



The Effect of Profitability, Institutional Ownership on the Value of the Company with Dividend Policy as a Mediation

Ida Ayu Ria Paramita Handayani^{a*}, Dodik Ariyanto^b, Ni Ketut Rasmini^c, Anak Agung Gde Putu Widanaputra^d

a,b,c,d *Economics and Business Faculty, Udayana University, Bali, Indonesia*

^aEmail: paramitaadayu91@yahoo.co.id

Abstract

This study aims to examine the effect of profitability and institutional ownership on firm value with dividend policy as a mediating variable. The data used is sourced from secondary data collected through the company's financial statements for 2014-2016. The sample used in this study amounted to 12 banking companies. Analysis of the data used in this study uses path analysis. This study obtained results that profitability affects dividend policy, institutional ownership has no effect on dividend policy, profitability affects the value of the company, institutional ownership affects the company's value and dividend policy affects the value of the company. For the results of the mediation effect test, this study obtained results that dividend policy is not a mediating variable of the effect of profitability and institutional ownership on the value of the company.

Keywords: Profitability; institutional ownership; company value; dividend policy.

1. Introducing

The value of the company plays a role in maximizing shareholders if there is an increase in stock prices. The increasing stock price of a company, the prosperity of shareholders will also increase. According to Nurlela and Islahuddin [1], firm value is an important concept for investors, because it is an indicator for the market in assessing a company as a whole. Company value can be influenced by several factors, including profitability. Profitability has an important role in determining the future of the company Purnamawati [2].

* Corresponding author.

This means, the higher the profitability of the company proxied by return on assets will increase the value of the company and become a positive signal for investors in making investments to obtain certain returns. If the company's ability to generate profits increases, then the stock price will also increase Husnan [3].

In addition to profitability, there are other factors that also influence the company's value, namely institutional ownership. High institutional ownership will have an impact on the high dividend payout ratio (DPR) policy. Widanaputra [4] states that there is a tendency for shareholders to be more interested in dividend payments that are relatively large than earning a profit in the form of retained earnings. This is because the level of certainty of the investments made tends to be high and real. High institutional ownership also relatively requires funding with debt so that the rights of shareholders to the company are not reduced Putri and Nasir [5].

This study was conducted to determine the direct influence of profitability and institutional ownership on the value of the company and the indirect effect of profitability and institutional ownership on the company through the mediating variable namely dividend policy. Mediating variables in this study are variables that lie between profitability and institutional ownership, so that profitability and institutional ownership do not directly affect the value of the company. The use of dividend policy in this study as mediation is due to having a role as the center of attention of many parties interested in information in the financial statements issued by the company Kartika [6]. Easterbrook [7] states agency costs show that high dividend payments can be used as a tool to reduce agency problems from companies. Information about dividends is a signal to find out the value of the company

The theory that explains the importance of performance measurement is signaling theory. Signal theory discusses the form of success or failure of management (agent) to the owner (principal) through important information that signals good or bad. Signal theory plays a role in reducing asymmetric information carried out by management. Signal theory explains the reason for the importance of a company to provide complete and relevant financial statement information to external parties Mehta [8].

2. Literature Review And Development Hypotheses

Dividend policy is the company's policy regarding the amount of dividends that must be paid to the shareholders whose amount depends on the profits earned by the company Al Najjar [9]. A high level of profitability will reflect good corporate prospects, especially in matters relating to dividend policies issued by the company, so that the positive signals will be responded quickly by investors and supported by increasing the value of the company Sujoko and Soebiantoro [10].

H1: Profitability has a positive effect on dividend policy.

Research conducted by Embara [11], Sukirni [12] and Agnes and Tarmizi [13], states that institutional ownership has a significant positive effect on dividend policy. The higher the institutional ownership, the dividends distributed are also high. In this case if institutional ownership is high, it can influence management's decision to distribute dividends. High institutional ownership is able to contribute to the decision of the dividends distributed in accordance with bird in the hand theory, where institutional investors prefer dividends

distributed compared to capital gains as a form of compensation for invested capital.

H2: Institutional ownership has a positive effect on dividend policy.

The high level of corporate profitability, will have an impact on increasing the efficiency of the company in the utilization of company assets in order to gain profits and create higher corporate value, so as to maximize shareholder prosperity. Signaling theory states that a good quality company will intentionally give a signal to the market, thus the market is expected to distinguish good and bad quality companies. Previous research by Chen [14], Nofrida [15], Lastri [16], shows that profitability has a positive relationship to firm value

H3: Profitability has a positive effect on the value of the company.

Part of the corporate governance system that plays a role in controlling agency problems is institutional ownership Jensen & Meckling [17]. As the majority owner of the company's shares, institutional investors also have an obligation to build the company's reputation against minority shareholders. Sukirni [12] state that institutional ownership has a positive effect on firm value.

H4: Institutional ownership has a positive effect on the value of the company.

Dividend policy is an indicator of how much profit the shareholders will receive. A company's dividend policy is a strategy issued by a company to improve the welfare of shareholders which is the main objective of companies that go public. The number of dividends paid by the company to shareholders, the performance of the company is considered to be better and ultimately the assessment of the company will be even better. Research conducted by Tamrin and his colleagues [18], Sukirni [12], Mardiyati and his colleagues [19] states that dividend policy has an influence on firm value.

H5: Dividend policy has a positive effect on the value of the company.

Lack of information obtained by outsiders about the company causes outsiders to protect themselves by providing low value to the company. The results of research conducted by Sukoco [20] and Wahyudi & Pawestri [21] state that dividend policy mediates the effect of profitability on firm value. Companies that succeed in earning large profits, where financial managers can manage these profits through the right financial decisions, both in the application of decisions and dividend policies so that the response of investors to invest in the company.

H6: Dividend policy mediates the relationship between profitability and company value.

High institutional ownership, the dividends distributed are also high. In this case if institutional ownership is high, it can influence management's decision to distribute dividends. Because high institutional ownership can contribute to earnings decisions distributed as dividends as a form of investor compensation in investing. This is consistent with signaling theory which states that dividend payments are always followed by an increase in stock prices Sartono [22], so investors are interested in buying these shares. High demand results in high stock

prices so that it can increase the value of the company. Because the company's value is reflected in its stock price.

H7: Dividend policy mediates the relationship of institutional ownership and corporate value.

3. Research Methodology

The population of this study is all banking companies listed on the Indonesia Stock Exchange in the 2014-2016 period. The sample determination method used is purposive sampling method, which is taking samples that are carried out with certain considerations or criteria [23]. The number of companies that were sampled in this study were 12 companies with a total of 36 observations over 3 years. The value of the company in this study was measured using Tobin's Q. The profitability ratio in this study was measured by the Return on Asset (ROA) proxy. Institutional ownership is measured using an indicator of the percentage percentage of share ownership held by the institution from the total amount of outstanding capital stock. Dividend policy is measured by the dividend payout ratio proxy. Research hypothesis testing is done by using path analysis model (path analysis) and data processing using the Product and Service Solutions (SPSS) application program version 18. The path analysis model is used to analyze the pattern of relationships between variables with the aim of knowing the direct and indirect effects of a set of independent variables on the dependent variable.

4. Result And Discussion

Table 1: Deskripsi Statistik Variabel Penelitian

	N	Minimum	Maximum	Mean	Std. Deviasi
ROA	360,15	19,90	2,953	3,818	
KEP.INS	3611,68	97,75	73,290	21,448	
DPR	360,10	0,75	0,333	0,192	
FIRM.VALUE	360,40	0,87	0,596	0,126	
Valid N (listwise) 36					

Source: Data processed, 2018

The firm value has an average value of 0.596, while the standard deviation value is 0.126. This means that the mean value is greater than the standard deviation, thus indicating that the results are quite good. The minimum value is 0.40 and the maximum value is 0.87. The profitability variable shows an average value of 2.953 while the standard deviation value is 3.818. This means that the mean value is smaller than the standard deviation that indicates that the results are not good. The maximum ROA value is 19.90 and the minimum ROA value is 0.15. Institutional ownership variables have a minimum value of 11.68 while the maximum value is 97.75. The average institutional ownership in all study samples was 73,290 with a standard deviation of 21,448. This means that the mean value is greater than the standard deviation, thus indicating that the results are quite good. Dividend policy variables are measured by the DPR proxy, having a maximum value of 0.75 and a minimum

value of 0.40, while the average value is 0.333 with a standard deviation of 0.192. This means that the mean value is greater than the standard deviation, thus indicating that the results are quite good.

In this study, classical assumption testing was done twice in two models in the path equation in this study. Based on the tests carried out, the two research models tested have passed the normality test, where the Kolmogorov-Smirnov coefficient of each equation is 0.099 and 0.137 with a significance level of 0.200 and 0.087 more than 0.05. This means that data from both models has been normally distributed. For autocorrelation test, the coefficient of Z for each model is -0.845 and -1.522 with a significance level of 0.398 and 0.128 more than 0.05. This means that data from both models has been free from autocorrelation symptoms. For multicollinearity tests, where each research variable from both models has a tolerance value of more than 0.10 and a VIF value of less than 10. This means that the regression model has been free from the symptoms of multicollinearity. For heteroscedasticity test, the significance value of the two models of each independent variable is more than 0.05. This means that the regression model is free from the symptoms of heteroscedasticity.

The second hypothesis testing aims to examine the effect of institutional ownership on dividend policy. The test results in Table 2. show that the t test coefficient is 1.853 with a significance level of 0.073 more than 0.05. This means that institutional ownership has no effect on dividend policy, so H2 is rejected.

Table 2: Path Analysis Results. Model 2

Model	Unstandardized Coefficient		Standardized Coefficient	T	Sig.
	B	Std. Error	Beta		
Konstanta	0,330	0,049		6,785	0,000
ROA	0,012	0,004	0,353	2,902	0,007
Kep. Institusional	0,002	0,001	0,395	3,315	0,002
Keb. Dividen	0,183	0,082	0,278	2,231	0,033
<i>Adjusted (R²)</i>	0,612				
F	19,396				
Sig. F	0,000				

Source: Data processed, 2018 (attachment 5)

Based on the Table 3, the structural equation can be arranged as follows:

$$Y = a + b_3X_1 + b_4X_2 + b_5M + \varepsilon_2 = 0,330 + 0,012X_1 + 0,002X_2 + 0,183M + \varepsilon_2$$

The calculated F coefficient value is 19,396 with a significance of 0,000 less than 0,05. This means that this model deserves to be further analyzed. The third hypothesis testing aims to examine the effect of profitability on firm value. The test results in Table 3. show that the t test coefficient is 2.902 with a significance level of 0.007 less than 0.05. This means that profitability has a positive effect on the value of the company, so that H3 is accepted. The fourth hypothesis testing aims to examine the effect of institutional ownership on company value.

The test results in Table 3. show that the t test coefficient is 3.315 with a significance level of 0.002 less than 0.05. This means that institutional ownership has a positive effect on the value of the company, so that H4 is accepted. The fifth hypothesis testing aims to examine the effect of dividend policy on company value. The test results in Table 3. show that the t test coefficient is 2.231 with a significance level of 0.033 less than 0.05. This means that dividend policy has a positive effect on the value of the company, so that H5 is accepted. The testing of the sixth hypothesis aims to examine the effect of profitability on company value mediated by dividend policy. The test results show that the coefficient of the small test (Z) is 1.511 with a significance level of 0.131 more than 0.05. This means that dividend policy is not as mediating the effect of profitability on company value, so H6 is rejected. The test results are presented in Table 4.

Table 3: Results of Sobel Test 1

Nilai Z	Sig.
1,511	0,131

Source: Data processed, 2018

The seventh hypothesis testing aims to examine the effect of institutional ownership on the value of the company mediated by dividend policy. The test results show that the coefficient of test (Z) is 1.729 with a significance level of 0.083 more than 0.05. This means that the dividend policy is not as mediating the influence of institutional ownership on the value of the company, so that H7 is rejected. The test results are presented in Table 5

Tabel 4: Results of Sobel Test 2

Nilai Z	Sig.
1,729	0,083

Source: Data processed, 2018

The coefficient of total determination obtained a value of 0.747 means that 74.70 percent of variations in fluctuations in changes in firm value are influenced by independent variables of profitability and institutional ownership and the mediating variables of dividend policy, while the remaining 25.30 percent is influenced by other variables not explained in the model.

5. Conclusion

Based on the results of testing and discussion, it can be concluded as follows: Profitability has a positive effect on dividend policy of companies in the banking sector listed on the Indonesia Stock Exchange (IDX); Institutional ownership has no effect on dividend policy companies in the banking sector listed on the Indonesia Stock Exchange (IDX); Profitability has a positive effect on the value of the banking sector companies listed on the Indonesia Stock Exchange (IDX); Institutional ownership has a positive effect on the value of the banking

sector companies listed on the Indonesia Stock Exchange (IDX); Dividend policy has a positive effect on the value of the banking sector companies listed on the Indonesia Stock Exchange (IDX); Dividend policy is not able to mediate the effect of profitability on the value of the banking sector companies listed on the Indonesia Stock Exchange (IDX) and dividend policy is unable to mediate the influence of institutional ownership on the value of the banking sector companies listed on the Indonesia Stock Exchange (IDX).

6. Suggestion

Based on the conclusions of the results of the study, the suggestions put forward in this study are from the research results obtained, the advice aimed at the company is to be able to increase the value of the company, the management not only must pay attention to the decisions in obtaining profits but also consider other policies such as the level of ownership institutional and dividend policy. From the research results obtained, the suggestions aimed at investors and potential investors are in making important investments to pay attention to the assessment of the company's prospects through the level of profitability, institutional ownership and dividend policy that can affect the value of the company that will become a place for investment and research results. obtained, the advice aimed at the next researcher is to pay attention to other factors that can influence the value of the company other than profitability, institutional ownership, and dividend policy, both as independent variables and mediating variables.

Reference

- [1] Nurlela, R dan Islahuddin. (2008). The Influence of Corporate Social Responsibility on Company Values with Profitability and Percentage of Management Ownership as Moderating Variables. Accounting National Association XI. Pontianak 23-24.
- [2] Purnamawati, I Gusti Ayu. (2016). The Effect Of Capital Structure and Profitability on Stock Price (Study of The Manufacturing Sector In Indonesia Stock Exchange). International Journal of Business, Economic and Law, Vol. 9, Issue 1.
- [3] Husnan, Suad. (2001) Basics of Portfolio Theory and Securities Analysis..Yogyakarta. Penerbit: UPP AMP YKPN
- [4] Widanaputra, A.A.G.P. (2007). The Influence of Conflict Between Shareholders and Management Regarding Dividend Policy Against Accounting Conservatism. Dissertation of Accounting Doctoral Program Faculty of Economics, Gajah Mada University, Yogyakarta
- [5] Putri, I. F., & Nasir, M. 2006. Analysis of Simultaneous Equations of Managerial Ownership, Institutional Ownership, Risk, Debt Policy and Dividend Policy in Agency Theory Perspective. National Accounting IX Symposium Padang, 23-26
- [6] Kartika, Nuringsih. (2005). Analysis of the Effect of Managerial Ownership, Debt Policy, ROA and Company Size on Dividend Policy. Accounting and Financial Journal of Indonesia. Vol. 2, No.2, pp.

103-123, July-December.

- [7] Easterbrook, F. H. (1984). Two Agency-Cost Explanations of Dividends. *The American Economic Review*, 650-659
- [8] Mehta, Anupam, (2012), "An Empirical Analysis of Determinants of Dividend Policy Evidence From The UAE Companies," *Global Review of Accounting and Finance*, Vol 1, hal 1-48
- [9] Al Najjar, Basil, (2012), "Dividends Behavior and Smoothing New Evidence From Jordanian Panel Data," *University of the West of England*, Vol 1, hal 1-27
- [10] Sujoko dan Ugi Soebiantoro.(2007). Effect of Share Ownership Structure, Leverage, Internal Factors and External Factors on Company Values. " *Journal of Management and Entrepreneurship*. Vol. 9.No 1.41-48.
- [11] Embara, C., Wiagustini, N., & Badjra, B. (2012). Variables that Influence Dividend Policy and Share Prices on Manufacturing Companies in the Indonesia Stock Exchange. *Journal of Management, Business Strategy, and Entrepreneurship*. Vol. 6, No. 2, August, p. 119-127.
- [12] Sukirni, Dwi., (2012). Managerial Ownership, Institutional Ownership, Dividend Policy, and Debt Policy Analysis of Corporate Values, *Accounting Analysis Journal*, State University of Malang, Volume 2 number 1, pages 1-12.
- [13] Agnes, Tia dan Tarmizi, Rosmiati. (2016). Effect of Managerial Ownership, Institutional Ownership, Free Cash Flow and Profitability on Dividend Policy on Public Go Manufacturing Companies Listed on the IDX for the Period 2010-2013. *Journal of Accounting and Finance* Vol. 7, No.1, March 2016.Hal.103-119.
- [14] Chen, Li-Ju. (2011). The Influence of Profitability on Firm Value with Capital Structure as The Mediator and Firm Size and Industry as Moderators. *Investment Management and Financial Innovations*, 8, (3):121-128.
- [15] Nofrida, R., (2013). "The Effect of Profitability on Company Values with Dividend Policy as Intervening Variables (Empirical Study on Manufacturing Companies Listed on the IDX)" *FE Journal of Padang State University*.
- [16] Lastri, A. (2014). "Effect of Profitability, Growth Opportunity and Capital Structure Of Company Value (Studies in Banking Companies Listed on the Stock Exchange Period 2011-2013)". Thesis.University of Brawijaya, Malang.
- [17] Jensen, M. dan W. Meckling.(1976). Theory of the Firm Managerial Behavior, Agency Cost and Ownership Structure.*Journal of Financial Economics* 3: 305-60.

- [18] Tamrin et al. (2017). "Effect on Profitability and Dividend Policy on Corporate Governance and Firm Value : Evidence from the Indonesian Manufacturing Sectors, Journal of Business and Management IOSR-JBM Vol. 19, Issue 10. Ver. VIII, PP 66-74.
- [19] Mardiyati, Umi, Ahmad, Gatot Nazir, dan Putri, Ria. (2012). Effect of Dividend Policy, Debt Policy and Profitability on the Value of Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) Period 2005-2010. Indonesian Science Management Research Journal (JRMSI) vol. 3, No. 1.
- [20] Sukoco, Heri. (2013). "Analysis of the Effect of Debt to Equity Ratio, Profitability, Firm Size and Liquidity on Company Value Through Mediation of Dividend Payout Ratio (Study on Manufacturing Industry in the Indonesia Stock Exchange Period 2009-2011). Business Journal Strategy. Vol. 22 No. 2.
- [21] Wahyudi, U dan H.P Pawestri. (2006). Implications of Ownership Structure Against Company Value: With Financial Decisions as Intervening Variables, Accounting Symposium 9 Padang, August 23-26: 1-25
- [22] Sartono, Agus. (2002). Financial management Applications and Theory. BPFEE-Yogyakarta
- [23] Sugiyono. (2014). Qualitative Quantitative Research Methods and R & D. Bandung: Alfabeta