



THE IMPACT OF LIQUIDITY, LEVERAGE, AND PROFITABILITY ON MARKET VALUE THROUGH DIVIDEND POLICY: EMPIRICAL EVIDENCE FROM THE INDONESIA STOCK EXCHANGE (2021–2024)

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ABSTRACT

This study is motivated by the inconsistency between internal financial performance and market valuation among firms listed on the Indonesia Stock Exchange, where financial indicators are not always interpreted uniformly by investors. The analysis aims to examine how liquidity, leverage, and profitability influence dividend policy and how these factors ultimately affect firm market value.

A quantitative approach is applied using *purposive sampling*, resulting in 232 firm-year observations with consistent financial data during the 2021–2024 period. Liquidity, leverage, and profitability function as independent variables, dividend policy operates as a mediating variable, and market value is treated as the dependent variable. The relationships among variables are tested using multiple linear regression and *path analysis* to capture both direct and indirect effects.

The findings reveal that profitability has a significant negative effect on dividend policy, indicating that firms with higher earnings tend to retain profits rather than distribute them. Profitability also demonstrates a significant positive influence on market value, suggesting that investors prioritize earning capacity as a key indicator of firm strength. Liquidity and leverage do not show significant effects on dividend policy. Dividend policy does not significantly affect market value and does not serve as a mediating variable. These results suggest that investors respond more strongly to fundamental financial performance than to dividend-related signals in evaluating firm value.

Keywords: dividend policy, market value, liquidity, leverage, profitability, indonesia stock exchange

INTRODUCTION

Capital markets play a strategic role in modern economies because they provide firms with access to external funding and allow investors to assess managerial quality, financial prospects, and business credibility (Alabdullah, 2023). After the COVID-19 crisis, securities markets experienced turbulence as production, demand, and corporate earnings came under pressure. A similar condition occurred in Indonesia, where the Indonesia Stock Exchange showed uneven recovery across industries. Some firms faced liquidity pressure, while others maintained operations and investor confidence. This situation caused stock prices to not always move in line with conventional accounting indicators, making it important to reassess how financial information is interpreted by market participants (Khan et al., 2025). During 2021–2024, many firms shifted from preserving cash toward rebuilding profitability, dividend capacity, and investor trust.

A key issue in the Indonesian capital market is that companies do not always achieve higher market value even when they report favorable financial performance. Stock price movements may diverge from financial statements, creating a gap between accounting-based indicators and market valuation. Dividend policy is important because it can signal income stability, profitability, and management confidence. Investors often view dividend payments as evidence of sustainable cash flows and business continuity (Javaid et al., 2025). However, empirical evidence shows that market reactions to dividend policy are not always consistent. Firms with strong profitability do not always receive higher market valuation, while firms with relatively high dividends may still experience declining stock prices (Liu & Lee, 2025).

Liquidity, leverage, and profitability are three internal financial indicators that may shape dividend policy and market value. Liquidity reflects the firm's ability to meet short-term obligations, leverage indicates debt usage and financial risk, while profitability shows the firm's ability to generate earnings and create value (Malik & Ismiyanti, 2024). These variables may produce different implications: excess liquidity may indicate inefficient asset use, high leverage may limit dividend

payments, and strong profitability may be retained for expansion rather than distributed as dividends (Farooq & Muhammad, 2025). Dividend policy is therefore positioned as a possible transmission mechanism because it can convert internal financial conditions into signals that are more visible to investors. Based on Bird-in-Hand Theory, investors tend to prefer certain and immediate returns through dividends rather than uncertain future capital gains.

Prior studies have produced mixed findings regarding the relationships among liquidity, leverage, profitability, dividend policy, and market value. Some studies show that liquidity supports financial stability, while others find weak or insignificant effects. Similar inconsistencies appear in leverage research, where debt may suppress dividends in some contexts but show weak effects in others (Józwiak, 2015). The relationship between dividend policy and market value is also unsettled. Based on this research gap, this study examines the effects of liquidity, leverage, and profitability on dividend policy and market value, with dividend policy tested as a mediating variable in firms listed on the Indonesia Stock Exchange during 2021–2024 (Conca et al., 2021).

THEORETICAL FRAMEWORK AND FORMULATION OF HYPOTHESES

Bird in Hand Theory

Bird in Hand Theory, introduced by Gordon and Lintner, explains that investors tend to prefer dividends that can be received immediately rather than uncertain future capital gains. Dividends are considered more valuable because they provide actual and predictable cash returns, while capital gains depend on future stock price movements that contain greater uncertainty. This theory criticizes the dividend irrelevance view by arguing that dividend policy can influence investor perception, risk assessment, and firm value. Firms that distribute stable dividends are generally perceived as financially sound, capable of generating sustainable earnings, and committed to providing returns to shareholders. In this study, Bird in Hand Theory is used to explain how dividend policy may connect liquidity, leverage, and profitability with market value. Strong internal financial conditions may increase a firm's ability to distribute dividends, while dividend payments may strengthen investor confidence and increase market valuation. Thus, dividend policy is viewed not only as a profit allocation decision but also as a signal of financial stability and a potential mechanism for enhancing market value.

Market Value

Market value refers to the share price or overall company value formed through investor assessment in the capital market. It reflects market perceptions of financial performance, growth prospects, risk profile, managerial competence, and future cash flow potential. A high market value indicates strong investor confidence, while a low market value reflects uncertainty about the firm's prospects and performance (Huang, 2024). Market value is also linked to governance quality, financial transparency, and dividend policy because investors tend to value firms that can provide reliable returns and maintain strategic credibility (Abdullah, 2021). In empirical studies, market value is commonly measured using Tobin's Q, Price-to-Book Value (PBV), or market capitalization, as these indicators show how effectively firms convert accounting resources into shareholder wealth (Fasua, 2025; Butt et al., 2023).

Dividend Policy

Dividend policy refers to a firm's decision regarding the proportion of earnings distributed to shareholders and the proportion retained to support future growth. This policy plays an important role in financial management because it influences capital structure, cash flow, investment capacity, and investor perception (Khan et al., 2025). Consistent dividend payments are often interpreted as a signal of financial stability, healthy cash flow, and managerial credibility (Kaźmierska-Józwiak, 2015). Dividend policy can also strengthen governance by reducing excessive internal funds and encouraging financial discipline (Abdullah, 2021). In line with the Bird-in-Hand Theory, investors tend to prefer certain returns through dividends rather than uncertain capital gains, making dividend policy an important signal of firm strength and market confidence (Gordon, 1959; Farooq & Muhammad, 2025).

Liquidity

Liquidity describes a firm's ability to meet short-term obligations using current assets and other liquid resources. It reflects the availability of cash and near-cash assets needed to maintain operational continuity and avoid short-term financial disruption. High liquidity indicates stronger capacity to fulfill immediate obligations, while low liquidity signals potential difficulty in managing short-term commitments (Mahmood, 2023; Abdullah, 2021). Liquidity is commonly measured through the Current Ratio (CR), Quick Ratio (QR), and Cash Ratio, each of which evaluates the firm's ability to settle current liabilities from different levels of liquid assets (Zuraida et al., 2024; Hutagalung et al., 2013). Adequate liquidity supports working capital, reduces dependence on external financing, and may strengthen investor confidence, although excessive liquidity can also indicate inefficient asset use (Józwiak, 2015; Malik & Ismiyanti, 2024).

Leverage

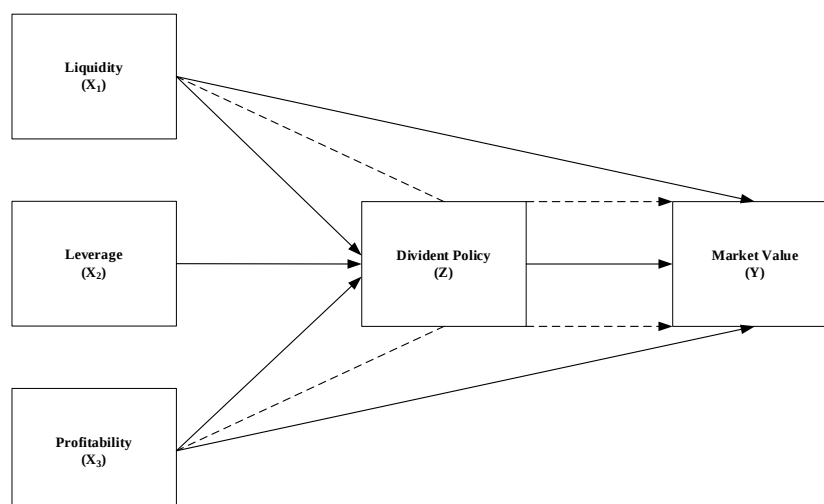
Leverage refers to the extent to which a firm uses debt to finance its assets and operations. It reflects the proportion of external funds used in the capital structure and serves as an important indicator of financial risk (Mahmood, 2023). A higher leverage level indicates greater reliance on debt financing, while lower leverage reflects a more conservative funding structure (Abdullah, 2021). Leverage can improve shareholder returns when borrowed funds generate returns higher than financing costs, yet excessive leverage increases interest burdens, repayment obligations, and default risk (Widodo et al., 2021; Józwiak, 2015). Common leverage measures include Debt-to-Equity Ratio (DER), Debt Ratio (DR), and Times Interest Earned (TIE), which help evaluate debt intensity and the firm's ability to cover financing obligations (Zuraida et al., 2024; Hutagalung et al., 2013). Balanced leverage may support dividend stability and market value, while excessive leverage can reduce financial flexibility and weaken investor confidence (Malik & Ismiyanti, 2024).

Profitability

Profitability describes a firm's ability to generate earnings from its assets, equity, sales, and operational activities. It is a key indicator of financial health because it reflects managerial effectiveness, operational efficiency, and the firm's capacity to create shareholder value (Widodo et al., 2021). Profitability also plays an important role in financial decision-making because firms with stronger earnings tend to have greater flexibility to distribute dividends, meet obligations, and finance expansion (Abdullah, 2021). Common profitability indicators include Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Gross Profit Margin (GPM), which measure firm performance from different financial perspectives (Rodríguez Valencia, 2025; Sandberg et al., 2023). Strong and stable profitability can increase investor trust, support dividend policy, and enhance market value because investors generally reward firms that demonstrate sustainable earnings and long-term value creation (Conca et al., 2021; Malik & Ismiyanti, 2024).

Conceptual Model

Figure 1 Conceptual Frameowrk



Hypothesis

The Effect of Liquidity, Leverage, and Profitability on Dividend Policy

Liquidity, leverage, and profitability represent internal financial conditions that may shape corporate dividend decisions. Liquidity reflects the firm's ability to meet short-term obligations and provide sufficient cash resources for dividend distribution. Firms with stronger liquidity are expected to have greater flexibility in distributing dividends without disrupting operational needs. Leverage reflects the extent to which firms rely on debt financing. Although debt obligations may restrict cash available for shareholders, firms may continue paying dividends to maintain investor confidence and signal financial stability. Profitability reflects the firm's ability to generate earnings from assets and operations. Since dividends are generally distributed from realized earnings, firms with stronger profitability are expected to have greater capacity to maintain dividend payments. Based on Bird in Hand Theory, investors tend to prefer certain and immediate returns through dividends rather than uncertain future capital gains. Previous studies indicate that liquidity, leverage, and profitability can influence dividend policy because these variables shape cash availability, financial risk, and earnings capacity (Ramachandran et al., 2026; Shah & Shome, 2025; Gutti, 2023). Therefore, the hypotheses are formulated as follows:

H1: Liquidity has a positive effect on dividend policy.

H2: Leverage has a positive effect on dividend policy.

H3: Profitability has a positive effect on dividend policy.

The Effect of Liquidity, Leverage, and Profitability on Market Value

Liquidity, leverage, and profitability may also influence market value because they reflect financial stability, risk exposure, and earnings quality. Liquidity indicates the firm's ability to maintain short-term financial resilience and reduce the possibility of financial distress. Firms with adequate liquidity are generally perceived as more stable and capable of meeting their obligations. Leverage reflects the firm's capital structure and the financial risk arising from debt financing. Excessive leverage may weaken market value because investors may perceive high debt as a signal of greater default risk and lower financial flexibility. Profitability indicates the firm's ability to generate sustainable earnings and create economic value. Firms with higher profitability are usually viewed as more efficient, competitive, and capable of producing long-term returns. Prior studies show that liquidity may strengthen investor confidence, leverage may reduce firm valuation when debt risk becomes excessive, and profitability may increase market value through stronger earnings prospects (Jóźwiak, 2015; Huang, 2024; Malik & Ismiyanti, 2024). Therefore, the hypotheses are formulated as follows:

H4: Liquidity has a positive effect on market value.

H5: Leverage has a negative effect on market value.

H6: Profitability has a positive effect on market value.

The Effect of Dividend Policy on Market Value

Dividend policy represents a firm's decision to distribute earnings to shareholders and serves as an observable signal of financial strength. Stable dividend payments may indicate that the firm has reliable cash flow, sustainable earnings, and management confidence in future performance. Based on Bird in Hand Theory, investors prefer certain and immediate returns in the form of dividends because such returns reduce uncertainty compared with capital gains that depend on future stock price movements. Consistent dividend payments may therefore strengthen investor confidence, reduce perceived risk, and increase demand for the firm's shares. Empirical findings also suggest that dividend announcements and stable payout policies can improve firm valuation by signaling financial credibility and long-term stability (Nadar & Deb, 2024; Patel, 2026; Shah & Shome, 2025). Therefore, the hypothesis is formulated as follows:

H7: Dividend policy has a positive effect on market value.

The Mediating Role of Dividend Policy

Dividend policy is also examined as a mediating variable because it may transmit the effect of internal financial conditions on market value. Liquidity can support dividend payments through the availability of cash resources, leverage can influence payout decisions through debt obligations

and financial risk, while profitability can strengthen dividend capacity through earnings generation. When these internal financial conditions are reflected in stable dividend payments, investors may interpret them as credible signals of financial strength and return certainty. Bird in Hand Theory supports this mechanism because dividends provide tangible and immediate returns that reduce uncertainty and strengthen investor confidence. Previous studies indicate that dividend policy can act as a channel through which liquidity, leverage, and profitability are translated into market valuation (Ramachandran et al., 2026; Sreeram, 2026; Gutti, 2023). Therefore, the mediation hypotheses are formulated as follows:

H8: Liquidity positively affects market value through dividend policy.

H9: Leverage has a positive effect on market value through dividend policy.

H10: Profitability has a positive effect on market value through dividend policy.

RESEARCH METHODOLOGY

Population and Sample

The population of this study consists of companies listed on the Indonesia Stock Exchange during the 2021–2024 period, with a specific focus on the Consumer Non-Cyclicals and Consumer Cyclicals sectors. These sectors were selected because they represent non-financial business activities with relatively comparable characteristics in asset utilization, operational liquidity, consumer demand, and dividend distribution behavior. Publicly listed firms were chosen because they are required to publish annual reports and financial statements, making the data more transparent, standardized, and verifiable for empirical analysis. The 2021–2024 period was selected because it reflects the post-pandemic recovery phase, when firms faced pressure to restore profitability, maintain liquidity, manage debt, and determine appropriate dividend policies. The sample was selected using purposive sampling based on the following criteria:

1. Companies listed on the Indonesia Stock Exchange during the 2021–2024 period.
2. Companies belonging to the Consumer Non-Cyclicals and Consumer Cyclicals sectors.
3. Companies that distributed dividends at least once during the 2021–2024 period.
4. Companies that did not experience losses during the observation period.
5. Companies with complete data required to measure liquidity, leverage, profitability, dividend policy, and market value.

Companies that did not meet these criteria were excluded from the sample to maintain data consistency and reliability. Based on the screening process, the final sample consists of firms considered suitable for analyzing the relationship among liquidity, leverage, profitability, dividend policy, and market value.

Research Variables and Operational Definition of Variables

The research variables in this study consist of dependent, independent, and mediating variables that are aligned with the proposed conceptual framework. Market value serves as the dependent variable, while liquidity, leverage, and profitability serve as independent variables. Dividend policy is used as the mediating variable because it represents the mechanism through which internal financial conditions may be translated into market valuation. Each variable is operationally defined to ensure clear measurement and consistency in empirical testing. The following table presents the variables, their operational definitions, measurement proxies, and formulas used in this study.

Table 1
Research Variables and Operational Definition of Variables

No	Variable	Type	Operational Definition	Measurement
1	Market Value	Dependent	Reflects the capital market's assessment of firm value based on financial condition, growth prospects, and investor perception.	Tobin's Q
2	Liquidity	Independent	Reflects the firm's ability to meet short-term obligations using current assets.	Current Ratio
3	Leverage	Independent	Reflects the proportion of company assets financed by debt.	Debt to Asset Ratio
4	Profitability	Independent	Reflects the firm's ability to generate profit from total assets.	Return on Assets
5	Dividend Policy	Mediating	Reflects the proportion of net income distributed to shareholders as dividends.	Dividend Payout Ratio

Type, Source, and Data Collection Method

This study uses a quantitative approach with secondary data to examine the influence of liquidity, leverage, and profitability on market value through dividend policy. The data were obtained from the Indonesia Stock Exchange, company annual reports, audited financial statements, corporate websites, the Financial Services Authority, and Refinitiv. The collected data include current assets, current liabilities, total debt, total assets, net income, total dividends, stock prices, and outstanding shares for companies in the Consumer Non-Cyclicals and Consumer Cyclicals sectors during 2021–2024. These data were used to calculate Current Ratio, Debt to Asset Ratio, Return on Assets, Dividend Payout Ratio, and Tobin's Q. Data collection was conducted using the documentation method. The analysis consists of descriptive statistics, multicollinearity testing using a correlation matrix, heteroscedasticity testing using the Glejser method, multiple linear regression, and mediation analysis. The F-test, t-test, and coefficient of determination are used to evaluate simultaneous effects, partial effects, and model explanatory power.

RESULT AND DISCUSSION

Description of Research Object

This investigation aims to evaluate the impact of internal financial determinants, specifically liquidity, leverage, and profitability, on market value by examining the mediating role of dividend policy. The research focuses on identifying how these fundamental characteristics drive corporate payout decisions and subsequent investor perceptions within the Indonesian capital market from 2021 to 2024. To ensure data representative of the study's objectives, the sample was selected using purposive sampling based on predefined criteria.

Table 2
Criteria and Sample of Research

No	Description	2021	2022	2023	2024	Total
1	Companies belonging to the Consumer Non-Cyclicals and Consumer Cyclicals sectors.	230	260	283	293	1066
2	Companies that did not share dividends.	(209)	(198)	(178)	(171)	756
3	Companies that experience loss during the period studied.	(145)	(170)	(193)	(190)	698
4	Companies that do not meet the established criteria or lack a complete dataset for the 2021–2024 period.	(87)	(112)	(135)	(132)	466
	Total	58	58	58	58	232

The sample selection was conducted using *purposive sampling* based on predetermined The sample selection process shows that companies in the Consumer Non-Cyclicals and Consumer Cyclicals sectors increased from 230 firms in 2021 to 293 firms in 2024, with a total of 1,066 firm-year observations before screening. Several companies were excluded because they did not distribute dividends, experienced losses, or lacked complete data during the 2021–2024 period. After applying all selection criteria, the final sample consists of 58 companies each year, resulting in 232 firm-year observations.

Sub-Structural Path Analysis I

Selecting the most appropriate regression model ensures that the estimated coefficients are efficient and consistent. This process involves comparing three approaches: the Common Effect Model, Fixed Effect Model, and Random Effect Model.

Table 3
Model Selection Test Results (Sub-Structural I)

Test Type	Statistic Value	Probability	Remark
Chow Test	92.987.171	0.0018	Fixed Effect Model Selected
Hausman Test	20.555.070	0.0001	Fixed Effect Model Selected

The panel data model selection results indicate that the *Fixed Effect Model* is the most The regression model selection results for Sub-Structural I show that the Chow Test produces a probability value of 0.0018, which is lower than 0.05. This indicates that the Fixed Effect Model is more appropriate than the Common Effect Model. The Hausman Test also produces a probability value of 0.0001, which is lower than 0.05, indicating that the Fixed Effect Model is preferable to the Random Effect Model. Based on these results, the Fixed Effect Model is selected as the most appropriate model for Sub-Structural I.

Classical Assumption Sub-Structural I

Classical assumption testing for the first sub-structural equation ensures that the regression model fulfills the requirements of the Best Linear Unbiased Estimator (BLUE). This process validates that the relationship between liquidity, leverage, and profitability in relation to dividend policy is statistically sound and reliable.

Table 4
Heteroscedasticity Test Result Substructural I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.431742	0.834173	4.113947	0.0001
CR	-0.069537	0.075257	-0.923989	0.3568
DAR	-5.082594	1.653931	-3.073038	0.0025
ROA	-7.401514	2.512510	-2.945865	0.0037

The heteroscedasticity test results for Sub-Structural I show that CR has a probability value of 0.3568, which is higher than 0.05, indicating that CR does not exhibit heteroscedasticity. DAR and ROA have probability values of 0.0025 and 0.0037, respectively, which are lower than 0.05, indicating that heteroscedasticity is present in the model. This suggests that the residual variance is not constant across observations, so the homoscedasticity assumption has not been fully met. To improve the reliability of the regression estimation, corrective treatment is required, such as applying a logarithmic transformation to DAR and ROA when appropriate, followed by retesting to ensure that the heteroscedasticity problem has been reduced.

Table 5
Heteroscedasticity Test (Sub-Structural I)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.653362	0.183452	3.561489	0.0005
CR	0.032409	0.028743	1.127564	0.2611
LOG(DAR)	0.242864	0.175803	1.381456	0.1689
LOG(ROA)	0.069288	0.042397	1.634264	0.1040

The heteroscedasticity test results after transformation show that CR, LOG(DAR), and LOG(ROA) have probability values of 0.2611, 0.1689, and 0.1040, respectively. These values are higher than the 0.05 significance level, indicating that the model no longer exhibits heteroscedasticity. This result suggests that the residual variance is constant across observations, so the homoscedasticity assumption in Sub-Structural I has been fulfilled. As a result, the regression model can be considered more reliable for subsequent statistical testing.

Table 6
Multicollinearity Test Substructural I

	CR	DAR	ROA
CR	1.000000	-0.625785	0.134443
DAR	-0.625785	1.000000	-0.097853
ROA	0.134443	-0.097853	1.000000

The multicollinearity test shows that the highest correlation is between CR and DAR at -0.625785. Since all correlation values are below 0.80, the model does not indicate serious multicollinearity, meaning that CR, DAR, and ROA can be used together to explain dividend policy.

Hypothesis Test (Substructural I)

Hypothesis testing is conducted to examine the direct and simultaneous effects of Firm Size, Cost Hypothesis testing in Substructural I is conducted to examine the direct and simultaneous effects of liquidity, leverage, and profitability on dividend policy. This stage evaluates whether the internal financial variables explain corporate payout decisions through the t-test, F-test, and coefficient of determination. The results of hypothesis testing are presented in the following table.

Table 7
Hypothesis Testing Substructural I

Test	Indicator	Result	Conclusion
t-Test	CR = -0.1487 (0.2674)	Not significant	Rejected
t-Test	LOG(DAR) = -1.3979 (0.0891)	Not significant	Rejected
t-Test	LOG(ROA) = -2.8797 (0.0000)	Significant negative	Accepted with opposite direction
F-Test	5.8272 (0.0000)	Significant simultaneously	Accepted
Adjusted R ²	0.5563	55.63% explanatory power	Moderate model

The hypothesis testing results show that liquidity has a negative but insignificant effect on dividend policy, with a coefficient of -0.1487 and a probability value of 0.2674. This finding indicates that the level of current assets owned by a company does not significantly determine its dividend payout decisions. Leverage also shows a negative but insignificant effect, with a coefficient of -1.3979 and a probability value of 0.0891, suggesting that debt levels do not significantly influence dividend policy at the 5% significance level. Profitability has a significant negative effect on dividend policy, with a coefficient of -2.8797 and a probability value of 0.0000. This result indicates that firms

with higher profitability tend to distribute a lower proportion of earnings as dividends, possibly because management prioritizes retained earnings for expansion, financial stability, or future investment. Simultaneously, liquidity, leverage, and profitability have a significant effect on dividend policy, as shown by the F-statistic of 5.8272 and probability value of 0.0000. The Adjusted R² value of 0.5563 indicates that 55.63% of the variation in dividend policy can be explained by liquidity, leverage, and profitability, while the remaining 44.37% is explained by other factors outside the model.

Sub-Structural II Path Analysis

Model Selection Test Sub-Structural II

The panel data model selection results indicate that the *Random Effect Model* is the most appropriate estimation method for this study.

Table 8
Model Selection Test Results (Sub-Structural II)

Test Type	Statistic Value	Probability	Remark
Chow Test	458.143943	0.0000	Fixed Effect Model Selected
Hausman Test	23.820940	0.0001	Fixed Effect Model Selected

The regression model selection results for Sub-Structural II show that the Chow Test has a probability value of 0.0000, indicating that the Fixed Effect Model is more appropriate than the Common Effect Model. The Hausman Test also shows a probability value of 0.0001, confirming that the Fixed Effect Model is preferable to the Random Effect Model. Based on these results, the Fixed Effect Model is selected as the best estimation method for Sub-Structural II because it accounts for firm-specific characteristics and produces more reliable regression estimates.

Classical Assumption Sub-Structural II

The classical assumption test results indicate that the regression model fulfills the required assumptions.

Heteroscedasticity Test (Sub-Structural II)

The heteroscedasticity test in *Sub-Structural II* is conducted to examine whether the residual variance remains constant across all observations. A model free from heteroscedasticity indicates that the regression estimates are efficient and statistically reliable. The test results are presented in the following table.

Table 9
Heteroscedasticity Test In Sub-Structural II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.049924	0.239932	-0.208077	0.8354
CR	0.004286	0.020727	0.206775	0.8364
DAR	0.606858	0.465645	1.303263	0.1942
ROA	0.194876	0.722357	0.269778	0.7877
DPR	-0.001477	0.009972	-0.148143	0.8824

The heteroscedasticity test using the Glejser method shows that all variables have probability values above 0.05, namely CR at 0.8364, DAR at 0.1942, ROA at 0.7877, and DPR at 0.8824. This indicates that Sub-Structural II is free from heteroscedasticity, so the model satisfies the homoscedasticity assumption and is suitable for further statistical testing.

Multicollinearity Test (Sub-Structural II)

The multicollinearity test in *Sub-Structural II* is conducted to determine whether strong correlations exist among the independent variables. A model free from multicollinearity allows each

variable to explain the dependent variable independently and accurately. The test results are presented in the following table.

Table 10
Multicollinearity Test In Sub-Structural II

	CR	DAR	ROA	DPR
CR	1.000000	-0.625785	0.134443	0.005800
DAR	-0.625785	1.000000	-0.097853	-0.027819
ROA	0.134443	-0.097853	1.000000	-0.048769
DPR	0.005800	-0.027819	-0.048769	1.000000

Based on the correlation matrix, the highest correlation coefficient is found between CR and DAR, with a value of -0.625785. All correlation values among CR, DAR, ROA, and DPR are below the commonly accepted threshold of 0.80. This indicates that Sub-Structural II does not suffer from serious multicollinearity.

Hypothesis Test (Sub-Structural II)

Hypothesis testing in Substructural II is conducted to examine the direct and simultaneous effects of liquidity, leverage, profitability, and dividend policy on market value. This stage evaluates whether the variables explain firm valuation through the t-test, F-test, and coefficient of determination. The results of hypothesis testing are presented in the following table.

Table 11
Hypothesis Test (Sub-Structural II)

Test	Indicator	Result	Conclusion
t-Test	CR = -0.0189 (0.6362)	Not significant	Rejected
t-Test	DAR = -1.1839 (0.1883)	Not significant	Rejected
t-Test	ROA = 6.4933 (0.0000)	Significant positive	Accepted
t-Test	DPR = 0.0111 (0.5653)	Not significant	Rejected
F-Test	37.7502 (0.0000)	Significant simultaneously	Accepted
Adjusted R ²	0.9066	90.66% explanatory power	Strong model

The hypothesis testing results show that liquidity has a negative but insignificant effect on market value, with a coefficient of -0.0189 and a probability value of 0.6362. Leverage also shows a negative but insignificant effect, with a coefficient of -1.1839 and a probability value of 0.1883. These findings indicate that liquidity and leverage do not significantly determine firm market value during the observation period. Profitability has a positive and significant effect on market value, with a coefficient of 6.4933 and a probability value of 0.0000, indicating that firms with higher profitability tend to receive stronger market valuation. Dividend policy has a positive but insignificant effect, with a coefficient of 0.0111 and a probability value of 0.5653, suggesting that dividend distribution is not a primary factor considered by investors in valuing firms. Simultaneously, liquidity, leverage, profitability, and dividend policy have a significant effect on market value, as shown by the F-statistic of 37.7502 and probability value of 0.0000. The Adjusted R² value of 0.9066 indicates that 90.66% of the variation in market value can be explained by the variables included in the model, while the remaining 9.34% is explained by other factors outside the model.

Indirect Effect Analysis (Sobel Test)

The interpretation of the Sobel test aims to determine whether the dividend policy (Z) significantly mediates the effect of the independent variable on market value (Y). Based on the results of the calculations for the three relationship paths, the analysis is as follows.

Table 12
Mediation Test Results (Sobel Test)

Mediation Path	T-Statistic	P-Value	Remark
Liquidity (X1) -> Dividend Policy (Z) -> Market Value (Y)	-0.508	0.609	Not Significant (Non-Mediation)
Leverage (X2) Dividend Policy (Z) -> Market Value (Y)	-0.545	0.585	Not Significant (Non-Mediation)
Profitability (X 3) -> Dividend Policy (Z) Market Value (Y)	-0.575	0.564	Not Significant (Non-Mediation)

Statistical analysis shows that all mediation paths have probability values above the 0.05 significance level, indicating that dividend policy does not mediate the relationship between the independent variables and market value. The mediation path from liquidity to market value through dividend policy records a t-statistic of -0.508 with a p-value of 0.609, while the path from leverage to market value through dividend policy shows a t-statistic of -0.545 with a p-value of 0.585. The mediation path from profitability to market value through dividend policy also produces an insignificant result, with a t-statistic of -0.575 and a p-value of 0.564.

Discussion of Findings

The Effect of Liquidity, Leverage, and Profitability on Dividend Policy

The results show that liquidity has a negative but insignificant effect on dividend policy, with a coefficient of -0.148 and a probability value of 0.2674. This finding indicates that cash availability and short-term financial capacity do not automatically determine dividend distribution. Although Bird in Hand Theory suggests that firms with stronger liquidity should be more capable of providing certain returns through dividends, the empirical result shows that management may prioritize working capital, financial flexibility, or future investment needs over immediate dividend payments. BISI International Tbk., which records the highest liquidity, and Unilever Indonesia Tbk., which records the lowest liquidity, illustrate that liquidity differences do not necessarily produce significant differences in dividend policy. Investors should therefore not interpret a high current ratio as a direct signal of higher dividend payments. Leverage also has a negative but insignificant effect on dividend policy, with a coefficient of -1.397 and a probability value of 0.0891. This result suggests that debt levels do not significantly determine dividend payout decisions during the 2021–2024 period. Although leverage may create financial pressure through interest and debt repayment obligations, firms may still maintain dividend payments to preserve investor confidence and corporate reputation. Matahari Department Store Tbk., which records the highest leverage, and Eastparc Hotel Tbk., which records the lowest leverage, show that capital structure alone cannot fully explain dividend policy. Investors need to evaluate leverage together with profitability, cash flow capacity, debt maturity, and management's payout strategy.

Profitability has a significant negative effect on dividend policy, with a coefficient of -2.879 and a probability value of 0.0000. This result contradicts the initial hypothesis, which expected profitability to increase dividend distribution. The finding indicates that more profitable firms tend to distribute a lower proportion of earnings as dividends, possibly because management prefers to retain profits for expansion, internal capital strengthening, or future uncertainty. Multi Bintang Indonesia Tbk., which records the highest profitability, and Bayu Buana Tbk., which records the lowest profitability, show that profitability does not always move in the same direction as dividend payout policy. The practical implication is that investors should not assume that higher profitability will automatically result in higher dividends.

The Effect of Liquidity, Leverage, Profitability, and Dividend Policy on Market Value

Liquidity has a negative but insignificant effect on market value, with a coefficient of -0.018 and a probability value of 0.6362. This result indicates that investors do not place primary emphasis on short-term financial capacity when valuing firms. Although liquidity reflects financial stability, it does not directly provide investors with certain returns unless it is converted into earnings growth, efficient asset use, or credible dividend payments. BISI International Tbk. records the highest

liquidity, while Unilever Indonesia Tbk. records the lowest liquidity and the highest Tobin's Q. This pattern shows that high liquidity does not automatically lead to higher market value. Leverage has a negative but insignificant effect on market value, with a coefficient of -1.183 and a probability value of 0.1883. This result suggests that debt usage is not consistently interpreted by investors as either value-enhancing or value-reducing. A firm with high leverage may still receive positive market valuation if its debt is used productively, while a firm with low leverage may not automatically gain higher market appreciation without strong profitability or growth prospects. Matahari Department Store Tbk. and Eastparc Hotel Tbk. represent the highest and lowest leverage conditions, while Unilever Indonesia Tbk. and Salim Ivomas Pratama Tbk. represent the highest and lowest Tobin's Q. Investors should therefore assess leverage together with debt purpose, cash flow stability, profitability, and asset productivity.

Profitability has a positive and significant effect on market value, with a coefficient of 6.493 and a probability value of 0.0000. This finding supports the hypothesis that profitability strengthens market valuation because investors view earnings capacity as a key indicator of financial strength, operational efficiency, and future growth potential. This result is also consistent with Bird in Hand Theory because profitable firms are perceived as more capable of providing stable returns, even if those returns are not always distributed through dividends. Multi Bintang Indonesia Tbk. records the highest profitability, while Bayu Buana Tbk. records the lowest profitability. The result implies that profitability is the most dominant financial indicator in explaining market value in this study. Dividend policy has a positive but insignificant effect on market value, with a coefficient of 0.011 and a probability value of 0.5653. This finding indicates that dividend distribution is not a primary determinant of firm valuation during the observation period. Although Bird in Hand Theory argues that investors prefer certain dividend returns, the result shows that investors may give greater attention to profitability, earnings sustainability, business prospects, and operational performance. Bayu Buana Tbk. records the highest Dividend Payout Ratio, while Surya Citra Media Tbk. records the lowest Dividend Payout Ratio. This pattern shows that high dividend payout does not automatically create higher market value.

The Mediating Role of Dividend Policy

Dividend policy does not mediate the effect of liquidity on market value, as shown by the Sobel test result with a t-statistic of -0.508 and a probability value of 0.609. This finding indicates that liquidity is not transformed into market value through dividend distribution. Firms with strong liquidity may retain cash for operational stability, working capital, or future investment rather than distribute it to shareholders. The practical implication is that investors should not assume that companies with high current assets will generate higher market value through dividends. Dividend policy also does not mediate the effect of leverage on market value, as indicated by a Sobel t-statistic of -0.545 and a probability value of 0.585. This result shows that capital structure decisions are not transmitted to market valuation through dividend policy. Investors may interpret leverage mainly as a risk indicator rather than as a signal of future dividend capacity. For management, debt policy and dividend policy need to be communicated clearly so that investors can understand whether debt supports long-term value creation or increases financial risk.

Dividend policy does not mediate the effect of profitability on market value, as shown by a Sobel t-statistic of -0.575 and a probability value of 0.564. This result indicates that profitability increases market value directly rather than through dividend distribution. Investors appear to value earning capacity, operational efficiency, and future growth potential more strongly than dividend payout intensity. This finding reinforces the main empirical pattern of the study: profitability is the most important factor in explaining market value, while dividend policy does not function as a significant transmission mechanism.

CLOSING

Consusion

This study examines the effect of liquidity, leverage, and profitability on market value with dividend policy as a mediating variable, using 232 observations from companies listed on the Indonesia Stock Exchange during 2021–2024. The findings show that profitability is the only variable that has a significant effect on both dividend policy and market value. Profitability has a significant negative effect on dividend policy, indicating that firms with higher earnings tend to retain profits rather than distribute them as dividends. At the same time, profitability has a significant positive effect on market value, showing that investors place stronger emphasis on earning capacity than on dividend distribution. Liquidity and leverage do not significantly affect either dividend policy or market value, suggesting that short-term financial capacity and debt structure are not the main factors considered in dividend decisions or firm valuation. Dividend policy also does not significantly affect market value and fails to mediate the relationship between liquidity, leverage, profitability, and market value. These findings indicate that market valuation is shaped more directly by profitability, while dividend policy does not function as a significant transmission mechanism in this study.

Limitation

Despite the rigorous methodology, this study acknowledges the following limitations:

1. **Observation Period:** The study only covers four years, from 2021 to 2024. This period mainly reflects the post-pandemic recovery phase and may not fully capture long-term market cycles or dividend behavior under more stable economic conditions.
2. **Sample Scope:** The research is limited to companies listed on the Indonesia Stock Exchange that met the purposive sampling criteria, resulting in 232 observations. This limitation may reduce the generalizability of the findings to private firms, smaller companies, or firms outside the selected sample.
3. **Variable Selection:** The model only uses internal financial ratios, namely liquidity, leverage, and profitability, to explain dividend policy and market value. Other factors such as corporate governance, macroeconomic indicators, investor sentiment, and industry characteristics are not included in the analysis.
4. **Model Limitation:** Several direct effects and all mediation paths are statistically insignificant. This suggests that the selected proxies and linear model may not fully explain the complexity of managerial dividend decisions and investor valuation behavior.

Suggestion for Future Research

Future studies can expand the findings of this research through several directions:

1. **Add External Variables:** Future research should include macroeconomic factors such as inflation, interest rates, exchange rates, and economic growth to better explain how external pressures influence dividend policy and market value.
2. **Extend the Observation Period:** Future studies are encouraged to use a longer research period, such as ten years or more, to compare firm behavior across pre-pandemic, pandemic, post-pandemic, and stable-growth periods.
3. **Compare Different Sectors:** Further research may conduct sectoral comparisons to identify whether dividend policy and market valuation differ across industries with different cash flow patterns, capital intensity, and growth opportunities.
4. **Use Advanced Methods:** Future researchers may apply methods such as Generalized Method of Moments or structural equation modeling to address potential endogeneity and capture more complex relationships among financial variables.
5. **Explore Alternative Mediators:** Since dividend policy does not mediate the relationship



between financial ratios and market value, future studies should consider other mediating variables, such as investment opportunity, corporate governance, capital structure adjustment, or ESG performance.

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