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THE INFLUENCE OF PROFITABILITY, DIVIDEND POLICY, AND INSTITUTIONAL OWNERSHIP AS MODERATING VARIABLES ON FIRM VALUE

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Abstract:
This study aims to analyze the effect of profitability and dividend policy on firm value with institutional ownership as a moderating variable. The study was conducted in the financial sector listed on the Indonesia Stock Exchange for the 2018-2020 period. The research method uses a quantitative approach with a purposive sampling technique, resulting in a sample of 22 companies. Data were analyzed using Moderated Regression Analysis (MRA) to test the hypothesis. The results of the study indicate that profitability and dividend policy have a positive and significant effect on firm value. In addition, institutional ownership is proven to strengthen the positive relationship between profitability and dividend policy with firm value. This finding supports the signaling theory which states that profitability and dividend policy provide positive signals to investors regarding the company's prospects. This study contributes to investors and management in decision making, by emphasizing the importance of good corporate governance to increase firm value. The practical implications are that companies are advised to increase profitability, stable dividend policies, and involve institutional ownership to minimize agency conflicts and maximize firm value.

Keywords: profitability, dividend policy, tax avoidance, Company Value

INTRODUCTION

Company value is important for investors because it is an indicator for the market to assess the company as a whole or it can be said that company value is the price paid by prospective buyers if the company is sold. To maximize company value, not only equity value must be considered, but also all financial claims such as debt, warrants and preferred shares. In order to carry out its operational activities, an entity must be in a profitable state, because without profit it will be difficult for the company to attract capital from outside and distribute profits to shareholders (Sara & Saputra, 2021). Companies that have a high level of profitability will be in demand by investors, so that profitability can affect company value. According to Ruffini (2024), profitability has a significant positive effect on company value. High profits will provide an indication of good company prospects so that they can trigger investors to increase demand for shares. Increasing demand for shares will lead to increased company value. This is also in line with research conducted by Prawida and Sutrisno (2021), the ROE variable has a positive relationship and influence on company value.

Profitability shows the company's ability to make a profit in relation to sales, total assets and equity. There are three ratios that are often used to measure profitability, namely: profit margin, return on total assets (ROA), and return on equity (ROE). Return on equity (ROE) describes the company's ability to generate profits based on certain share capital. This ratio is a measure of profitability from the perspective of shareholders (Widjayanti et al., 2024). Profitability is very important in maintaining the company's sustainability in the long term, this is because profitability shows the company's prospects in the future. In managing to obtain maximum profit, a manager

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must work well, so that the company gets big profits with small costs. The greater the profit obtained by the company, the more it will be able to increase the company's value (Dinkoksung et al., 2023).

Previous researchers, such as Tamara et al. (2022), said that profitability has a positive and significant effect on firm value. Roespinoedji et al. (2019), found that higher company profitability can increase the value of the company to generate profits, so that it will affect the high value of the company. Prasetyorini and Fitri (2013), found that profitability as measured by Return on Equity (ROE) has a significant effect on firm value. Manurung et al. (2022), found that profitability has a positive and significant effect on firm value. Hakim and Sugianto (2018) found that profitability has a positive and significant effect on firm value. This concludes that profitability has a direct positive relationship to firm value. In contrast to the research results of Sara et al. (2023), which states that profitability has no significant and negative effect on firm value, the same as the research conducted by Saputra (2021), which states that Profitability has no significant effect on Firm Value. Several factors that influence firm value also include dividend policy which is a factor that can be controlled by the company.

The company value is taken as the dependent variable while dividend payments are taken as the independent variable. Regression analysis is used for data analysis purposes in this study (Saputra & Anggiriawan, 2021). The proportion of Net Income After Tax distributed as dividends is usually presented in the Dividend Payout Ratio (DPR). DPR is the percentage of profit paid in the form of dividends or the ratio between the profit distributed in the form of dividends and the total profit available to shareholders (Larasdiputra & Saputra, 2021). The size of the DPR will have an impact on investors to invest in their shares. The company's ability to pay dividends is determined by profitability. The more profit generated by the company, the higher the likelihood that the company will be able to fulfill its obligations in paying dividends to shareholders. The results of the study by Trisnadewi et al. (2019), stated that there was a negative and insignificant influence between dividend policy and company value. In contrast to the research conducted by Huang et al. (2020), which stated that dividend policy (DPR) had a positive and significant effect on Company Value (PBV).

Institutional Ownership is the ownership of shares owned by the government, insurance companies, foreign investors or banks. Because of the company's responsibility to shareholders, institutional owners have an incentive to ensure that the company's management makes decisions that will maximize shareholder welfare. Companies with greater institutional ownership are more likely to issue, forecast and estimate something more specifically, accurately and optimistically. Institutional ownership also does positive things to increase the value of the company. Meanwhile, according to Chandra (2017), institutional ownership is the right corporate governance because institutional investors increase monitoring activities of creditors and management and help reduce agency problems. Institutional Ownership has a very important role in minimizing agency conflicts that occur between managers and shareholders (Gonzalez-Urango et al., 2024).

The study added institutional ownership as a moderating variable. Institutional ownership in this study is measured according to the percentage of share ownership by corporate institutions and the government. The focus of this study is to see whether profitability and dividend policy can affect firm value and to see to what extent institutional ownership as a moderating variable expressed by the company can strengthen the relationship between profitability and dividend policy with firm value. Based on the description above, this study is entitled "The Effect of Profitability and Dividend Policy and Institutional Ownership as a Moderating Variable on Firm Value (Study in the Financial Sector on the Indonesia Stock Exchange for the 2018-2020 Period)".

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Teori Signalling. Signal theory is used to reduce information asymmetry that arises from both the company, the owner and external parties. Information affects decision making. Good information can be used in the future. External parties or market players will need precise, accurate, relevant and complete information in decision making. The company's annual report is information that can be used as a signal for external parties in making investment decisions. The annual report contains information on financial statements and non-accounting information. External parties first analyze the information, the information is a good signal (good news) or a bad signal (bad news). A good signal can increase the company's stock price, while a bad signal will decrease the company's stock price. If the company wants investors to buy its shares, the company must present financial reports transparently and openly. Therefore, investors can distinguish which companies have good company values, so that in the future they can provide benefits to these investors (Mahoney et al., 2013). Signaling theory explains that profitability and investment spending provide positive signals regarding future company growth. Information regarding the type of investment spending has a major influence on company value, because it can provide signals about expected future revenue growth, which will then increase stock prices as an indicator of company value (Williams et al., 2019). The profits obtained by the company and the company's performance are determined, among other things, by the investment decisions made. This decision is very important, because if it is wrong in making decisions, it will disrupt the survival of the company. Managers in this case must have good performance, so that they can maintain investment development and thus achieve company goals through shareholder welfare and increasing company value (Patalas-Maliszewska & Łosyk, 2020).

Dividen Irrelevance Theory. According to Handono (2009:279) Dividend Irrelevance Theory (Irrelevance Theory) Theory which states that a company's dividend policy has no effect on its stock price. This is in line with Modigliani and Miller (1961) who concluded that the current value of the company is not influenced by the size of the dividend policy, because according to Modigliani and Miller there is no optimal dividend policy for a company. MM explains that the determining value of the company is profitability. Profitability shows the company's ability to generate profits (Widjayanti et al., 2024). The more profit generated by the company, the higher the likelihood that the company will fulfill its obligations in paying dividends to investors or shareholders (Darma & Saputra, 2021). The point is, that the effect of dividend payments on shareholder prosperity is completely offset by the ways in which the company spends its investments. For example, if the company has made an investment decision, then the company must decide whether to retain profits to finance the investment or pay dividends and sell new shares in the amount of dividends paid (Dharmawan et al., 2024).

Research Hypothesis. In accordance with the objectives of the study, if the company's ability to generate profits increases, the company's operations will also increase. Profitability is considered important because profitability is an indicator in measuring the financial performance of a company so that it can be used as a reference for assessing the company (Dewi et al., 2024). Therefore, profitability affects the value of the company and the owners or shareholders of the company because it can provide maximum shareholder prosperity if the stock price increases, but if profits increase, tax avoidance decreases, this is because the company does not take efficient actions in paying its taxes (Larasdiputra & Saputra, 2021). This is evidenced by the maximum value of the average profitability in the company. Profitability has a significant positive effect on the value of the Company. Based on this description, the following hypothesis is formulated: H1: Profitability affects the value of the company.

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The results of the study by Mursalim (2011) stated that the dividend policy carried out through the dividend payout ratio has a significant and positive effect on the company's value. Topal (2014) found that there is a significant relationship between dividend payments and company value. Rachid and Wiame (2016) found that there is a significant relationship between dividend payments and total assets with company value. Egbeonu et al. (2016) found that the dividend policy per share has a positive and significant effect on the company's stock value. Sorin (2016) found that the dividend payout ratio has a positive and significant effect on company value. Nwamaka and Ezeabasili (2017) Rudi Zulfikar (2020) found that dividend policy has a positive and significant effect on company value. Based on this description, the following hypothesis can be proposed.

H1: Dividend Policy Has a Positive and Significant Influence on Company Value.

Institutional ownership requires good corporate governance. Good corporate governance describes how management manages its assets and capital well to attract investors. The management of a company's assets and capital can be seen from its financial performance. If the management is carried out properly, it will automatically increase the value of the company. Profitability is a measure of a company's performance in effectively utilizing the wealth owned by a company which is shown through profit. Profitability in net form is allocated to improve the welfare of shareholders in the form of paying dividends and retained earnings. The high value of profitability can describe the efficiency carried out by the company, the higher the profit, the higher the tax costs that must be paid by the company to the state. Which assumes that there are efforts to avoid taxes or tax avoidance. The results of research conducted by Emard (2020) and Ayu Martiani, et al (2018) also support previous results, namely that institutional ownership can moderate profitability with company value. Institutional ownership is seen as an appropriate control mechanism to reduce agency conflicts (Dharmawan et al., 2024).

H2: Kepemilikan Institusional Dapat Memperkuat Hubungan Antara Profitabilitas Dengan Nilai Perusahaan

Meanwhile, institutional ownership will also influence the company's funding policy. Effective monitoring by institutional share ownership (institutional ownership) reduces the opportunistic behavior of managers. In addition, this ownership can act as a monitoring agent that causes managers not to make funding policies that have the potential to harm the company and reduce shareholder satisfaction. The higher the institutional ownership, the stronger the internal control over the company is expected to be so that agency costs and the use of debt by managers can be reduced. The higher the dividend policy, especially in companies that have high free cash flow, and the higher the institutional ownership, the higher the dividend policy, especially in companies with high free cash flow (Juniariani & Saputra, 2020). With the payment of dividends in cash to institutional ownership, it will affect the value of the company. This is also supported by research by Eny Purwaningsih (2019) and Rudi (2020) which states that institutional ownership can moderate dividend policy. Based on this description, a hypothesis is formulated:

H3: Institutional Ownership Can Strengthen the Relationship Between Dividend Policy and Firm Value.

METHODS

This study uses a quantitative approach. The companies studied were determined using the purposive sampling method, while the analysis used the multiple regression method or Moderated Regresion Analysis (MRA), to test the effect of the relationship between profitability, dividend policy, on company value with institutional ownership as a moderating variable in the financial sector on the Indonesia Stock Exchange. The data used in this study are secondary data. Secondary

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data were obtained indirectly through intermediary media, namely financial report data from financial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period, and from the Indonesia Stock Exchange through the Indonesia Stock Exchange (IDX). The population used in this study were financial sector companies listed on the Indonesia Stock Exchange for the 2017-2020 period. The population was 105 companies included in the financial sector.

The sampling method used in this study is the Purposive sampling method, which is a sampling method based on the subjective considerations of researchers, sample members will be selected in such a way as to form the desired sample. Based on the criteria, the sample that can be used in this study is 22 out of 105 financial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period. Based on the formulation of the problem and the research hypothesis, it can be seen that the relationship between the variables that are the focus of this study as a whole gets an interpretation. In helping to analyze multiple linear regression analysis data, determination analysis, f test and t test, the SPSS statistical tool is used.

RESULT AND DISCUSSION

Research Results. Profitability (X1) shows a minimum value of -0.20 percent and a maximum value of 74.00 percent. The mean for profitability is 0.12 percent, this means that the average profitability of financial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period is 0.12 percent. The standard deviation is 0.11, this means that the deviation of the profitability data of financial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period from the average value is 0.11, which means that the data distribution is good, because the standard deviation value is smaller than the average value.

Table 1. Descriptive Analysis Results

Model Summary[6]

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1	66	-.02	.74	.1251	,11857
X2	66	,00	,89	.2851	,21982
z	66	,00	3.93	.8760	,71202
Y	66	23.14	196.82	52,5852	34.48650
Valid N (listwise)	66				

Dividend policy (X2) shows a minimum value of 0.00 percent and a maximum value of 0.89 percent. The mean for dividend policy is 0.28 percent, this means that the average dividend policy of financial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period is 0.28 percent. The standard deviation is 0.21, this means that the deviation of the dividend policy data of financial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period from the average value is 0.21, which means that the data distribution is good, because the standard deviation value is smaller than the average value. Institutional ownership (Z) shows a minimum value of 0.00 percent and a maximum value of 3.93 percent. The mean for institutional ownership is 0.87 percent, this means that the average institutional ownership of financial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period is 0.87 percent. The standard deviation is 0.71, this means that the deviation of institutional ownership data of financial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period from the average value is 0.71, which means

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that the data distribution is good, because the standard deviation value is smaller than the average value.

The company value (Y) shows a minimum value of 23.14 percent and a maximum value of 196.82 percent. The mean for the company value is 52.58 percent, this means that the average value of financial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period is 52.58 percent. The standard deviation is 34.48, this means that the deviation of the data on the value of financial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period from the average value is 34.48, which means that the data distribution is good, because the standard deviation value is smaller than the average value. The determination coefficient test is carried out to determine how far the ability of the independent variable (independent) to explain the dependent variable (dependent), this can be seen from the R^2 value.

Table 2. Nilai Koefisien Determinasi

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,794[3]	,630	,623	4,04843	1,833

a. Predictors: (Constant), X2*Z, X1, X2, Z. X1*Z
b. Dependent Variable: Y

Based on Table 2, the adjusted R2 value is 0.623, this means that 62.3% of profitability, dividend policy, institutional ownership, interaction of profitability and institutional ownership, interaction of dividend policy and institutional ownership affect the company's value while the remaining 37.7,7% is explained by other variables not included in the research model.

The F test is used to see that the model used in this study is feasible (fit). The model is said to be feasible if the calculated F is less than 0.05 (α = 5%). If the model used is fit, this means that the independent variables in this study are able to predict or explain the dependent variable. The F test is a test that shows how all the independent variables together affect the dependent variable.

Table 3. Nilai Koefisien Determinasi

Model	Sum of squares	df	Mean square	F	Sig.
Regression	78322.310	5	15264.462	931.340	,000[a]
Residual	983,387	60	16.390		
Total	7305.697	65			

a. Predictors: (Constant), X2*Z, X1, X2, Z. X1*Z
b. Dependent Variable: Y

Based on Table 3 shows F-count of 931.340 and significance value of 0.000 which is smaller than 0.05 or sig value of 0.000 <0.05 means simultaneously profitability, dividend policy, institutional ownership, interaction of profitability with institutional ownership, interaction of dividend policy with institutional ownership have an effect on the company value variable.

Analysis using moderated regression analysis (MRA) test. The test results can be seen in Table 4 as follows.

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Table 4. Moderated Regression Analysis
Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1(Constant)	12,061	3,910		3,085	,003
X1	17,018	7,551	,059	2,254	,015
X2	20,132	5,663	,128	3,555	,001
Z	22,449	4,777	,463	4,700	,000
X1*Z	42,795	21,142	,195	2,024	,042
X2*Z	28,812	7,707	.341	3,739	,000

a. Dependent Variable: Y

Based on Table 4, a regression equation model can be made as follows. Y = 12.061 + 17.018 X1 + 20.132X2 + 22.449Z + 42.795X1 * Z + 28.812X2 * Z. The constant value of 12.061 means that if you do not pay attention to profitability, dividend policy, institutional ownership, the interaction of profitability and institutional ownership, the interaction of dividend policy with institutional ownership, then the value of the company is 12.061. The coefficient value (b1) is 17.018. A positive coefficient value indicates that if profitability increases by 1 percent, the company value will increase by 17.018 percent assuming the variables of dividend policy, institutional ownership, the interaction of profitability with institutional ownership, and the interaction of dividend policy with institutional ownership are considered constant.

The coefficient value (b2) is 20.132. A positive coefficient value indicates that if the dividend policy increases by 1 percent, the company value will increase by 20.132 percent assuming the profitability variables, institutional ownership, interaction of profitability with institutional ownership, and interaction of dividend policy with institutional ownership are considered constant. The coefficient value (b3) is 22.449. A positive coefficient value indicates that if institutional ownership increases by 1 percent, the company value will increase by 22.449 percent assuming the profitability variables, dividend policy, interaction of profitability with institutional ownership, and interaction of dividend policy with institutional ownership are considered constant. The coefficient value (b4) is 42.795. A positive coefficient value indicates that if the interaction of profitability with institutional ownership increases by 1 percent, the company value will increase by 42.795 percent assuming the profitability variables, dividend policy, institutional ownership, and interaction of dividend policy with institutional ownership are considered constant. The coefficient value (b5) is 28.812. The positive coefficient value shows that if the interaction between dividend policy and institutional ownership increases by 1 percent, the company value will increase by 28.812 percent assuming the profitability variables, dividend policy, institutional ownership, and interaction between profitability and institutional ownership are considered constant.

Discussion. Based on the results of the study, it shows that the profitability variable has a positive effect on company value and the effect is significant at the level of significance, so H1 is accepted. This means that profitability has a positive effect on company value in Financial Sector companies on the Indonesia Stock Exchange for the 2018-2020 period. The results of the study provide the meaning that the higher the profitability, the higher the company value, and vice versa, the lower the profitability, the lower the company value. Therefore, profitability affects the value of the company and the owners or shareholders of the company because it can provide maximum shareholder prosperity if the stock price increases, but if profits increase, tax avoidance decreases, this is because the company does not take efficient actions in paying its taxes. This is evidenced by the maximum value of the average profitability in the Company (Atmadja & Saputra, 2018).

Based on the results of the study, it shows that the dividend variable has a positive effect on company value and the effect is significant at the level of significance, so H2 is accepted. This means that dividend policy has a positive effect on company value in financial sector companies on the Indonesia Stock Exchange for the 2018-2020 period. The results of the study provide the meaning that the higher the dividend policy, the higher the company value, and vice versa, the lower the dividend policy, the lower the company value. Dividend policy is a company policy in determining the profits obtained which will be distributed to shareholders as dividends or the profits are retained to finance future investments (Saputra et al., 2025). Companies that pay stable dividends over time are likely to be valued better than companies that pay fluctuating dividends (Saputra & Dharmawan, 2025). Making the right decisions in dividend policy and payments can maximize the value of the company and the value of shareholders. This means that the greater the dividends paid, the value of the company will increase, and vice versa.

Based on the results of the study, it shows that the interaction variable of profitability with institutional ownership has a positive effect on firm value and this effect is significant at the level of significance, so H3 is accepted. This means that institutional ownership can moderate the positive effect of profitability on firm value in financial sector companies on the Indonesia Stock Exchange for the 2018-2020 period. The results of the study provide meaning that the moderating role of institutional ownership on the effect of profitability on firm value is to strengthen the positive effect of profitability on firm value. This is emphasized in the regression coefficient value of the interaction of profitability with institutional ownership of 42.795 and the regression coefficient value of profitability of 17.018. The role of institutional ownership can moderate indicating that it can minimize agency problems which in turn will have an effect on the positive relationship between profitability and firm value (Saputra & Laksmi, 2024b; Saputra & Paranoan, 2024).

Institutional ownership is the ownership of company shares owned by institutions or institutions such as banks, investment companies, insurance companies and other institutional ownership. Institutional ownership requires good corporate governance. Good corporate governance describes how management manages its assets and capital well to attract investors. The management of a company's assets and capital can be seen from the existing financial performance (Saputra & Laksmi, 2024a). If the management is carried out properly, it will automatically increase the value of the company. Profitability is a measure of a company's performance in making the wealth owned by a company effective, which is indicated through profit. Profitability in net form is allocated to improve the welfare of shareholders in the form of paying dividends and retained earnings. The high value of profitability can describe the efficiency carried out by the company, the higher the profit, the higher the tax costs that must be paid by the company to the state. Which assumes that there are efforts to avoid taxes or tax avoidance (Widjayanti et al., 2024).

Based on the results of the study, it shows that the interaction variable of dividend policy with institutional ownership has a positive effect on company value and this effect is significant at the level of significance, so H4 is accepted. This means that institutional ownership can moderate the positive effect of dividend policy on company value in financial sector companies on the Indonesia Stock Exchange for the 2018-2020 period. The results of the study provide meaning that the moderating role of institutional ownership on the effect of dividend policy on company value is to strengthen the positive effect of dividend policy on company value. This is emphasized in the value of the regression coefficient of the interaction of dividend policy with institutional ownership of 28.812 and the value of the regression coefficient of dividend policy of 20.132. The role of

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institutional ownership can moderate indicating that it can minimize agency problems which in turn will have an effect on the positive relationship between profitability and company value. The higher the institutional ownership, the stronger the internal control over the company is expected to be so that agency costs as well as the use of debt by managers can be suppressed. The higher the dividend policy, especially in companies with high free cash flow, and the higher the institutional ownership, the higher the dividend policy, especially in companies with high free cash flow (Sara et al., 2020; Sara & Saputra, 2020; Sujana & Saputra, 2020). With the payment of dividends in cash to institutional ownership, it will affect the value of the company. Meanwhile, institutional ownership will also influence the company's funding policy. The existence of effective monitoring by institutional share ownership (institutional ownership) reduces the opportunistic behavior of managers (Mariyatni et al., 2020; Predana et al., 2020; Watto et al., 2020). In addition, this ownership can act as a monitoring agent which causes managers not to make funding policies that have the potential to harm the company and reduce shareholder satisfaction.

CONCLUSION

Based on the description and results of the research analysis, several conclusions and suggestions can be put forward as follows: 1) The profitability variable has a positive effect on company value. This means that the higher the profitability, the higher the company value in financial sector companies on the Indonesia Stock Exchange for the 2018-2020 period. 2) The dividend policy variable has a positive effect on company value. This means that the higher the dividend policy, the higher the company value in financial sector companies on the Indonesia Stock Exchange for the 2018-2020 period. 3) Institutional ownership can moderate the positive effect of profitability on company value in financial sector companies on the Indonesia Stock Exchange for the 2018-2020 period. 4) Institutional ownership can moderate the positive effect of dividend policy on company value in financial sector companies on the Indonesia Stock Exchange for the 2018-2020 period. The results of this study contribute to prospective investors to pay attention to matters related to company value, so that they can help provide insight into how profitability, dividend policy and the interaction of profitability with institutional ownership and the interaction of dividend policy with institutional ownership affect company value.

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