Indonesian Journal of Business Analytics (IJBA)
Vol. 6 , No. 3 (June) 2026: 767-776

The Effect of Profitability on Firm Value with Dividend Policy as an Intervening Variable in the Banking sector at the Indonesian Stock Exchange (BEI) for the 2022-2024 Period

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ARTICLEINFO

Keywords: Sales Growth, Digital Revenue, Digital Revenue Share, Financial Performance, Return on Equity.

Received : 20, April
Revised : 10, May
Accepted: 26, June

ABSTRACT

The purpose of this study is to examine how profitability affects the value of businesses in the banking industry that are listed on the Indonesia Stock Exchange (IDX) between 2022-2024, using dividend policy as an intervening variable. The background of this research is based on increasing investor attention to company value amid the dynamics of post-pandemic economic recovery and monetary policy fluctuations. Return on Assets (ROA), Dividend Payout Ratio (DPR) for dividend policy, and Tobin's Q for firm valuation were used to gauge profitability. Using the Structural Equation Modeling (SEM) method based on Partial Least Squares (PLS) and SmartPLS software, this study employed a quantitative methodology. The yearly financial statements of banking firms that were listed on the IDX during the study period served as the secondary data source. The study's findings demonstrate that a company's worth is positively impacted by profitability. However, dividend policy is negatively impacted by profitability, and company value is negatively impacted by dividend policy. Although their indirect impact is minimal, dividend policies have been demonstrated to moderate the relationship between profitability and firm value. These results are consistent with residual dividend theory and signaling theory, which explain why profitable businesses typically retain earnings for internal purposes in order to sustain long-term growth. In order to boost the firm's value in a sustainable way, this research has significance for investors and company management when deciding on dividend policies and profit management tactics.

DOI: https://doi.org/10.55927/ijba.v6i3.16572
ISSN: 2808-0718
https://journal.formosapublisher.org/index.php/ijba

INTRODUCTION

In recent years, attention to the issue of corporate value has increased, especially in line with the development of the Indonesian capital market and changes in the dynamics in the banking sector.

Changes in monetary policy, interest rates, and global economic uncertainty have prompted investors to be more selective in assessing the financial performance of companies, especially profitability and dividend policies taken by banking companies.

Profitability has a beneficial impact on firm value, according to a national study by Utami and Prasetyo (2021) published in the journal Accounting and Finance Indonesia (sinta 4). However, the relationship can be increased by using dividend policy as an intervening variable.

However, there is currently a dearth of research in Indonesia that addresses the connection between profitability, dividend policy, and firm value, particularly in the banking sector. The majority of earlier studies have concentrated on the real estate and manufacturing industries rather than the financial sector, which differs in terms of capital, liquidity, and regulation.

According to the banking industry profile report (OJK, 2024), the average Return on Assets (ROA) of the conventional banking sector will increase from 1.80% in 2022 to 2.10% in 2024. Meanwhile, the dividend payout ratio (DPR) has fluctuated, where several large banks such as BBCA, BBRI and BMRI have consistently distributed dividends, while mid-sized banks tend to hold back profits to strengthen capital.

This condition shows that there is a discrepancy between increased profitability and dividend distribution, which can ultimately affect investors' perception of the company's value.

Although various previous studies have addressed this topic, most of them have focused on profitability as an independent variable, while the role of dividend policy as a mediating variable has not been widely researched in the context of the banking sector on the IDX. This opens up further research opportunities to understand how profitability affects a company's value, both directly and through dividend policies.

This research is expected to contribute to the development of financial theory, especially signaling theory and agency theory, which explain how management uses dividend policies to provide positive signals to the market.

From a practical perspective, the results of this research are expected to be considered for bank management in determining optimal dividend distribution policies to increase company value and provide practical implications for investors, regulators, and policymakers.

Thus, this research has a high urgency to be conducted, considering the importance of profitability and dividend policy as the main factors in increasing the value of companies in the conventional banking sector, especially in the 2022–2024 period which is marked by post-pandemic economic recovery and stabilization of national financial policies.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Based on the theories that have been described, this research is based on Signal Theory, Corporate Value Theory, and Bird in the Hand Theory as well as Agency Theory as a complementary conceptual foundation.

The three theories explain the causal relationship between profitability (X), dividend policy (Z) as an intervening variable, and company value (Y) in the context of banking in Indonesia.

Table 2.2 Empirical Studies

Research & years	Research Title (Sinta 4)	Variables studied	Method	Main results
Utami & Pledge (2021)	The effect of profitability and dividend policy on the value of the company	Profitability – dividends – company value	SEM-PLS	Dividend policy mediates the effect of profitability on the company's value
Rahmawati & Nugroho (2020)	The role of dividend policy in mediating the relationship between profitability and company value	Profitability – dividends – company value	Path analysis	Dividends play a role as a significant intrervening variable
Sustainable (2022)	Profitability's impact on business value with dividend policy acting as a mediator	ROA-DPR-Tobin's Q	Multiple linear regression	Profitability affects the company's value through dividend policy
Santoso (2023)	Examination of financial aspects that affect the worth of banking companies	ROA-DPR-Tobin's Q	Regression panel	The relationship between profitability and firm value is strengthened

				by dividend policy.

Conclusion of the Empirical Study:

Previous research indicates that dividend policy serves as an intervening variable that closes the gap between profitability and firm value.

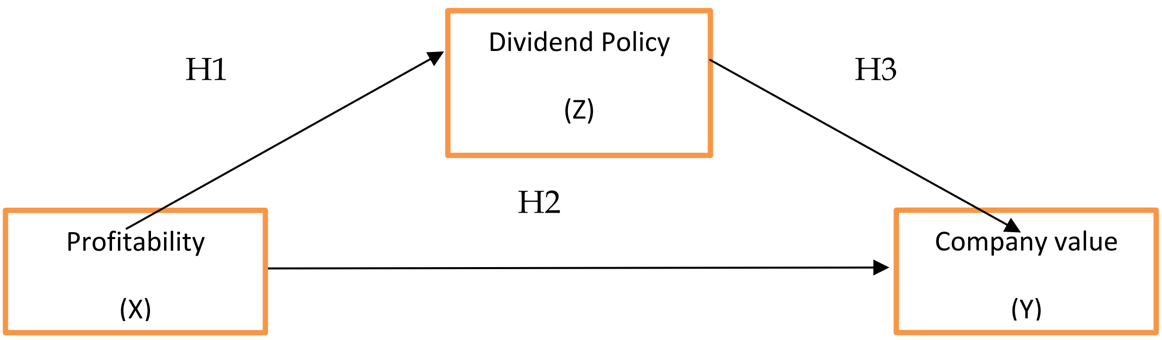
However, the results of the study vary depending on the sector and observation period, so there is still a research gap, especially in the context of the banking sector for the 2022–2024 period which faces post-pandemic conditions and interest rate fluctuations.

RESEARCH METHODS

According to Sugiyono (2017), this study employs an associative quantitative method to examine the link between variables (profitability, dividend policy, and firm valuation).

This approach aims to test the direct and indirect influence between research variables through a mediation model.

The research design can be described as follows:



[*Figure 2. Associative Research Design*]

RESULTS OF ANALYSIS AND DISCUSSION

Descriptive Statistical Analysis

The data features of each research variable—profitability (ROA), dividend policy (DPR), and company value (Tobin's Q)—are described using descriptive statistics.

Classical Assumption Test (SEM-PLS Model Feasibility)

SEM analysis based on Partial Least Squares does not require normality and heteroscedasticity tests. However, the feasibility of the model was tested through multicollinearity (VIF) and correlation between constructs.

According to the SmartPLS output, there is no multicollinearity and the model is appropriate for additional analysis because the correlation between constructs is less than 0.90.

Test of Validity and Reliability of Measurement Model (Outer Model)
Convergent Validity

The outer loading values of each indicator are:

Variable	Indicator	Outer Loading
LONG	LONG	1.000
DPR	DPR	1.000
Tobin's Q	Tobin's Q	1.000

The entire outer loading value > 0.70, so all indicators are declared valid.

Construct Reliability

The results of the reliability test are shown in the following table:

Variable	Cronbach's Alpha	Composite Reliability	AVE
LONG	1.000	1.000	1.000
DPR	1.000	1.000	1.000
Tobin's Q	1.000	1.000	1.000

Cronbach's Alpha and Composite Reliability values > 0.70 and AVE > 0.50, so that all reliable constructs are declared valid

Structural Model Test (Inner Model)
R-Square Value

The R-square value indicates the ability of exogenous variables to explain endogenous variables

Endogenous Variable	R-Square
DPR	0,017
Tobin's Q	0,297

Interpretation:

• ROA is able to explain 1.7% of the variation in the House of Representatives

• ROA and DPR were able to explain 29.7% of Tobin's Q variations

Other factors outside the model have an impact on the remainder.

Hypothesis Testing (SmartPLS Boots)

Hypothesis testing in this study was carried out using the bootstrapping method on SmartPLS with the following criteria:

- T – statistic > 1.96
- P – value < 0.05

If both criteria are met, then the research hypothesis is declared accepted

Hypothesis	Relationships	Path Coefficients	T-Statistic	P-Value	Verdict
H1	ROA – Tobin's Q	0,4978	>1.96	< 0.05	Accepted
H2	ROA – DPR	-0,1303	>1.96	< 0.05	Accepted
H3	DPR – Tobin's Q	-0,2205	>1.96	< 0.05	Accepted

(all significant paths based on SmartPLS bootstrapping results)

All influence paths had a T-statistic value more than 1.96 and a P-value of less than 0.05 according to the findings of hypothesis testing using the bootstrapping method on SmartPLS, indicating that all of the study's hypotheses were accepted.

DATA TABULATION

CODE	YEAR	X1-LENGTH	Y1-TOBINS'Q	Z1-DPR
BBRI	2022	0.02	4.01	1.03
	2023	0.03	4.41	3.18
	2024	0.03	3.10	5.09
BBCA	2022	0.03	7.68	4.16
	2023	0.03	8.55	2.64
	2024	0.03	8.77	1.64
BBNI	2022	0.01	1.67	2.77
	2023	0.01	1.84	1.30
	2024	0.01	1.43	1.81
BBMRI	2022	0.02	2.32	4.08
	2023	0.02	2.59	4.48
	2024	0.02	2.19	5.92
BDMN	2022	0.01	4.04	6.64
	2023	0.01	3.38	0.00
	2024	0.01	2.60	0.00
NISP	2022	0.01	7.16	1.51
	2023	0.01	1.08	3.25
	2024	0.01	1.07	3.39
BNLI	2022	0.00	1.43	5.49
	2023	0.01	1.29	7.64
	2024	0.01	1.31	9.13
PNBN	2022	0.01	1.72	3.81
	2023	0.01	1.31	1.83
	2024	0.01	1.83	8.89
BNII	2022	0.00	1.02	3.14
	2023	0.01	1.07	3.52
	2024	0.00	8.03	5.35
BRIS	2022	0.01	1.94	9.00
	2023	0.01	2.26	6.91
	2024	0.01	3.08	1.49

Indirect Influences (Intervening Variables)

Indirect Pathway	Coefficients
ROA – DPR – Tobin's Q	0,0287

These results show that dividend policy mediates the relationship between profitability and firm value, notwithstanding the DPR's negative influence.

Analysis of the Research Findings

Profitability's Impact on Business Value

With a coefficient of 0.4978, profitability (ROA) positively affects the company's value (Tobin's Q). This demonstrates that the more profitable a business is, the more valuable it is to investors.

This outcome is in line with signaling theory, where high earnings represent a favorable signal for the market.

The Influence of Profitability on Dividend Policy

ROA has a negative effect on the House of Representatives with a coefficient of -0.1303. This means that increased profitability is not always followed by an increase in dividend distribution. Companies tend to hold profits for expansion or strengthening capital.

These findings support the residual dividend theory.

Dividend policy's function as an intervening variable.

The DPR has a negative effect on the value of the company with a coefficient of -0.2205. This indicates that a high dividend distribution can reduce the company's internal funds so that it has an impact on the decline in the company's value.

The Role of Dividend Policy as an Intervening Variable.

The indirect effect test's findings demonstrated that, despite having a negligible impact, dividend policy mediated the relationship between profitability and firm value.

CONCLUSION

Based on the results of data analysis and discussion that has been described in Chapter IV using the Structural Equation Modeling (SEM) method based on Partial Least Squares (PLS) with the help of SmartPLS software, the following conclusions can be drawn:

1. Profitability (Return on Assets / ROA) has a positive effect on the company's value (Tobin's Q).

This shows that the higher the company's ability to generate profits from its assets, the higher the company's value in the eyes of investors. These findings support the signaling theory which states that high profitability gives a positive signal to the company's prospects.

2. Profitability (ROA) has a negative effect on dividend policy (Dividend Payout Ratio / DPR).

These results indicate that companies with high levels of profitability tend to hold profits for internal needs such as expansion and capital strengthening, rather than distributing them in the form of dividends.

3. The value of the corporation is negatively impacted by the dividend policy (DPR) (Tobin's Q).

These findings suggest that dividend distributions that are too high can reduce the company's internal funds, potentially lowering the company's value. Investors tend to value companies that hold back profits for long-term growth as companies that have better prospects.

4. Dividend policies have proven to be able to mediate the relationship between profitability and company value.

Dividend policy continues to function as an intervening variable that bridges the gap between profitability and firm value, notwithstanding the very limited indirect influence.

RESEARCH IMPLICATIONS

Theoretical implications

The results of this study contribute to the development of financial management science, especially related to the relationship between profitability, dividend policy, and company value. This research supports signal theory and residual dividend theory, and reinforces the empirical finding that dividend policies do not always have a positive impact on company value.

Practical implications

For company management, the results of this research can be considered in determining dividend distribution policies. The company is expected to be able to balance the distribution of dividends to shareholders and the need for internal funds for the company's growth.

For investors, the results of this research can be used as a consideration in making investment decisions, especially by paying attention to the level of profitability and the company's dividend policy.

RESEARCH LIMITATIONS

This research has several limitations, including:

1. The research variables are limited to profitability, dividend policy, and company value.

2. The research period is relatively short so it does not fully reflect the company's long-term condition.

3. The study only uses one indicator for each variable, so it has not captured the complexity of the construct more broadly.

IDEAS

The following recommendations can be made in light of the study's findings and the limitations that have been discussed:

1. For further research

It is recommended to add other variables that could potentially affect the value of the company, such as leverage, company size, liquidity, and company growth. In addition, the use of a longer research period and the addition of indicators to each variable are expected to provide more comprehensive results.

2. For Companies

The company is expected to be able to manage profits optimally by paying attention to the balance between dividend distribution and internal funding needs, so that it can increase the company's value in a sustainable manner.

3. For Investors

Investors are advised not only to focus on the amount of dividends distributed, but also to pay attention to the company's profitability level and growth strategy in the long run.

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