

The Mediating Effect of Dividend Policy on Profitability and Market Value Added on Stock Prices in Retail Companies in Indonesia

Aditya Jono Simbolon¹, Ronny Buha Sihotang², Harman Malau³

^{1,2,3}Management, Fakultas Ekonomi & Bisnis, Universitas Advent Indonesia

*aditya11simbolon@gmail.com¹, ronny.sihotang@unai.edu², harmanmalau@unai.edu³

ABSTRACT

The aim of this study was twofold: firstly, to investigate the combined and individual impacts of Profitability (ROE) and Market Value Added (MVA) on stock prices within Retail companies listed on the IDX. Secondly, to explore the mediating role of dividend policy (DPR) between Profitability (ROE) and Market Value Added (MVA) on stock prices within Retail companies on the Indonesia Stock Exchange. This research adopts a quantitative approach with an associative nature. The study population consists of retail companies listed on the IDX from 2019 to 2022, totaling 13 companies. A census technique is employed for sampling, encompassing all companies to gather four consecutive years of observational data, amounting to 52 data observations. Data analysis utilises Ordinary Least Square multiple linear regression and Path Analysis, including partial (t-test) and simultaneous (F-test) examinations. The findings reveal that in the first model, Profitability (ROE) significantly impacts dividend policy (DPR) partially, whereas Market Value Added (MVA) shows no significant effect on dividend policy (DPR). Simultaneous testing confirms that both ROE and MVA collectively influence dividend policy (DPR) significantly. In the second model, partial analysis indicates that Profitability (ROE) does not significantly affect stock prices, whereas Market Value Added (MVA) exhibits a significant impact on stock prices. Simultaneous testing demonstrates that both ROE and MVA collectively affect stock prices significantly. The results from the third model in path analysis reveal that dividend policy (DPR) effectively mediates the relationship between Profitability (ROE) and stock prices. However, dividend policy (DPR) does not serve as a mediator between Market Value Added (MVA) and stock prices.

Keywords:

Return on Equity (ROE), Market Value Added (MVA), Dividend Payout Ratio (DPR), Stock Price.

INTRODUCTION

Investment decisions can be made based on simple analysis such as finding a preferred company with a product of interest. The decision may be based on browsing financial statements, but the reasons for choosing this type of company over others still make sense (Sucuahi & Cambarihan, 2016). The underlying prediction is that the company will continue to produce and sell products with high demand, so cash will flow back into the business that can increase its enterprise value.

Firm value is measured as the sum of the firm's equity value and debt value. The goal of every company is to maximize its value to shareholders. Firm value can be measured as the present value of operating free cash flows over time. Therefore, companies mobilize capital, either from within or outside the country. This capital mobilization can be done by selling shares in the capital market. For companies, the proceeds from selling shares can be an alternative to capital fulfillment (M. Zhang, Long, Wei, Tan, & Zhang, 2022). For investors, stock investment activities are carried out in the hope of obtaining profits. The advantage of investors in buying shares is to get a share of the company's profits in the form of dividends, as well as getting capital gains from the difference in share prices when buying and selling

(Dong, Robinson, & Veld, 2005). Generally, investors conduct financial analysis of companies to determine the performance of financial ratios such as liquidity, profitability, activity, solvency and market ratios.

The following is the phenomenon of the development of company stock value data.

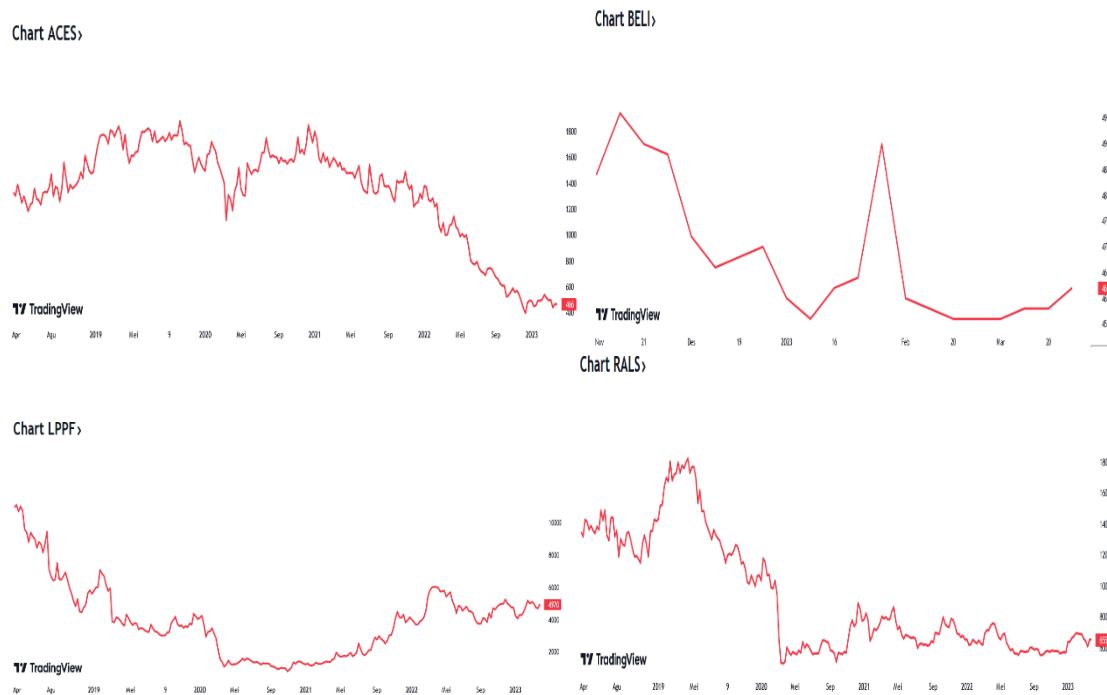


Figure 1. The phenomenon of the development of company share value data.
source : <https://id.tradingview.com>

Data on stock movements of several retail companies on the Indonesia Stock Exchange shows a movement that tends to decline in the last 5 years. This phenomenon can be seen from the stock movements of ACES, BELI, LPPF and RALS which experienced a significant decline in share prices. This decline in shares could be caused by profitability and market value added mediated by dividend policy. Profitability is a measurement of a company's ability to generate profits compared to its expenses. A more efficient company will generate more profit as a percentage of its expenses than a less efficient organization, which must spend more money to generate the same profit (Alarussi & Alhaderi, 2018). Usually the measuring tool to assess profitability is *Return on Equity* (ROE), which is a ratio that measures the company's ability to generate profits from the use of its equity (Almashhadani & Almashhadani, 2022). Companies with high profitability ratios will be a positive signal for investors to invest so that they can affect the company's value.

In addition to profitability, investors also measure the extent of economic value obtained from their stock investment. This added value can usually use market value added (MVA) analysis. The MVA ratio is formulated as a calculation of the difference in the market value of a company with equity obtained from bond investors and stock investors (Johnson & Noguera, 2017). That is, MVA is the market value of debt and equity minus all of the company's capital claims.

Another factor that investors consider in investing is the size of the dividend they receive. Dividends are profits from the distribution of income, often quarterly, by

a company to its shareholders in the form of reinvestment of cash or shares (Baker & Weigand, 2015). Investors' expectations of the company are to have profits and be able to distribute dividends according to the *bird in the hand theory*. This theory explains that investors will be more interested in dividends than capital gains, because they assume that dividends are a guaranteed profit without selling shares.

Literatur Riview

1. Signalling Theory

Signalling theory elucidates the dynamics that occur when two parties possess discrepant information. Typically, one party, termed the sender, faces the decision of whether and how to convey the information, while the other party, the receiver, grapples with interpreting the signal (Moss, Neubaum, & Meyskens, 2015). Consequently, signal theory holds significant relevance across diverse management domains such as finance, strategic planning, entrepreneurship, and HRM. Despite the increasing traction of signal theory in recent times, its fundamental principles become somewhat obscured when applied to organizational contexts (Clerckx et al., 2019). Hence, the authors succinctly outline the theory and its core tenets, examine its application within financial literature, and investigate avenues for researchers to innovate with signal theory, fostering the development of more intricate formulations and strategies.

2. Stock Price

Shares are investments that represent equity ownership in a company. Owners of common stock, called shareholders, are entitled to the following rights: Voting rights to elect members of the board of directors. Typically, shareholders can cast one vote per share. Shares are shares in the ownership of a company (Ramelli & Wagner, 2020). Generally, ownership of a corporation is divided into shares of a certain value, such as 100 rupiah per share. The company's certificate will determine how many shares and classes of shares will be issued. Two main classes of stock exist: common stock and preferred stock (Ballings, Van den Poel, Hespeels, & Gryp, 2015). There are differences in whether or not shareholders can vote, whether or not the shares are redeemable, convertible, and preferences in liquidation (Callen & Fang, 2015).

Many factors can affect stock prices including internal factors and external factors. Internal factors are influenced by the condition of the company itself, such as financial performance, Market Value Added, debt policy, dividend policy and the economic value added generated. External factors are influenced by macroeconomic conditions such as inflation, economic growth, exchange rates and political conditions that exist (Adam, Marcet, & Beutel, 2017).

3. Profitability

Profitability is a measure to assess the level of the company's ability to generate profits. One of the measures uses *Return on equity* (ROE), which is the ratio of the size of a company's net profit divided by its shareholders' equity. ROE explains that the extent to which the company is able to generate profitability and how efficiently the company's ability to generate these profits. The increasing ROE indicates that the better the company is able to convert the investment invested in equity to generate profits (Alarussi & Gao, 2023). In other words, ROE measures the profitability of a company in relation to shareholders' equity. ROE measures are also often used to compare a company to its competitors and the market as a whole.

$$\text{ROE} = \frac{\text{Net Income}}{\text{Total Equity}} \times 100\%$$

The formulation of ROE from average equity over a period is considered the best practice due to the mismatch between the income statement and balance sheet. Net income is obtained from sales minus COGS, operating expenses, tax expenses, and loan interest (Petria, Capraru, & Ihnatov, 2015). ROE which uses elements of net income and equity should be able to target a ratio above 10%. This ratio measures the return that shareholders receive from their investment in the business, the higher it is, the better the measure of profitability, because this means that the company uses the capital invested by shareholders effectively to generate profits (Tamulevičienė, 2016).

4. Market Value Added (MVA)

Market Value Added (MVA) measurement is a formulation of the company's stock market value assessment that shows the difference between market value and equity obtained from its investors. That is, MVA is an indicator that shows the difference between the current market value and the equity obtained from investors. A positive MVA value means that the company's ability in market valuation has added value, and vice versa (Nimtrakoon, 2015). A company's MVA is an indication of its capacity to increase shareholder value over time. A high MVA is evidence of effective management and strong operational capabilities. For example, if a company invests Rp100 billion in its equity and debt and obtains a market value of Rp150 billion, then the company is able to add Rp50 billion in value.

$$\text{MVA} = V - K$$

Where :

- MVA : value-added market
- V : the value of the company's equity and debt (its enterprise value)
- K : total equity invested.

The company's high MVA will attract investors because the company is able to generate positive profits, and shows a good indication of having strong financial management and governance. The company's ability to increase EVA is done by increasing its profits. Companies can also increase EVA by reducing the cost of capital through the efficiency of their operational activities (J. Zhang & Aboud, 2019).

5. Dividen Policy

Dividend policy is one of the company's policies in distributing dividends to investors. Simply put, the dividend policy outlines how the company will distribute its dividends to its shareholders. This structure details the specifics of the payout, including how often, when, and how much is distributed (Allen & Michaely, 2003). Generally, in relation to a company's dividend policy, there are several types: stable, fixed, and residual dividend policies. Dividend policy is not mandatory, as some companies choose not to reward shareholders with dividends. There are many companies that use a policy of rewarding investors through dividend distributions. Dividends are paid on a regular basis and usually represent a portion of the profits earned by such companies. This provides shareholders with a regular stream of income, which is why dividend-paying stocks are a favorite for some investors (Aboody & Kasznik, 2008).

Al-Najjar & Kilincarslan (2016) elucidate that the determination of this choice lies within the purview of the company's management cadre. Moreover, the company must deliberate on the variables that could potentially impact the allocation of dividends, if any. Additional considerations encompass whether to offer shareholders

the alternative of receiving a cash dividend or participating in a dividend reinvestment program (DRIP) by acquiring additional shares. This aspect is further expounded upon below. Companies opting not to distribute dividends to their shareholders operate without a formal dividend policy, as dividend disbursement is not obligatory. Their primary focus may revolve around fostering business expansion through the reinvestment of profits (Yusof & Ismail, 2016).

Dividends are distributed by firms to their ordinary shareholders, representing a share of the company's earnings or profits that it elects to allocate to its investors. These payments are made on a regular basis, whether monthly, quarterly, or annually, ensuring a consistent source of income for shareholders. Typically, dividends are offered by companies that prioritize providing income rather than aggressive expansion. Major corporations like Coca-Cola, Apple, and Microsoft are examples of entities commonly associated with dividend distribution (Driver, Grosman, & Scaramozzino, 2020). The development of dividend policy often involves the utilization of the Dividend Payout Ratio (DPR) formula:

$$\text{DPR} = \frac{\text{Dividen per share}}{\text{Earnings per share}}$$

This ratio shows the distribution of dividends, which is calculated as dividends per share each year divided by earnings per share (EPS). Suppose a payout ratio of 40% would be favorable for investors as a payout ratio below 50% gives the company enough flexibility to reward shareholders while reinvesting in new projects. Some profitable companies, such as Alphabet Inc (Wahjudi, 2019).

Conceptual Framework And Hypothesis

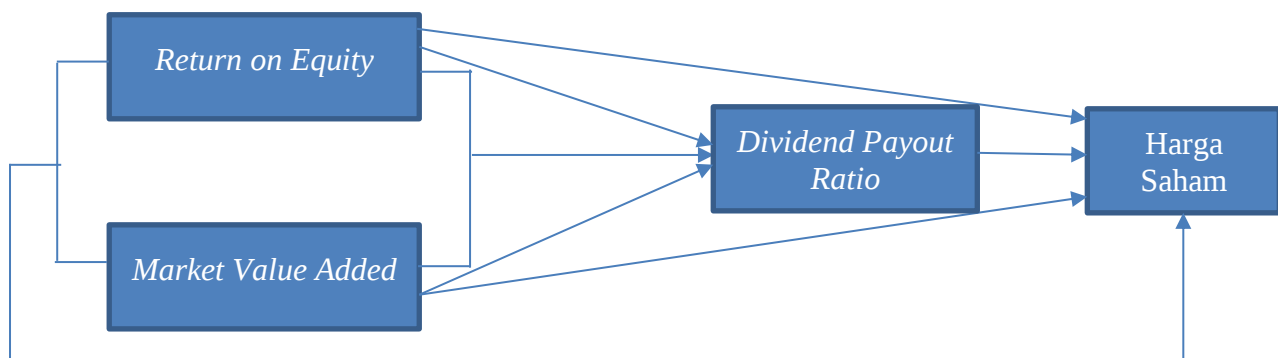


Figure 2. Conceptual Framework

The hypotheses put forward in this study are:

- H1 : There is an effect of *Return on Equity* (ROE) on *Dividend Payout ratio* (DPR) in retail sector companies listed on the IDX.
- H2 : There is an influence of *Market Value Added* (MVA) on *Dividend Payout ratio* (DPR) in retail sector companies listed on the IDX.
- H3 : There is an effect of *Return on Equity* (ROE) and *Market Value Added* (MVA) simultaneously on the *Dividend Payout ratio* (DPR) in retail sector companies listed on the IDX.

- H4 : There is an effect of *Dividend Payout ratio* (DPR) on stock prices in retail sector companies listed on the IDX.
- H5 : There is an effect of *Return on Equity* (ROE) on stock prices in retail sector companies listed on the IDX.
- H6 : There is an effect of *Market Value Added* (MVA) on stock prices in retail sector companies listed on the IDX.
- H7 : There is an effect of *Return on Equity* (ROE) and *Market Value Added* (MVA) simultaneously on stock prices in retail sector companies listed on the IDX.
- H8 : *Dividend Payout ratio* (DPR) mediates the effect of *Return on Equity* (ROE) on stock prices in retail sector companies listed on the IDX.
- H9 : *Dividend Payout ratio* (DPR) mediates the influence of *Market Value Added* (MVA) on stock prices in retail sector companies listed on the IDX.

METHOD

This study uses quantitative research, namely the type of research to examine data sourced from numbers in population units and sample units. This research usually collects data in the form of quantitative or statistical research instruments. The research objective is to prove the hypothesis (Irawan & Pramono, 2017). This study examines the effect of profitability variables as measured by *Return on Equity* (ROE) and *Market Value Added* (MVA) and tests the intervening analysis of *Dividend Payout Ratio* (DPR) on stock prices. This type of research data is quantitative data obtained by researchers from various research literature and data from financial performance summary

Table 1. Operational Limitations and Variable Indicators

Variable	Definition	Indicator	Measuring Scale
Profitability (X ₁)	Profitability in this study uses the <i>Return on Equity</i> (ROE) ratio, which is a measure of the company's ability to generate net income from its capital activities.	$\text{ROE} = \frac{\text{Earning After Tax}}{\text{Equity}}$	Ratio
<i>Market Value Added</i> (X ₂)	<i>Market Value Added</i> (MVA) is an assessment of the company's stock market value that shows the difference between market value and equity obtained from its investors.	$\text{MVA} = (\text{Shares Outstanding} \times \text{Share Price}) - \text{Capitalization}$	Ratio
Dividen Policy (Z)	Dividend policy is one of the company's policies in distributing dividends to investors.	$\text{DPR} = \frac{\text{Dividen per share}}{\text{Earnings per share}}$	Ratio
Stock Price (Y)	Share price is an assessment of the price of investment shares in the regular market and traded on the stock exchange market which is determined by investors through a share demand (bid) and offer (ask) mechanism.	Closing price	Ratio

The companies that are the target population in this research are the retail sector on the Indonesia Stock Exchange totaling 23 companies, while the sample was taken based on criteria during the 2019-2022 period of 13 companies. This research data analysis uses Multiple Regression Analysis and Mediating Analysis.

Testing begins by carrying out normality tests, heteroscedasticity tests and multicollinearity tests. Hypothesis testing uses the t test and F test and moderation analysis testing is carried out using the residual test. This research uses the SPSS version 26 software program to test the data.

RESULT AND DISCUSSION

1. Descriptive statistics

The following shows general statistical data from all the data used, as seen in table 2 below:

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	52	.28	219.40	25.34	41.55
MVA	52	2.99	327.75	55.05	67.09
STOCK	52	73.00	4750.00	1011.34	1031.22
DPR	52	.06	14.09	3.12	3.19
Valid N (listwise)	52				

Source: data processed by SPSS, 2024

The mean return on equity (ROE) stands at 25.34, exhibiting a standard deviation of 41.55. With a maximum value of 219.4 and a minimum of 0.28, it is evident that the data displays considerable variability, spanning across a wide range from its minimum to maximum values. Similarly, the average Market Value Added (MVA) is recorded at 55.05, accompanied by a standard deviation of 67.09. Ranging from a minimum of 2.99 to a maximum of 327.75, the data showcases significant variance across its spectrum. Likewise, the mean dividend policy ratio (DPR) is 3.12, with a standard deviation of 3.19. The minimum and maximum values of 0.06 and 14.09, respectively, further underline the diverse nature of the dataset. Moreover, the average share price is reported at 1,011.34, with a standard deviation of 1,031.22. Spanning from a minimum of 73 to a maximum of 4,750, the data exhibits considerable dispersion. These findings are derived from a dataset comprising 52 samples obtained from 13 companies over a four-year period from 2019 to 2022.

2. Normality Test

The assessment of data normality holds significant importance in parametric statistical analysis to ensure the regression model remains unaffected by prediction errors. Below is a depiction of the results of a data normality test in Figure 3, presented through a histogram graph and P-P Plots curve:

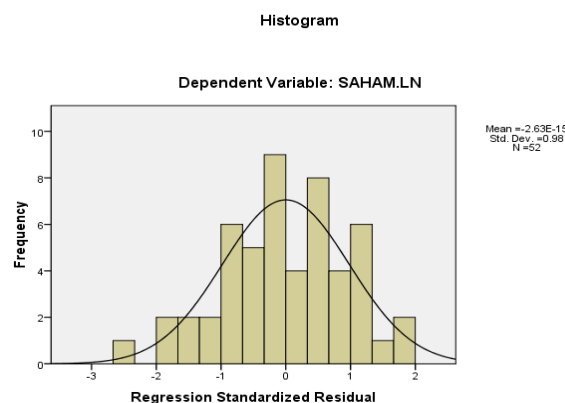


Figure 3. Histogram graph

Based on the histogram graph in Figure 3, it can be concluded that the data is normally distributed.

Normal P-P Plot of Regression Standardized Residual

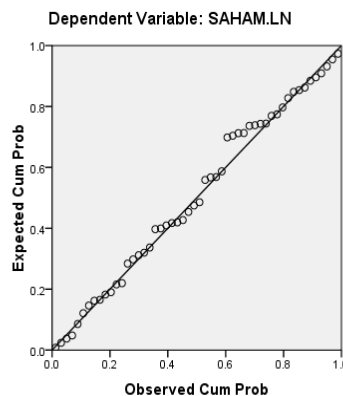


Figure 4. PP-Plots curve

Based on the PP-Plots curve image in Figure 4, it can be concluded that the data is normally distributed. This can be seen in the normal PP-Plots curve where the points spread close to the diagonal line.

3. Multikolinearity Test

The results of the multicollinearity test can be seen in the following table:

Table 3. Multicollinearity Test Results

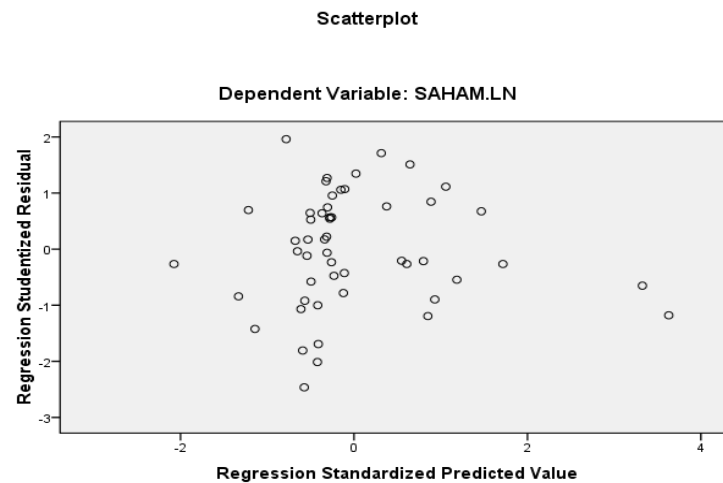
		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ROE	.944	1.060
	MVA	.944	1.060

Source: data processed by SPSS, 2024

From the test results above, it can be seen that the tolerance number for all independent variables is > 0.10 and the VIF is < 10 . This indicates that there is no multicollinearity between the independent variables in the regression model in this study.

4. Heteroskedastisity Test

The heteroscedasticity test is utilized to examine variations in residual variance across different observation periods. This analysis employs a graphical scatterplot test to identify heteroscedasticity. Detecting heteroscedasticity involves observing specific patterns on the scatterplot, where the presence of points dispersed both above and below the zero mark on the Y-axis without forming a discernible pattern indicates the absence of heteroscedasticity. Refer to the accompanying image for visualization of the scatterplot graph:



Source: data processed by SPSS, 2024

Figure 5. Heteroscedasticity Test

From the scatterplot image above, it can be seen that the dots are spread randomly and do not form a particular or irregular pattern. This indicates that heteroscedasticity does not occur in the regression model so that the regression model is suitable for use.

5. Autocorrelation Test

The autocorrelation test seeks to ascertain whether there exists a correlation between residual errors occurring in period t and those occurring in the preceding period, denoted as period $t-1$, within a linear regression model. When such a correlation is present, it indicates the presence of autocorrelation, a phenomenon commonly observed in time series data. Autocorrelation arises due to the interdependence between consecutive observations over time. This issue emerges because the residuals, or nuisance errors, exhibit non-independence across successive observations. The outcomes of the autocorrelation test are presented in Table 4 below:

Table 4. Autocorrelation Test

Model	Durbin-Watson
1	2.038

Source: data processed by SPSS, 2024

Based on Table 4, it shows that the Durbin-Watson value can be concluded that there is no positive autocorrelation or negative autocorrelation in the model used because the DW value (2.038) is between 1 and 2.

6. First Model Hypothesis Testing

Testing the first model of multiple linear regression analysis aims to determine the direction of the relationship between the independent variable and the dependent variable. The results of multiple regression testing can be seen in Table 5.

Table 5. Multiple Linear Regression Coefficients for First Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.320	.212		1.507	.138
	ROE	.008	.004	.293	2.107	.040
	MVA	.002	.002	.089	.638	.526

Source: data processed by SPSS, 2024

The information displayed in the multiple regression results is the multiple regression equation between the independent variable (X) and the dependent variable (Y) which can be formulated in the form of the following equation:

$$Y = 0,320 + 0,008X_1 + 1,002X_2 + e$$

Based on the multiple regression equation, it can be seen that the constant value is 0.320, meaning that if the dividend policy variable (DPR) is not influenced by the profitability and market value added variables, the dividend policy is 0.320 times. The Beta coefficient value for the Profitability variable is 0.008, meaning that for every 1% increase in the Profitability variable, the dividend policy will increase by 8% assuming the other variables are considered constant. The Beta coefficient value for the Market Value Added variable is 0.002, meaning that for every 1% increase in the Market Value Added variable, the dividend policy will increase by 2% assuming the other variables are considered constant.

7. The Influence of Profitability on Dividend Policy

Based on Table 5, the results of hypothesis testing on the influence of Profitability on Dividend Policy show that the t-value (2.107) is greater than the t-table (1.999) with a significance of 0.040 (Sig. < 0.05), so H_a is accepted and H_0 is rejected. This means that Profitability has a significant effect on the Dividend Policy of Retail companies on the IDX.

8. The Influence of Market Value Added on Dividend Policy

Based on Table 5, the results of hypothesis testing on the influence of Market Value Added on Dividend Policy show that the t-value (0.638) is smaller than the t-table (1.999) with a significance of 0.526 (Sig. > 0.05), so H_a is rejected and H_0 is accepted. This means that Market Value Added has no significant effect on the Dividend Policy of Retail companies on the IDX.

9. Second Model Hypothesis Testing

Testing the second model of multiple linear regression analysis aims to determine the direction of the relationship between the independent variable and the dependent variable. The results of multiple regression testing can be seen in Table 6

Table 6. Multiple Linear Regression Coefficients for the Second Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.985	.138		43.338	.000
	ROE	-.005	.003	-.201	-1.928	.060
	MVA	.011	.002	.726	6.968	.000

Source: data processed by SPSS, 2024

The information displayed in the multiple regression results is the multiple regression equation between the independent variable (X) and the dependent variable (Y) which can be formulated in the form of the following equation:

$$Y = 5.985 - 0,005X_1 + 0,011X_2 + e$$

Based on the multiple regression equation it can be seen that the constant value is 5,985, meaning that if the share price variable is not influenced by the profitability and market value added variables, the share price is 5,985. The Beta coefficient value for the Profitability variable is -0.005, meaning that for every 1% increase in the Profitability variable, the share price will decrease by 5% assuming the other variables are considered constant. The Beta coefficient value for the Market Value Added variable is 0.011, meaning that for every 1% increase in the Market Value Added variable, the share price will increase by 11% assuming the other variables are considered constant.

10. The Effect of Profitability on Stock Prices

Based on Table 5, the results of hypothesis testing on the influence of Profitability on Share Prices show that the t-calculated value (-1.928) is greater than the t-table (-1.999) with a significance of 0.060 (Sig.> 0.05), so H_a is rejected and H_0 is accepted. This means that profitability does not have a significant effect on the share prices of retail companies on the IDX.

11. The Effect of Market Value Added on Stock Prices

Based on Table 5, the results of testing the hypothesis of the influence of Market Value Added on Share Prices show that the t-value (6.968) is greater than the t-table (1.999) with a significance of 0.000 (Sig. < 0.05), so H_0 is rejected and H_a is accepted. This means that Market Value Added has a significant effect on the share prices of retail companies on the IDX.

12. First Model Simultaneous Significance Test

The results of the F statistical test (simultaneous test) on Leadership and Organizational Culture on Intuition can be seen in Table 7.

Table 7. F test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.265	2	3.633	2.907	.064 ^a
	Residual	61.241	49	1.250		
	Total	68.506	51			

Source: data processed by SPSS, 2024

Based on the results of testing the hypothesis of the simultaneous influence of Profitability and Market Value Added on Dividend Policy, the Fcount value (2.907) is smaller than the t-table (3.15) with a significance of 0.064 (Sig.> 0.05), so H_a is rejected and H_0 is accepted. This means that Profitability and Market Value Added simultaneously have no effect on Retail Company Dividend Policy on the IDX.

13. Second Model Simultaneous Significance Test

The results of the F statistical test (simultaneous test) on Leadership and Organizational Culture on Intuition can be seen in Table 8.

Table 8. F test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.752	2	12.876	24.315	.000 ^a
	Residual	25.947	49	.530		
	Total	51.699	51			

Source: data processed by SPSS, 2024

Based on the results of testing the hypothesis of the simultaneous influence of Profitability and Market Value Added on Stock Prices, the Fcount value (24,315) is smaller than the t-table (3.15) with a significance of 0.000 (Sig. < 0.05), so Ha is accepted and H0 is rejected. . This means that Profitability and Market Value Added simultaneously influence Retail Company Share Prices on the IDX.

14. First Model Determination Coefficient

The aim of the statistical test of the coefficient of determination in this research is to find out how far the model's ability is to explain variations in the dependent variable. The statistical test of the coefficient of determination can be seen in Table 9 below:

Table 9. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.326 ^a	.106	.070	1.11795

Source: data processed by SPSS, 2024

Table 10 shows that the R Square value is 0.106 or 10.6%, which means that the percentage influence of the independent variables (Profitability and Market Value Added) on Dividend Policy is the value of the coefficient of determination or 10.6%. Meanwhile, the remaining 89.4% is influenced or explained by other variables not included in this research model.

15. Second Model Determination Coefficient

The aim of the statistical test of the coefficient of determination in this research is to find out how far the model's ability is to explain variations in the dependent variable. The statistical test of the coefficient of determination can be seen in Table 10 below:

Table 10. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.706 ^a	.498	.478	.72770

Source: data processed by SPSS, 2024

Table 11 shows that the R Square value is 0.498 or 49.8%, which means that the percentage influence of the independent variables (Profitability and Market Value Added) on share prices is the value of the coefficient of determination or 49.8%. Meanwhile, the remaining 50.2% is influenced or explained by other variables not included in this research model.

16. The Effect of Profitability on Share Prices Through Dividend Policy

The influence of profitability through dividend policy on share prices is explained in the following path diagram table:

Table 11. Comparison of Direct and Indirect Effects

Variable	Path Coefficient	Direct Effect	Indirect Effect
X1	-0.005	-0.201	0,293

Source: data processed by SPSS, 2024

Based on Table 11, it is known that the indirect betting value (0.293) is greater than the direct effect, namely -0.201, so Ho is rejected and Ha is accepted. This means that dividend policy mediates the relationship between profitability and share prices.

17. The Influence of Market Value Added on Share Prices through Dividend Policy

The influence of Market Value Added through Dividend Policy on Share Prices is explained in the following path diagram table:

Table 12. Comparison of Direct and Indirect Effects

Variable	Path Coefficient	Direct Effect	Indirect Effect
X2	0.011	0.726	0,089

Source: data processed by SPSS, 2024

Based on Table 12, it is known that the indirect betting value (0.089) is smaller than the direct influence, namely 0.726, so H_0 is accepted and H_a is rejected. This means that dividend policy does not mediate the relationship between Market Value Added and share prices.

Discussion

The results of this research prove that in the first model partial profitability (ROE) has a significant effect on dividend policy (DPR). Based on the test results, the partial regression coefficient of Return On Equity (ROE) on dividend policy shows a positive sign. This means that if ROE increases, it will encourage an increase in dividend policy because higher profits are an important element in determining dividend policy. The results of this research are consistent with the research results of Nerviana (2016) which proves that ROE has a significant effect on dividend policy. The higher the ROE, the greater the dividend policy will be because the company's profits will increase.

The research results in the second model show that partial profitability (ROE) does not have a significant effect on stock prices. Based on the test results, the partial Return On Equity (ROE) regression coefficient was obtained which showed a negative sign. This means that there will be a decrease in ROE which will encourage a decrease in share prices. This result is not in line with the research results of Puspitaningtyas (2017) which proves that ROE influences share prices. This research supports the theory of Lestari & Armayah (2016) who stated that profitability shows the company's ability to generate profits. The higher the company's profits and profitability, the higher the share price response. This research supports the research results of Hasanah & Sulistiyo (2021) which proves that ROE has an effect on stock prices. Companies that have a high ROE ratio show that the company's profitability is also high, which can influence share prices. The implication of the results of this research is that a company will be able to increase its share price if the company has a high ROA ratio because it shows high company profits.

The results of this research prove that in the first model, partial Market Value Added (MVA) does not have a significant effect on dividend policy (DPR). Based on the test results, the partial Market Value Added (MVA) regression coefficient was obtained which showed a positive sign. This means that an increase in Market Value Added (MVA) will encourage an increase in dividend policy. Vice versa, a decrease in Market Value Added (MVA) will lead to a decrease in dividend policy. The results of this research do not support the research results of Laksmiwati, Meidiyustiani,

Oktaviani, & Priyanto (2023) which prove that MVA has a significant effect on dividend policy. The higher the MVA, the higher the company's market value, thus encouraging a high dividend policy.

The results of this research prove that in the second model partial Market Value Added (MVA) has a significant effect on stock prices. Based on the test results, the partial Market Value Added (MVA) regression coefficient was obtained which showed a positive sign. This means that an increase in Market Value Added (MVA) will encourage an increase in share prices. Vice versa, a decrease in Market Value Added (MVA) will lead to a decrease in share prices. Based on the t test results, it shows that Market Value Added (MVA) has a significant effect on stock prices. The results of this research are in line with the article written by Nisa, Santoso, & Burhanudin (2024) which proves that the MVA ratio has an effect on stock prices. This research supports the theory of Maditinos, Chatzoudes, Tsairidis, & Theriou (2011) who stated that the higher the MVA, the greater the stock market value compared to the total capital itself, so that the impact is greater on investors' interest in investing in shares. This will increase share prices. The implication of the results of this research is that companies that have a high MVA ratio indicate that the company's market ratio is also high. A high market ratio can be a positive value for the company which can increase share prices.

CONCLUSION

In conclusion, the analysis conducted on the relationship between profitability, market value added, dividend policy, and stock prices of retail companies on the IDX provided several important findings:

1. Profitability's Influence: The research demonstrates that profitability, as measured by Return on Equity (ROE), significantly affects dividend policy. Higher ROE tends to correlate with increased dividend policy. However, profitability does not significantly influence stock prices directly.
2. Market Value Added's Influence: While Market Value Added (MVA) does not directly impact dividend policy, it does significantly influence stock prices. Higher MVA correlates with increased stock prices, indicating investor interest and confidence in the company's market value.
3. Mediating Role of Dividend Policy: Dividend policy acts as a mediator between profitability and stock prices. It indicates that profitability indirectly affects stock prices through its influence on dividend policy. However, dividend policy does not mediate the relationship between MVA and stock prices.

Recommendations

Focus on Profitability Management: Companies should prioritize strategies to enhance profitability, as it directly influences dividend policy. This may involve improving operational efficiency, cost management, and revenue generation to maintain sustainable profitability levels.

1. Enhance Market Value Added: Strategies to increase MVA can contribute to higher stock prices. Companies should focus on initiatives that enhance their market value perception, such as product innovation, brand development, and strategic investments, to attract investors and drive stock price growth.
2. Investor Communication: Clear and transparent communication regarding financial performance, profitability, and market value added can help bolster investor confidence. Companies should regularly engage with shareholders and stakeholders to convey their strategies, performance metrics, and future prospects effectively.

3. Diversification of Dividend Policy: While profitability strongly influences dividend policy, companies should consider diversifying their dividend strategies to accommodate various investor preferences. This may include a mix of dividend payments, share buybacks, or reinvestment in the business to align with shareholder expectations and maximize value creation.
4. Continuous Monitoring and Analysis: Regular monitoring of financial metrics, market dynamics, and shareholder sentiment is crucial. Companies should employ robust analytics and data-driven insights to adapt their strategies promptly, capitalize on opportunities, and mitigate risks effectively in the dynamic market environment.

By implementing these recommendations, retail companies on the IDX can optimize their financial performance, enhance shareholder value, and foster sustainable growth in the competitive market landscape.

References

- Aboody, D., & Kasznik, R. (2008). Executive stock-based compensation and firms' cash payout: the role of shareholders' tax-related payout preferences. *Review of Accounting Studies*, 13(2–3), 216–251. doi: 10.1007/s11142-008-9068-1
- Adam, K., Marcet, A., & Beutel, J. (2017). Stock Price Booms and Expected Capital Gains. *American Economic Review*, 107(8), 2352–2408. doi: 10.1257/aer.20140205
- Al-Najjar, B., & Kilincarslan, E. (2016). The effect of ownership structure on dividend policy: evidence from Turkey. *Corporate Governance: The International Journal of Business in Society*, 16(1), 135–161. doi: 10.1108/CG-09-2015-0129
- Alarussi, A. S., & Alhaderi, S. M. (2018). Factors affecting profitability in Malaysia. *Journal of Economic Studies*, 45(3), 442–458. doi: 10.1108/JES-05-2017-0124
- Alarussi, A. S., & Gao, X. (2023). Determinants of profitability in Chinese companies. *International Journal of Emerging Markets*, 18(10), 4232–4251. doi: 10.1108/IJOEM-04-2021-0539
- Allen, F., & Michaely, R. (2003). *Payout Policy*. doi: 10.1016/S1574-0102(03)01011-2
- Almashhadani, H., & Almashhadani, M. (2022). The impact of ownership on profitability: An conceptual study. *International Journal of Business and Management Invention (IJBMI)*, 11(6), 1–06. doi: 10.35629/8028-1106030106
- Baker, H. K., & Weigand, R. (2015). Corporate dividend policy revisited. *Managerial Finance*, 41(2), 126–144. doi: 10.1108/MF-03-2014-0077
- Ballings, M., Van den Poel, D., Hespeels, N., & Gryp, R. (2015). Evaluating multiple classifiers for stock price direction prediction. *Expert Systems with Applications*, 42(20), 7046–7056. doi: 10.1016/j.eswa.2015.05.013
- Callen, J. L., & Fang, X. (2015). Religion and Stock Price Crash Risk. *Journal of Financial and Quantitative Analysis*, 50(1–2), 169–195. doi: 10.1017/S0022109015000046
- Clerckx, B., Zhang, R., Schober, R., Ng, D. W. K., Kim, D. I., & Poor, H. V. (2019). Fundamentals of Wireless Information and Power Transfer: From RF Energy Harvester Models to Signal and System Designs. *IEEE Journal on Selected*

- Areas in Communications*, 37(1), 4–33. doi: 10.1109/JSAC.2018.2872615
- Dong, M., Robinson, C., & Veld, C. (2005). Why individual investors want dividends. *Journal of Corporate Finance*, 12(1), 121–158. doi: 10.1016/j.jcorpfin.2004.04.006
- Driver, C., Grosman, A., & Scaramozzino, P. (2020). Dividend policy and investor pressure. *Economic Modelling*, 89, 559–576. doi: 10.1016/j.econmod.2019.11.016
- Hasanah, U., & Sulistiyo, H. (2021). THE EFFECT OF CR, DER, AND ROE ON STOCK PRICES TRANSPORTATION SUB SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE. *Nominal: Barometer Riset Akuntansi Dan Manajemen*, 10(1), 102–117. doi: 10.21831/nominal.v10i1.33761
- Irawan, & Pramono, C. (2017). *Determinan Faktor-Faktor Harga Obligasi Perusahaan Keuangan Di Bursa Efek Indonesia* (Universitas Muhammadiyah Surakarta Press). Universitas Muhammadiyah Surakarta Press. Retrieved from <https://publikasiilmiah.ums.ac.id/xmlui/handle/11617/9243>
- Johnson, R. C., & Noguera, G. (2017). A Portrait of Trade in Value-Added over Four Decades. *The Review of Economics and Statistics*, 99(5), 896–911. doi: 10.1162/REST_a_00665
- Laksmiwati, M., Meidiyustiani, R., Oktaviani, R. F., & Priyanto, S. (2023). The Role of Dividend Policy as An Intervening of Financial Performance on Company Value. *International Journal of Social Service and Research*, 3(1), 170–180. doi: 10.46799/ijssr.v3i1.234
- Lestari, S. A., & Armayah, M. (2016). Profitability and Company Value: Empirical Study of Manufacture Companies in Indonesia Period 2009 - 2014. *Information Management and Business Review*, 8(3), 6–10. doi: 10.22610/imbr.v8i3.1326
- Maditinos, D., Chatzoudes, D., Tsairidis, C., & Theriou, G. (2011). The impact of intellectual capital on firms' market value and financial performance. *Journal of Intellectual Capital*, 12(1), 132–151. doi: 10.1108/14691931111097944
- Moss, T. W., Neubaum, D. O., & Meyskens, M. (2015). The Effect of Virtuous and Entrepreneurial Orientations on Microfinance Lending and Repayment: A Signaling Theory Perspective. *Entrepreneurship Theory and Practice*, 39(1), 27–52. doi: 10.1111/etap.12110
- Nerviana, R. (2016). The effect of financial ratios and company size on dividend policy. *The Indonesian Accounting Review*, 5(1), 23–32. doi: 10.14414/tiar.v5i1.486
- Nimtrakoon, S. (2015). The relationship between intellectual capital, firms' market value and financial performance. *Journal of Intellectual Capital*, 16(3), 587–618. doi: 10.1108/JIC-09-2014-0104
- Nisa, K., Santoso, B., & Burhanudin, B. (2024). The Effect of Economic Value Added (EVA) and Market Value Added (MVA) on Stock Returns. *Jurnal Syntax Transformation*, 5(3). doi: 10.46799/jst.v5i3.932
- Petria, N., Capraru, B., & Ihnatov, I. (2015). Determinants of Banks' Profitability: Evidence from EU 27 Banking Systems. *Procedia Economics and Finance*, 20, 518–524. doi: 10.1016/S2212-5671(15)00104-5
- Puspitaningtyas, Z. (2017). Is Financial Performance Reflected in Stock Prices? *Proceedings of the 2nd International Conference on Accounting, Management, and Economics 2017 (ICAME 2017)*. Paris, France: Atlantis Press. doi: 10.2991/icame-17.2017.2

- Ramelli, S., & Wagner, A. F. (2020). Feverish Stock Price Reactions to COVID-19. *The Review of Corporate Finance Studies*, 9(3), 622–655. doi: 10.1093/rcfs/cfaa012
- Sucuahi, W., & Cambarihan, J. M. (2016). Influence of Profitability to the Firm Value of Diversified Companies in the Philippines. *Accounting and Finance Research*, 5(2). doi: 10.5430/afr.v5n2p149
- Tamulevičienė, D. (2016). Methodology of complex analysis of companies' profitability. *Entrepreneurship and Sustainability Issues*, 4(1), 53–63. doi: 10.9770/jesi.2016.4.1(5)
- Wahjudi, E. (2019). Factors affecting dividend policy in manufacturing companies in Indonesia Stock Exchange. *Journal of Management Development*, 39(1), 4–17. doi: 10.1108/JMD-07-2018-0211
- Yusof, Y., & Ismail, S. (2016). Determinants of dividend policy of public listed companies in Malaysia. *Review of International Business and Strategy*, 26(1), 88–99. doi: 10.1108/RIBS-02-2014-0030
- Zhang, J., & Aboud, A. (2019). Determinants of economic value added (EVA) in Chinese listed banks. *Asian Review of Accounting*, 27(4), 595–613. doi: 10.1108/ARA-11-2018-0216
- Zhang, M., Long, R., Wei, K., Tan, Q., & Zhang, W. (2022). China quality award and the market value of the firm. *Total Quality Management & Business Excellence*, 33(11–12), 1387–1402. doi: 10.1080/14783363.2021.1960157