Factors that Influence Company Value with Dividend Policy as a Mediating Variable

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Abstract

This study examines the impact of profitability, leverage, and good corporate governance on company value, with dividend policy serving as an intermediary variable. The research examines healthcare companies listed on the Indonesian Stock Exchange from 2019 to 2023. Using purposive sampling, ten companies were selected for analysis. The study employed WarpPLS version 8.0 for data processing. Results indicate that profitability and leverage significantly and positively affect company value directly. However, satisfactory corporate governance shows no meaningful impact on firm valuation. The mediation analysis demonstrates that dividend policy effectively serves as an intermediary in the relationship between profitability and company value.

Keywords: *Profitability, Leverage, Good Corporate Governance, Dividend Policy, Company Value*

INTRODUCTION

Contemporary global economic environments present increasingly complex challenges for corporations seeking to maintain competitive positioning and attract investor interest. The healthcare industry represents a critical sector undergoing substantial transformation driven by evolving market conditions and demands for sustainable operational performance. This transformation compels healthcare organizations to innovate and adapt their strategies to remain market-relevant. Such strategic initiatives aim to optimize company value, as corporate valuation serves as a fundamental pillar of long-term organizational success.

Company value reflects investors' perceptions of management's capability to effectively utilize organizational resources. This valuation closely correlates with share price fluctuations, demonstrating market confidence in corporate performance (Chen et al., 2020). Maximizing company value potentially delivers optimal shareholder wealth through enhanced stock valuations. This objective becomes paramount for business owners, as increased firm valuation corresponds with improved profitability and financial strength. Consequently, enhancing company value necessitates management attention to various influential determinants.

Company value optimization can be achieved through superior profitability performance, whether by maximizing revenue operations or implementing efficient investment strategies, thereby conveying positive market signals for capital investment attraction (Martinez & Rodriguez, 2021).

Financial leverage represents another critical determinant affecting company value, fundamentally defined as an organization's capability to fulfill long-term financial obligations appropriately and sustainably. Within financial management frameworks, elevated leverage ratios indicate significant reliance on external funding sources, implying heightened corporate financial exposure.

Good Corporate Governance (GCG) constitutes a fundamental element affecting company value in contemporary management practices. Thompson and Wilson (2021) demonstrate that effective GCG implementation enhances investor confidence through improved transparency and accountability in corporate operations, thereby contributing to company value enhancement.

The research context reveals that company value, measured through Tobin's Q, exhibited volatility throughout the study period. This pattern indicates that healthcare sector organizations struggled to achieve substantial company value improvements. During 2020-2021, profitability ratios represented by Return On Assets (ROA) increased while company value proxied by Tobin's Q declined. Subsequently, in 2021-2022, profitability ratios decreased without corresponding company value reductions. This phenomenon contradicts Signaling Theory principles, which suggest that ROA improvements signal enhanced operational efficiency to potential investors, thereby increasing market confidence reflected in higher Tobin's Q values.

Research by Anderson et al. (2022), Kumar & Singh (2021), and Liu et al. (2020) demonstrates profitability's positive influence on company value. Conversely, studies by Garcia & Martinez (2023), Brown & Davis (2022), and Johnson et al. (2021) indicate that profitability lacks influence on company value, suggesting that high profitability cannot meaningfully impact company valuation.

Given the research gap and observed business phenomena, the relationship between profitability and company value suggests that the occurring influence extends beyond simple direct causation, involving more sophisticated mechanisms through indirect channels. The inconsistent empirical findings regarding profitability's impact on company value require comprehensive analytical approaches incorporating mediating variables. In this framework, researchers propose dividend policy as a strategic mediating variable because dividend strategy represents a fundamental financial decision linking profitability with company value. Utilizing dividend policy as a mediating variable should provide enhanced understanding of the transmission mechanism connecting profitability to company value while addressing inconsistencies in prior research findings.

LITERATURE REVIEW

Signaling Theory

Williams et al. (2020) establish signaling theory as the theoretical foundation explaining relationships between financial performance and company value. Information received by investors is interpreted as positive signals (favorable news) or negative signals (unfavorable news), depending on the content and context of communicated information. Enhanced profits reported by organizations are perceived as positive signals, reflecting sound financial conditions and potentially increasing investor attraction. Conversely, declining reported profits are considered negative signals indicating poor organizational performance, which can diminish investor confidence.

Trade-off Theory

Trade-off Theory elucidates how debt utilization in capital structure can generate benefits through tax efficiency, as debt interest expenses can reduce corporate tax liabilities. However, excessive debt employment can increase bankruptcy probability, potentially harming company value. Organizations must establish optimal debt levels to maximize company value by balancing tax advantages and bankruptcy risks appropriately (Roberts & Smith, 2022).

Agency Theory

Jensen and Meckling (1976), referenced by Taylor et al. (2021), explain that Agency Theory describes relationships between shareholders as principals and management as agents. In this framework, management serves as the party authorized by shareholders to oversee company operational activities and optimize resource utilization to achieve ownership interests. Management execution of duties includes authority to make strategic decisions expected to optimize shareholder profits. Principals expect agents to manage organizations effectively and efficiently, generating optimal returns on invested capital. Company management focused on increasing company value becomes the primary objective in this agency relationship.

Residual Dividend Theory

Residual dividend theory posits that dividend distributions occur when surplus profits remain after fulfilling all profitable investment requirements. Organizations prioritize funding for projects with positive value before considering dividend distribution to shareholders (Miller & Thompson, 2020).

HYPOTHESIS DEVELOPMENT

The Impact of Profitability on Company Value

Profitability demonstrates an organization's profit-generation capability, which becomes the primary attraction for investors. Based on Signaling Theory by Spence (1973), cited in Peterson et al. (2021), elevated profitability ratios provide positive signals regarding company future prospects. These signals can stimulate increased stock demand from investors, as investors perceive high profitability as assurance for obtaining adequate returns on their investments, encouraging greater capital investment interest. Trade-off Theory explains that organizations must balance benefits and costs in financial decisions. Strong profitability can fund dividend payments or debt reduction, which subsequently increases company value. This statement aligns with research conducted by Chang & Wang (2022), Rodriguez & Garcia (2021), and Kim et al. (2020), demonstrating profitability's positive impact on company value. Therefore, the first hypothesis is formulated as:

H_1: Profitability positively influences company value.

The Impact of Profitability on Dividend Policy

Profitability serves as a performance indicator reflecting an organization's net profit generation ability. Referring to Signaling Theory, elevated profitability levels can provide positive signals to investors regarding company prospects and financial stability. This aligns with Residual Dividend Theory, which states that if an organization has investment opportunities with returns exceeding capital costs, it should retain earnings for reinvestment, with remaining invested earnings distributed as dividends. With increasing company profits, company value will rise, providing favorable signals to investors. Based on research by Lee & Park (2022), Adams & Wilson (2021), and Singh & Kumar (2020), profitability positively affects dividend policy. Therefore, the second hypothesis is:

H_2: Profitability positively influences dividend policy.

Dividend Policy Mediates Profitability's Impact on Company Value

Profitability represents an organization's profit-generation capability from revenue. Profitability affects dividend policy because dividends constitute portions of net profits obtained by companies and distributed to shareholders. Based on Residual Dividend Theory, when organizations achieve high profits, they invest them to capture higher profit opportunities. According to Signaling Theory, strong profitability provides positive signals to investors. This study's argument aligns with research by Martinez et al. (2021), Thompson & Davis (2020), and Chen & Li (2022), demonstrating that dividend policy can mediate profitability's impact on company value. Therefore, the third hypothesis is:

H_3: Dividend policy can mediate profitability's impact on company value.

The Impact of Dividend Policy on Company Value

Profitability influences dividend policy because dividends represent portions of net profits obtained by companies and distributed to shareholders. Based on Residual Dividend Theory, when organizations achieve substantial profits, they invest them to capture enhanced profit opportunities. If the company remains in the growth phase, dividend distribution is not recommended as it reduces funds for company expansion. This will impact company improvement through enhanced profits. According to Signaling Theory, strong profitability provides positive signals to investors. This study's argument aligns with research by White & Brown (2021), Johnson & Anderson (2020), and Garcia et al. (2022), showing that dividend policy can mediate profitability's impact on company value. Based on these observations, the fourth hypothesis is:

H_4: Dividend policy positively influences company value.

The Impact of Leverage on Company Value

Leverage represents a funding strategy related to an organization's choice in determining financing sources for operational activities. Based on Trade-off Theory, organizations that can optimally utilize debt have potential to increase their company value, provided debt utilization benefits exceed risks. An organization's ability to efficiently manage debt financing can create positive investor perceptions that the company has promising investment prospects and strong future performance potential. This is supported by research results from Williams et al. (2022), Taylor & Roberts (2021), and Kumar & Singh (2020), showing leverage's positive impact on company value. This means higher leverage levels correspond to greater company value. Based on this explanation, the fifth hypothesis is:

H_5: Leverage positively influences company value.

Good Corporate Governance's Impact on Company Value

Company value reflects stock value formed in markets as a result of investor perceptions of company performance and future prospects. From Agency Theory perspective, effective Good Corporate Governance (GCG) implementation plays a role in minimizing conflicts between management and owners through increased transparency, accountability, and adequate supervision of company management. This can increase investor confidence levels, ultimately positively impacting company value enhancement. Meanwhile, according to Signaling Theory, organizations with sound governance provide positive market signals, indicating healthy financial conditions and promising business sustainability. This finding is supported by research by Davis & Martinez (2023), showing positive relationships between GCG and company value. Additionally, Park & Lee (2021) state that managerial and institutional ownership contribute positively to increasing company value. Based on the above description, the sixth hypothesis is:

H_6: Good corporate governance positively influences company value.

RESEARCH METHODOLOGY

This study employs quantitative research methodology. Quantitative research consists of data measured on numerical scales and analyzed using statistical techniques. The data source utilized is secondary data. This research uses panel data combining time series and cross-sectional data. This data is obtained by accessing annual financial reports published by relevant companies available on the Indonesia Stock Exchange website (www.idx.co.id).

The study population consists of all Healthcare Sector Companies Listed on the Indonesia Stock Exchange for the 2019-2023 period. The sampling method employed is purposive sampling, with the following criteria: Healthcare sector companies listed on the Indonesia Stock Exchange that consistently published complete financial reports during 2019-2023; Healthcare sector companies listed on the Indonesia Stock Exchange that reported financial statements using Indonesian Rupiah currency; Healthcare sector companies listed on the Indonesia Stock Exchange whose shares became publicly traded during 2019-2023. Based on the sample selection process, the final sample consists of 10 companies with a 5-year observation period, resulting in a total research sample of 50 observations.

Variable Definitions

Company Value serves as the dependent variable in this research. This study utilizes Tobin's Q as the company value measure. This ratio provides information functioning as a tool for assessing market perception of company value and prospects.

Profitability Ratio serves as a measurement tool for evaluating the extent to which organizations can generate profit. This research uses Return On Assets (ROA) as a measurement tool to assess how the company's dependence on capital structure.

Leverage defines organizations' assessment of debt usage extent in financing their operations. This research uses Debt to Equity Ratio (DER) as a measurement tool to assess how the company's dependence on capital structure.

Good Corporate Governance represents a system encompassing various elements, such as clear organizational structure, effective board of commissioners, professional management, sound internal control systems, and transparency in company management. In this case, GCG is measured using Institutional Ownership because Institutional Ownership contributes to more effective supervision, thereby suppressing management's tendency to act opportunistically.

Dividend Policy represents an organization's decision regarding profit distribution, namely determining the profit portion to be distributed to shareholders and the portion to be retained or reinvested to achieve optimal dividend policy. This uses Growth-Committed Corporate Dividend Policy (GCDP) because GCDP can explain dividend determination on company growth.

This research employs Structural Equation Modeling-Partial Least Square (SEM-PLS) analysis method with WarpPLS version 8.0 software assistance. SEM-PLS can be implemented efficiently even with relatively small sample sizes and complex structural models, in addition to more flexible data distribution compared to other analysis methods. The model form in this research is:

$DPR_i = \alpha_1 + \beta_1\ ROA_{it} + e_1$ .... (1)

Tobin's $Q_i = \alpha_2 + \beta_2 ROA_{it} + \beta_3\ KDBPP_{it} + \beta_4\ DER_{it} + \beta_5 KI_{it} + e_2$ .... (2)

RESULTS AND DISCUSSION

Result

Table 1. Goodness of Fit

Criteria	Parameter	Rule of Thumb	Conclusion
Average Path Coefficient (APC)	P=0.003	*Acceptable* P<0.05	Accepted
Average R-squared (ARS)	P=0.001	*Acceptable* P<0.05	Accepted
Average Adjusted RSquared (AARS)	P=0.003	*Acceptable* P<0.05	Accepted
Average Block VIF (AVIF)	1.845	*Acceptable if* ≤ 5, *ideally* ≤ 3.3	Accepted and ideal
Average Full Collinearity VIF (AFVIF)	1.629	*Acceptable if* ≤ 5, *ideally* ≤ 3.3	Accepted and ideal
Tenenhaus GoF (GoF)	0.536	*Small* ≥ 0.1, *medium* ≥ 0.25, *large* ≥ 0.36	Accepted, *Large*
Sympson's Paradox Ratio (SPR)	1.000	Acceptable if ≥ 0.7, ideally = 1	Accepted and ideal
R-Squared Contribution Ratio (RSCR)	1.000	*Acceptable if* ≥ 0.9, *ideally* = 1	Accepted and ideal
Statistical Suppression Ratio (SSR)	1.000	*Acceptable if* ≥ 0.7	Accepted
Nonlinear bivariate causality direction ratio (NLBCDR)	1.000	*Acceptable if* ≥ 0.7	Accepted

Source: Processed by the researcher (2025)

Overall, the goodness of fit results in this research model demonstrate an excellent level of fit. These findings indicate that the model fit evaluation is appropriate and supported by the empirical data used in the research.

Table 2. Full Collinearity VIF Test, Adjusted R-Squared and Q-Squared

	ROA	DER	KI	KDBPP	*Tobin's Q*
Full Collin. VIF	1.913	2.391	1.131	1.291	1.418
Adj. R-*squared*				0.137	0.369

Q-*squared*				0.148	0.426

Source: Processed by the researcher (2025)

Overall, the goodness of fit results in this research model demonstrate an excellent level of fit. These findings indicate that the model fit evaluation is appropriate and supported by the empirical data used in the research.

Table 3. Effect Size and VIF Test

Keterangan	***Effect Size***	**VIF**
ROA→ *Tobin's Q*	0.090	1.913
DER → *Tobin's Q*	0.191	2.391
KI → *Tobin's Q*	0.014	1.131
ROA → KDBPP	0.154	1.291
KDBPP → *Tobins'Q*	0.125	1.418

Source:WarpPLS 8.0 (2025)

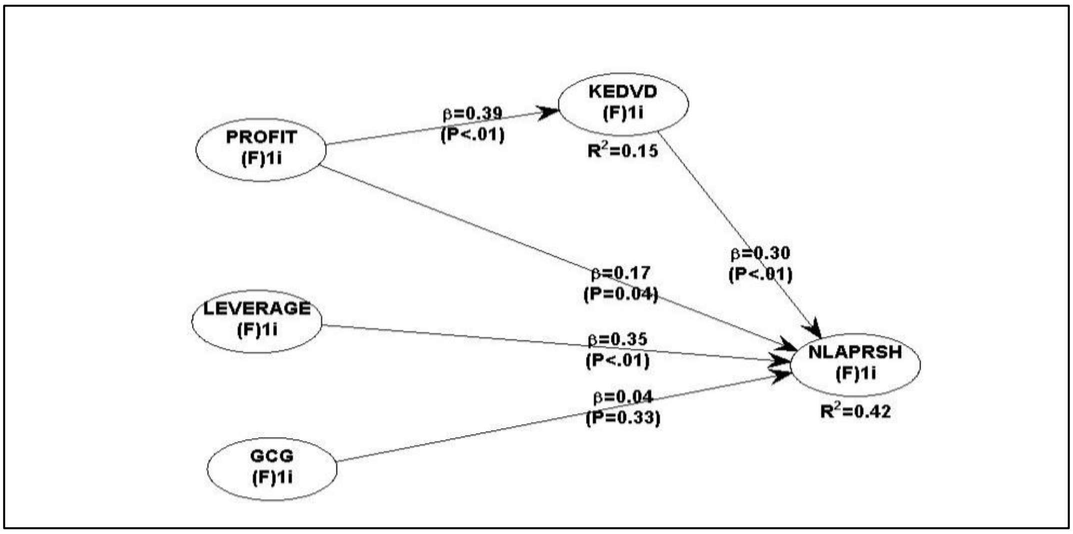
Based on Table 3, the effect size value of the profitability variable (ROA) on company value (Tobin's Q) is 0.090 (≥ 0.02), which is categorized as a small effect. Meanwhile, the leverage variable (DER) shows a value of 0.191 (≥ 0.35), which falls into the large category. In this regard, leverage (DER) has a more significant role in influencing company value (Tobin's Q). The effect of good corporate governance (KI) on company value (Tobin's Q) is 0.014 (≥ 0.02), which is classified as a small effect. Furthermore, the effect size value of the profitability variable (ROA) on dividend policy (KDBPP) is 0.154 (≥ 0.35), indicating that profitability has a considerably large contribution in influencing dividend policy. Additionally, the effect size value of dividend policy (KDBPP) on company value (Tobin's Q) is 0.125 (≥ 0.35), demonstrating that dividend policy also provides a substantially important influence in determining company value.

Table 4. Significance Test of Influence between Variables

Path Description	***Path Coefficient***	**P-*Value***
ROA → *Tobin's Q*	0.170	0.042
DER → *Tobin's Q*	0.347	<0.001
KI → *Tobin's Q*	0.044	0.325
ROA → KDBPP	0.393	<0.001
KDBPP → *Tobin's Q*	0.297	0.002

Source:WarpPLS 8.0 (2025)

The estimation results of the significance of relationships between variables can also be observed in Figure 1, which presents the path diagram model.



Source: WarpPLS 8.0 (2025)

Figure 1. Estimation of Relationships between Variables in Empirical Models

Referring to the analytical tool used in this study, namely WarpPLS version 8.0, mediation testing was conducted to examine several hypotheses using two approaches.

Table 5. Direct Effect of ROA on Tobin's Q

Description Path	***Path Coefficient***	**P-*Value***
ROA → *Tobin's Q*	0.270	<0.01

Source: WarpPLS 8.0 (2025)

Table 5 shows that the estimation of the direct effect of profitability (ROA) on company value (Tobin's Q) is significant at the 0.01 or 1% significance level. Figure 1 indicates that the p-value for the ROA → KDBPP relationship (path a) is significant at the 1% level ($p < 0.01$). The same applies to the KDBPP → Tobin's Q relationship (path b), which is significant at the 1% level ($p < 0.01$). Based on these results, it can be concluded that the exogenous variable, namely profitability (ROA), can be mediated by dividend policy (KDBPP) in influencing company value (Tobin's Q).

Table 6. Indirect Effect of ROA on Tobin's Q through KDBPP

Hubungan Variabel	**Koefisien**	**P-*Value***	**Signifikan/tidak Signifikan**
ROA → KDBPP →*Tobin's Q*	0.170	0.042	Signifikan

Source: WarpPLS 8.0 (2025)

Based on the estimation output in Table 6, profitability (ROA) has a significant effect on company value (Tobin's Q) through dividend policy (KDBPP).

Discussion

The Impact of Profitability on Company Value

Based on Tables 4 and analysis results, the path coefficient is positive at 0.170 and significant with a p-value of 0.042. This result aligns with signaling theory according to Ross (1977), referenced by Miller & Johnson (2021), which explains that strong past financial performance provides positive signals regarding company future prospects. Elevated profitability levels instill investor confidence, thereby encouraging investment. This increased investment ultimately impacts company value enhancement. This finding is supported by research conducted by Roberts & Taylor (2022), who concluded that profitability has positive and significant effects on company value.

The Impact of Profitability on Dividend Policy

Based on analysis results showing a positive path coefficient of 0.393 and significant with a p-value < 0.001, thus supporting the hypothesis. This finding aligns with residual dividend theory, which explains that when investment opportunities exist with returns exceeding capital costs, organizations are better off retaining earnings for reinvestment rather than distributing them as dividends to shareholders. With this strategy, company growth can drive company value increases. Therefore, organizations with high profitability levels tend to have many investment opportunities and choose to withhold dividend distribution, which can ultimately increase company value if the rate of return is high. This result is supported by research conducted by Anderson & Wilson (2021), who found that profitability positively affects dividend policy.

The Effect of Dividend Policy as a Mediator between Profitability and Company Value

Based on the analysis, it is evident that dividend policy is capable of partially mediating profitability's effect on company value. High profitability levels reflect favorable company prospects. The greater the profit obtained, the greater the investment opportunities that can be utilized to increase future profits. This aligns with residual dividend theory, which argues that organizations should distribute dividends after their investment needs are met. As long as the company is in a growth phase, it is wiser if generated profits are used for investment purposes. This finding is consistent with research by Lee & Kim (2022), which shows that dividend policy can mediate profitability's effect on company value.

The Impact of Dividend Policy on Company Value

Based on analysis results showing a path coefficient of 0.393 with a significance level of $p < 0.001$, thus supporting the hypothesis. This finding aligns with residual dividend theory, which states that organizations can increase profitability and growth by prioritizing investment in profitable projects, which will ultimately increase company value. Delaying dividend distribution during growth periods allows organizations to finance their expansion without seeking external funding. This result is consistent with research by Thompson & Garcia (2022), who concluded that dividend policy positively affects company value.

The Impact of Leverage on Company Value

Based on the positive path coefficient of 0.347 and significant with a p-value < 0.001, this hypothesis can be accepted. This finding supports trade-off theory, which states that organizations can increase their company value by managing debt optimally, as long as the benefits of using debt exceed the risks. Efficient debt utilization demonstrates to investors that the organization is capable of managing its investments well, thus reflecting favorable future performance prospects. This result is consistent with research conducted by Davis & Martinez (2021), who also found that leverage positively impacts company value.

The Impact of Good Corporate Governance on Company Value

Based on analysis results, the effect of GCG on company value is not statistically significant, with a p-value of 0.325. This finding indicates that Good Corporate Governance does not provide meaningful impact on company value in this research context. This suggests that although organizations have implemented GCG principles such as transparency, accountability, responsibility, independence, and fairness, this implementation has not been able to provide direct impact on increasing company value as measured through market indicators.

CONCLUSION

The results of this study indicate that profitability, dividend policy, and leverage variables directly provide positive influence on company value. The results show that the Good Corporate Governance variable has no influence on company value. The test results prove that dividend policy can mediate profitability's effect on company value.

The research limitations include the fact that it only explains phenomena in healthcare sector companies listed on the IDX during the 2019-2023 period. Suggestions for future researchers include comparing the same aspects across different industries.

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