend Policy	DPR	0,518	0,048
	DY	0,524	

The value of the coefficient of determination (*R square*) shows that together the total influence of profitability, liquidity, and company size on dividend policy is 12,9%, while remaining 81,7% was explained by other variables. Meanwhile, the value of the coefficient of determination (*R square*) shows that together the total influence of profitability, liquidity, company size, and dividend policy on the value of the company is 24,8%, while remaining 75,2% was explained by variables other than the variables in this study. Inner model evaluation is carried out to measure and test the value of the path coefficient along with *p value* and the value of the path coefficient along with *t value*. Through the bootstrapping stages in SmartPLS data processing, measurement results can be presented in the following figure:

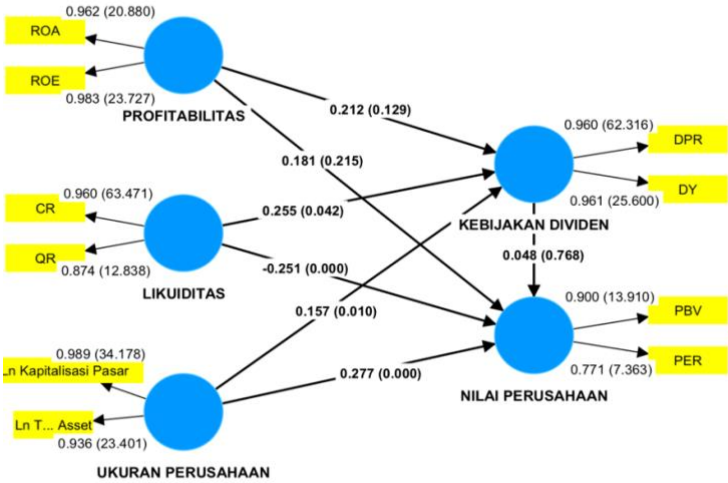


Figure 1 ***Inner Model*** **with** ***path coefficient*** **value dan** ***p value***
Source: Output SmartPLS *Algorithm*, 2022

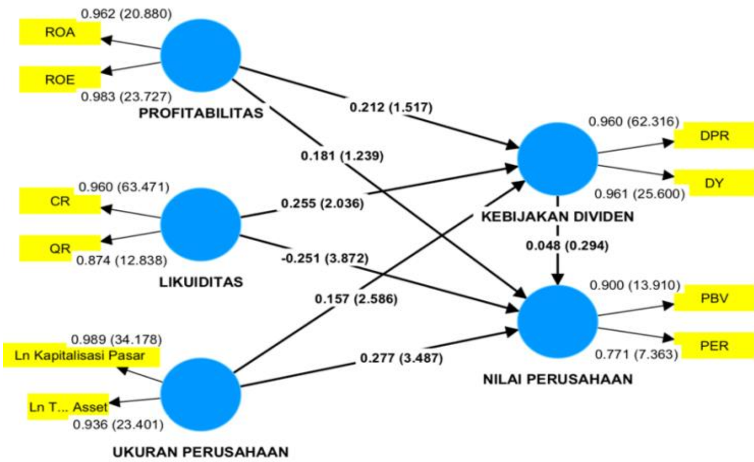


Figure 2 ***Inner Model*** **with** ***path coefficient*** **value and** ***t value***
Source: Output SmartPLS *Algorithm*, 2022

Table 4 shows the results of the hypothesis test.

Table 4.The Results of Hypothesis Testing

Path	***Original sample (O)***	***T Statistic (>1,96)***	***P Value (<0,05)***	***Information***
Profitability→Dividend Policy	0,212	1,517	0,129	Insignificant
Liquidity→ Dividend Policy	0,255	2,036	0,042	Significant

Company Size→ Dividend Policy	0,157	2,586	0,010	Significant
Profitability →Company Value	0,191	1,413	0,158	Insignificant
Liquidity → Company Value	-0,239	5,073	0,000	Significant
Company Size → Company Value	0,284	4,044	0,000	Significant
Dividend Policy → Company Value	0,048	0,294	0,768	Insignificant

The submission criteria states that if the statistical t value is greater than the crisis value of the t table (T statistic ≥ 1,96), dan p *value* < 0,05, then there is an influence of exogenous variables on endogenous variables in each hypothesis. The test results showed that profitability variable has a statistical t value of 1,517 and p value 0,129, T statistic value < t-table; p *value* > 0,05 indicates that profitability has no significant effect on dividend policy, thus, H_1 is rejected. Liquidity variable has a statistical t value of 2,036 and p value 0,042, T statistic value > t-table; p *value* < 0,05 indicates that liquidity has a positive and significant effect on dividend policy, thus, H_2 is received. Company size variable has a statistical t value of 2,586 and p value 0,010, T statistic value > t-table; p *value* < 0,05 indicates that company size has a positive and significant effect on dividend policy, thus, H_3 is received. Profitability variable has a statistical t value of 1,413 and p value 0,158, T statistic value < t-table; p *value* > 0,05 shows directly that profitability doesn't have a significant effect on the value of the company, thus, H_4 is rejected. Furthermore, the original sample of the liquidity variable was negative at 0, 239. Liquidity variable has a statistical t value of 5,073 and p value 0,000, T statistic value > t-table; p *value* < 0,05 shows directly that liquidity has a negative and significant effect on the value of the company, thus, H_5 is rejected. Company size variable has a statistical t value of 4,044 and p value 0,000, T statistic value > t-table; p *value* < 0,05 shows directly that company size has a positive and significant effect on the value of the company, thus, H_6 is received. Meanwhile, dividend policy variable has a statistical t value of 0,294 and p value 0,768, T statistic value < t-table; p *value* > 0,05 shows that dividend policy has no significant effect on the value of the company, thus, H_7 is rejected.

The results of this study found that profitability didn't have a significant effect on dividend policy. Investment in the property sector is generally long-term and quite vulnerable to changes in the macroeconomic sector, especially changes in interest rates. Most of the sector's capital financing is also sourced from leverage. In this case, the size of the profit is not a reference in the distribution of the size of the dividends distributed. In Indonesia, the distribution of company dividends is generally carried out in accordance with the results of the decision of the general meeting of shareholders (RUPS), namely the profits will be retained for reinvestment or will be distributed to shareholders as dividends. However, the existence of agency problems between management and shareholders, especially with a concentrated ownership structure, allows for the expropriation actions where the majority shareholders seek to take over the minority shareholding rights and use full control to maximize one's own wellbeing by the distribution of wealth from others. In this case, the control factor is considered to affect the dividend policy, while profitability has no effect on the dividend decision. The results of this study support the results of research by Hasana et al. (2017), Anisah & Fitria (2019), and Ihsaniah et al. (2020). Meanwhile, Darmawan (2018) mentioned that one of the factors that can affect dividend policy is the liquidity position and the company's need to pay off debt. The use of retained earnings will reduce the proportion of dividend distribution so that it can be assumed that the liquidity position is more decisive and affect the size of dividend distribution than the profit position. The higher the current ratio indicates the higher the company's ability to meet its short-term obligations, including paying dividends owed. The results showed that liquidity had a positive effect and significant on dividend policy. Some studies that support the results of this study are Samrotun (2015), Sari et al. (2016), and Sari & Suryantini (2019). In line with dividend policy theory, De Angelo et al. (2006) mentions "*life cycle theory"* that states that dividend payments tend to follow a company's life cycle pattern. According to this theory, the older the company with internal company funds that already exceed investment opportunities then the dividends paid by the company will also increase. Large companies with established financial capabilities and large capital market access will tend to pay high dividends to its shareholders compared to smaller companies that are new. Property and real estate sector companies that already have a big name in the capital market with established financial capabilities have the ability and consistency in increasing dividend payments to shareholders. The larger the size of the company, the greater the dividend payout rate. The results of this study support the result of Islam (2018), Ihsaniah et al. (2020), and Gul et al. (2020).

This study also found that the level of profit generated doesn't have an effect on company value. One of the common problems found in property and real estate sector is that the majority of value companies are highly vulnerable to changes in the macroeconomic sector. By looking at the amount of unstable profits, profitablity can't be a benchmark in investment decisions in the property sector. Meanwhile, most sources of funding come from leverage, so the property sector which is vulnerable to positive sentiment in interest rate changes, also makes these companies are still able to survive despite continuing to experience a decline in profits. Public perception and investor confidence in the property sector remain unaffected by the level of company profitability. The results of this study support the results of research conducted by Palupi & Hendiarto (2018) and Alawiyah (2020) which state that profitability has no significant effect on company value. On the other hand, companies with low liquidity will have a positive impact on the value of the company. When funding comes from leverage, management is required to be able to manage cash optimally so that sources of financing originating from external parties become productive and it is used as investment capital that can improve company's performance. Investors will prefer to invest their shares in companies that have a liquidity ratio that is not too high. This study support the results of research conducted by Dewantoro & Thaib (2017), Wimidhati et al. (2021), and Rahma et al. (2022) which state that liquidity has a negative effect on company value. Instead, large scale companies with established financial capabilities and large market capitalization reflect that the company is able to produce greater rate of return for investors. In this case, large-scale companies are believed to increase the prosperity of shareholders so that the large size of the company is considered capable of increasing the value of the company. The larger the size of company, the stock price will increase so that the company will generate a high level of profit and value which is proxied through *PER and PBV.* The result support the result of research conducted by Oktaviarni et al. (2018), Husna & Satria (2019), and Wijaya & Fitriati (2022). Meanwhile, the size of the dividend does not affect the value of the company or its cost of capital. In view of the "*dividend irrelevant theory",* Miller and Modigliani explain that dividend policy is irrelevant to the level of shareholder welfare. The company value does not depend on the ratio of dividends paid to shareholders, but it's entirely determined by the strength of the company's assets in generating profits and investment policies along with business risks. The distribution of profits in the form of dividends or as retained earnings does not affect the value of the company (Brigham dan Houston, 2014). During the 2015-2020 period, there were property sector companies that listed their shares on the Indonesia Stock Exchange (IDX) and were included in the main trading board category as a large company that already has a good financial track record and shows a history of stock price performance that tends to be stable and even increased along with the stock profit recorded by the company. Several large companies in the property and real estate sector that listed their shares on the main trading board on IDX include BEST, CTRA, DMAS, JRPT, MTLA, PLIN, PPRO, PUDP), PWON, RDTX, and SMRA. These large companies have a high selling value without being influenced by the proportion of dividends distributed to shareholders. The results of this study show that dividend policy doesn't have a significant effect on the value of the company. Some studies that support the results of this study are Nurhayati (2013), Andriani & Leang (2018) and Zalukhu & Sibarani (2021).

CONCLUSION

The results showed that profitability and dividend policy have no significant effect on the value of the company. Majority of company values in the property sector are highly vulnerable to changes in the macroeconomic sector so investors will tend to pay more attention to the track record of companies with good financial performance to minimize business risk. In this case, the size of the company that describes the financial capabilities of the company, the level of stability, and the company's track record with good financial performance have a positive impact on the level of dividend policy and company value. The value of companies in the property and real estate sector is more determined by the strength of company assets in generating profit and investment policy along with business risks. Conversely, liquidity has a negative influence on the value of the company, where the high liquidity indicates suboptimal cash management and it is feared that investors will bear the risk of capital costs due to unproductive fund management that adversely affects the value of the company. Based on the results of this study, companies need to pay attention to the postion of assets and liabilities recorded in the financial statements that describes the company's financial capabilities.

Suggestion

This research is inseparable from the limitations possessed by researchers. The study used a time period of six years and a critical observation time in 2020 due to the COVID-19 pandemic which is quite limiting and weakening local and global economic growth, it has a significant effect on trade and the investment climate. This also affects the performance of companies engaged in the property and real estate sectors, thus impacting the company's revenue. The results of the R square value test below 25% interpret the weak influence of the variables used, so it is recommended for future research to use other variables such as leverage, institutional ownership, and managerial ownership that are thought to have a strong influence on dividend policy and company value in the property and real estate sectors. For research development, it is also necessary to conduct a study in analyzing the influence of dividend policy patterns in Indonesia on the performance of companies in Indonesia, especially in the property and real estate sectors. In addition, it is also recommended to add the number of samples in a longer observation time so that the results obtained can be more generalized.

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