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Research/Review

Profitability, Leverage, and Firm Value: the Mediating Role of Dividend Policy

(A Case Study of the Energy Sector Listed on the Indonesia Stock Exchange for the Period 2021–2024)

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Abstract: This study aims to analyze the effect of profitability, leverage, and dividend policy on firm value in the energy sector listed on the Indonesia Stock Exchange (IDX) for the 2021–2024 period. The energy sector was selected due to its strategic role in the national economy and its contribution to the Composite Stock Price Index (IHSG). Out of 81 energy sector firms, 22 firms were obtained as samples using a purposive sampling method. Data analysis was conducted using the path analysis technique. The results show that profitability has a significant effect on firm value, while leverage has no effect. Dividend policy also has no effect on firm value, whereas profitability has no effect on dividend policy, and leverage has a significant negative effect on dividend policy. Furthermore, dividend policy is unable to mediate the relationship between profitability and leverage with firm value. These findings imply that firm value is more influenced by profitability factors than by leverage or dividend policy. The results of this study are expected to serve as a reference for firm management, investors, and policymakers in making future financial decisions.

Keywords: Dividend Policy; Energy Sector; Firm Value; Leverage; Profitability.

1. Introduction

The growth of a country's economy cannot be separated from the effect of the growth of firms within that country. In the current era of modern information, all firms continuously conduct research and development to gain an advantage in the increasingly competitive market. Positive firm growth can be indicated by a stable increase in firm value.

Crises such as the COVID-19 pandemic serve as concrete evidence of how global uncertainty can affect business sector performance, including in Indonesia. Firms are required to possess business resilience and flexibility in managing global economic risks. One of the sectors significantly affected by these conditions is the energy sector. The energy sector plays a central role in supporting national economic stability, as nearly all modern social and industrial activities depend on energy. Firms in this sector include entities engaged in the exploration and distribution of non-renewable energy such as oil, natural gas, and coal, as well as firms providing supporting services for these industries. In addition, this sector also includes firms producing and distributing renewable or alternative energy, as classified by the Indonesia Stock Exchange (IDX) (2025).

According to IDX Director of Development, Jeffrey Hendrik, the energy sector made a dominant contribution to the movement of the Composite Stock Price Index (IHSG), accounting for 52 percent of total transaction value and market capitalization

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in 2023, and this trend is expected to continue through 2024 (Purwanti, 2024). The performance of this sector has also been recognized by the government. The Minister of Energy and Mineral Resources, Arifin Tasrif, stated that the energy sector demonstrated positive performance through various indicators, such as increased utilization of domestic coal and gas, energy efficiency, the development of new and renewable energy (NRE) power plants, and the rise in non-tax state revenues (PNBP) (Adi, 2024).

Table 1. Average Price to Book Value (PBV) in the Energy Sector.

Energy Sector PBV 2021-2024	
Year	PBV
2021	1.10
2022	1.13
2023	1.03
2024	2.74

Source: IDX Statistics, Data Processed 2025.

Based on Table 1, the Price to Book Value (PBV) of the energy sector in Indonesia during 2021–2024 experienced considerable fluctuation. In 2021, the average PBV was recorded at 1.10 and slightly increased to 1.13 in 2022. However, in 2023, PBV decreased to 1.03. Interestingly, in 2024, there was a sharp rise, with the average PBV increasing to 2.74. This condition indicates the dynamic nature of market valuation toward the energy sector, which is likely influenced by changes in financial performance, government policies, and investor sentiment regarding the future prospects of the energy industry. This phenomenon makes the sector particularly interesting to study, especially to understand the fundamental financial performance factors such as profitability, leverage, and dividend policy, which are expected to affect firm value in the energy sector during that period.

Firm value represents the perception of the price an investor is willing to pay to acquire a firm. For publicly listed firms (IPO), firm value is often associated with the stock price traded in the market. When a firm's stock price is high, its value is also considered high (Setyabudi, 2021). Firm value is crucial for both investors and the firm itself. For investors, firm value is one of the main factors in making investment decisions, while for firms, firm value serves as a reference in financial decision-making. This indicates that one of the aspects investors consider before investing is the firm value of the company in which they plan to invest (Suffah & Riduwan, 2016).

According to signaling theory, when a firm has a high PBV, it sends a positive signal to investors that management and the market are confident about the firm's future. A high PBV value can increase market confidence in the firm's performance and prospects. This positive signal can encourage firms to be more confident in attracting investment, as investors perceive the firm as having good growth potential and performance. Generally, a well-performing firm has a PBV ratio greater than one (>1), indicating that its market value exceeds its book value (Ahmad et al., 2022). A stock price higher than its book value reflects that the market perceives the firm's intrinsic value to be higher than what is stated in its financial statements.

Fundamental factors are complex and broad in scope, consisting of macroeconomic fundamentals that are beyond the firm's control, such as inflation, interest rates, exchange rates, and economic growth, and microeconomic fundamentals that are within the firm's control, such as financial ratios (Widayanti & Yadnya, 2020). Internal factors influence firm value from within the firm by analyzing financial performance, including managerial ownership, institutional ownership, dividend policy, leverage, firm size, profitability, and good corporate governance. Meanwhile, external factors affect firm value from outside the firm, such as interest rates, inflation, and exchange rates.

Firm value is influenced by several internal factors, including profitability, leverage, firm size, growth, and dividend payments (Butar-Butar et al., 2021). This study focuses on several factors profitability, leverage, and dividend policy which are believed to affect firm value.

Profitability is a firm's ability to generate profit from its operations. This ability not only reflects the firm's efficiency and effectiveness in managing resources but also sends

a positive signal to the market and investors regarding the firm's future prospects (Loekito & Setiawati, 2021). According to Hery (2017), high profitability significantly impacts shareholder welfare, who gain returns through both yield and capital gains. This shows that the higher the firm's profitability, the more attractive it becomes to investors.

Profitability is measured through various indicators such as the Net Profit Margin (NPM), which shows how much net profit can be generated from each unit of sales. This ratio reflects the firm's effectiveness in managing costs and operations to generate profit, which ultimately increases firm value. The higher the profitability ratio, the higher the value reflected in the firm's stock price. Therefore, profitability plays a crucial role as a determinant of firm value, often used by investors as a basis for investment decisions.

In relation to signaling theory, firms with high profitability are considered to have good financial performance, which sends a positive signal to the market. Signaling theory, first proposed by Spence (1973), states that information disclosed by a firm can influence investors' perceptions of its future prospects (Suganda, 2018).

This positive signal appears when a firm can demonstrate high profit through profitability indicators such as NPM. Investors interpret this signal as an indication of stable performance and promising prospects, increasing their interest in investing in the firm. Conversely, low profitability may be perceived as a negative signal, raising concerns about the firm's ability to generate future profits.

Previous research by Maharani (2021) and Rusnaeni et al. (2024) found a positive relationship between profitability and firm value. Maharani (2021), who studied the Indonesian banking sector, found that profitability had a positive effect on firm value. This finding aligns with signaling theory, which suggests that high profitability provides a positive signal to investors, ultimately increasing the firm's market value. Similarly, Juliani Putri (2023) also found that profitability significantly affects the Price to Book Value (PBV), one of the main indicators of firm value.

Firms obtain funding from two main sources internal and external. Internal funding comes from retained earnings and depreciation. If internal funding is insufficient, external funding, such as debt, must be considered (Widayanti & Yadnya, 2020). Leverage measures the proportion of a firm's funding that comes from debt relative to total assets or equity. This ratio assesses the extent to which a firm uses debt to finance operations and growth, as well as evaluates the financial risk associated with its capital structure. In this study, leverage is proxied by the Debt to Equity Ratio (DER), which compares total debt to total equity.

Previous studies conducted by Ahmad et al. (2022), Rejeki & Haryono (2021), Maharani (2021), Setyabudi (2021), and Lestari et al. (2020) found that leverage has a negative effect on firm value. However, contrasting results were reported by Yudha Pradana (2021), Widayanti & Yadnya (2020), and Bon & Hartoko (2022), who stated that leverage has a positive effect on firm value.

Dividend policy not only has a direct effect on firm value but can also act as a supporting factor that strengthens or weakens the influence of other factors, such as profitability and leverage, on firm value. As a mediating variable, dividend policy indicates its ability to clarify the relationship between financial performance (represented by profitability and leverage) and investors' perceptions of firm value.

Studies have shown that profitability has a positive relationship with dividend policy, where firms with higher profitability tend to distribute larger dividends to shareholders (Jayanti et al., 2021). As dividend payments increase, investors receive a positive signal regarding the firm's financial health, which ultimately enhances firm value. Maharani (2021) also supports this view, finding that profitability significantly affects dividend policy in the banking sector listed on the IDX.

Leverage can also influence dividend policy. Although leverage often indicates a higher level of corporate debt, dividend payments in high-leverage conditions can send a signal of managerial confidence in the firm's ability to meet debt obligations without reducing profit distribution to shareholders (Pattiruhu & Paais, 2020). Therefore, dividend policy serves as a bridge connecting leverage with investors' perceptions of

firm value. Aprilyani et al. (2021) stated that for firms with high leverage, dividend payments can help reduce investor concerns about financial risk.

According to signaling theory, high dividend payments send a positive signal to investors that the firm not only has good financial performance but also maintains sufficient liquidity to pay dividends despite significant leverage levels. Thus, dividends act as a mediating variable that strengthens the relationship between profitability and leverage with firm value, emphasizing that dividend policy plays a crucial role in attracting investors and enhancing their confidence in the firm's sustainability.

Previous studies, such as those by Butar-Butar et al. (2021), which proxied dividend policy through the Dividend Payout Ratio (DPR) and firm value through the Price to Book Value (PBV), reported similar findings. Comparable results were obtained in studies by Setyabudi (2021) and Kristianti & Foeh (2020), which found that dividend policy, along with other variables, simultaneously has a positive and significant effect on firm value. In contrast, D. M. Sari & Wulandari (2021) found that dividend policy has a negative and significant effect on firm value.

This study examines the role of dividend policy as a mediating variable in the relationship between profitability and leverage with firm value. The inclusion of dividend policy as a mediation variable is expected to provide a deeper understanding of how profitability, leverage, and firm value interact within the context of corporate financial strategy focused on managing earnings and debt to enhance firm value in the eyes of investors.

2. Method

This study employs a quantitative approach with a causal associative method to analyze the cause-and-effect relationships between profitability (X1), leverage (X2), dividend policy (Z), and firm value (Y) in energy sector firms listed on the Indonesia Stock Exchange during the 2021–2024 period. The research data were obtained from annual financial reports published on the official IDX website. The variables in this study were measured using financial ratios, namely Net Profit Margin (NPM) for profitability, Debt to Equity Ratio (DER) for leverage, Dividend Payout Ratio (DPR) for dividend policy, and Price to Book Value (PBV) for firm value (Sugiyono, 2019).

The population of this study includes all energy firms listed on the IDX during the 2021–2024 period, with a total of 81 firms. The sample was determined using the purposive sampling technique, selecting firms that consistently distributed dividends during the observation period. Based on these criteria, 22 firms were obtained with a total of 72 observations over four years. The type of data used is quantitative secondary data derived from financial statements and official IDX publications. Secondary data were chosen because they are objective, verifiable, and support more accurate empirical analysis (Gunawan, 2020).

The data analysis techniques used include descriptive statistical analysis, classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation), and path analysis with the Sobel test to examine the mediating role of dividend policy. Path analysis was applied to identify both direct and indirect effects of profitability and leverage on firm value through dividend policy as a mediating variable. Hypothesis testing was conducted using the t-test with a significance level of 5% to determine the significant effects among variables in the research model (Meiyana & Aisyah, 2019; Rahmania, 2020).

3. Results And Discussion

Description of Research Results

Descriptive Statistical Analysis Results

This section presents a description of the data for each variable used in the study, namely Profitability, Leverage, Dividend Policy, and Firm Value. The data were obtained from the annual financial reports of energy sector firms listed on the Indonesia Stock Exchange during the research period. Each variable was measured using specific indicators that are relevant and observable from the firms' secondary data.

Table 2. Descriptive Statistics Results.

	Minimum	Maximum	Mean	Standard Deviation
Profitability	-,01	,64	,2400	,15626
Leverage	,01	5.24	,9111	,87516
Dividend Policy	,07	2.02	,5484	,30737
Firm Value	,07	19.77	2,5002	3,57319
Valid N (listwise)				

Source: Data processed by the author, 2025.

Based on Table 2, the results of the descriptive statistical analysis of 88 energy firms listed on the Indonesia Stock Exchange for the 2021–2024 period are as follows:

The Profitability variable has a minimum value of -0.01 and a maximum value of 0.64, with a mean of 0.2400 and a standard deviation of 0.15626. This indicates that the level of firm profitability in the research sample varies from slight losses to relatively high profitability, with relatively low data variation.

The Leverage variable has a minimum value of 0.01 and a maximum value of 5.24, with a mean of 0.9111 and a standard deviation of 0.87516. The relatively high maximum value indicates the existence of firms with a very large proportion of debt compared to their total assets, while the variation among firms is quite wide.

The Dividend Policy variable shows a minimum value of 0.07 and a maximum value of 2.02, with a mean of 0.5484 and a standard deviation of 0.30737. The high maximum value suggests that there are firms distributing dividends far exceeding their net profit, while the average indicates a generally moderate dividend policy within this sector.

The Firm Value variable exhibits a very wide range, from a minimum of 0.07 to a maximum of 19.77, with a mean of 2.5002 and a standard deviation of 3.57319. This reflects significant differences in market capitalization among energy sector firms, with some firms having substantially higher market values compared to others.

Regression Analysis Results

Classical Assumption Test Results

1. Normality Test

The normality test aims to determine whether the sample data come from a normally distributed population. Data suitable for use in this study must follow a normal distribution. In this research, the normality test was conducted using the Kolmogorov–Smirnov (K–S) method. The K–S test examines the normality of the residuals, where if the Kolmogorov–Smirnov significance value is greater than 0.05, the residuals are considered normally distributed. Conversely, if the value is below 0.05, the residuals are not normally distributed. To support and confirm the normality results, the Kolmogorov–Smirnov method was employed as shown in the following table:

Table 3. Normality Test Results.

Equality	Asymp. Sig (2-tailed) Kolmogorov Smirnov Z
Substructure 1	0.409
Substructure 2	0.000

Source: processed by the author, 2025.

Based on Table 3, the results of the Kolmogorov–Smirnov normality test for the research model of energy sector firms listed on the Indonesia Stock Exchange for the 2021–2024 period show that Substructure 1 has an Asymp. Sig. (2-tailed) value of 0.409. This value is greater than the significance level of 0.05, indicating that the residuals in the Substructure 1 model are normally distributed.

Meanwhile, Substructure 2 has an Asymp. Sig. (2-tailed) value of 0.000, which is smaller than 0.05. This result indicates that the residuals in the Substructure 2 model are not normally distributed. This condition suggests the need for further treatment, such as data transformation or the use of robust analytical methods to address violations of the normality assumption, thereby ensuring more accurate analysis results.

According to classical linear regression theory (Gujarati & Porter, 2012), the normality of residuals is an essential requirement for the validity of parameter significance tests, particularly when the sample size is relatively small or moderate. Non-

normal residuals can cause the results of the t-test and F-test to become biased since the test statistics no longer follow a normal distribution.

Several factors may explain the non-normality observed in Substructure 2. First, the larger number of independent variables (three variables) compared to Substructure 1 increases the model's complexity. This complexity may lead to multicollinearity or dominance of one independent variable over the dependent variable, resulting in a non-random residual pattern. This aligns with Wooldridge (2016), who stated that an increasing number of independent variables without proper control may alter the residual distribution shape.

Second, the presence of outliers or extreme data points can distort the residual distribution, making it skewed or excessively peaked (excess kurtosis). This condition is common in energy sector research, where financial ratios such as leverage and firm value exhibit wide value ranges from very low to very high. Such outliers can shift the mean and reduce the symmetry of the residual distribution. As Ghozali (2018) noted, extreme data are among the primary causes of normality violations.

Third, the autocorrelation test results for Substructure 2 indicate significant positive autocorrelation (Durbin–Watson value of 0.670). According to Gujarati (2012), autocorrelation can cause residuals to be correlated across observations, altering their distribution pattern and violating the normality assumption.

Therefore, the non-normality in Substructure 2 is likely due to the interaction among model complexity, the presence of outliers, and positive autocorrelation. To address this issue, recommended corrective measures include applying data transformation (e.g., logarithmic or square root), detecting and removing non-representative outliers, or using estimation methods robust to normality violations, such as Generalized Least Squares (GLS) or robust regression.

2. Multicollinearity Test

The following table presents the results of the multicollinearity test:

Table 4. Multicollinearity Test (Tolerances and Variance Inflation Factor).

Model		Collinearity Statistics	
		Tolerance	VIF
Substructure1	Profitability	0.874	1,144
	Leverage	0.874	1,144
Substructure2	Profitability	0.868	1,152
	Leverage	0.821	1,217
	Dividend Policy	0.911	1,097

Source: processed by the author, 2025.

Based on the table above, it can be concluded that there are no indications of multicollinearity among the independent variables. This conclusion is supported by the fact that all tolerance values are greater than 0.10, while all VIF (Variance Inflation Factor) values are below 10. Hence, the regression model fulfills the assumption of no multicollinearity.

3. Autocorrelation Test

The autocorrelation test aims to determine whether there is a correlation between one residual value and another in a regression model. Autocorrelation represents a violation of the classical linear regression assumption, which requires that residuals be independent of one another. The presence of autocorrelation, particularly in time series data, can lead to inefficient regression estimates because the residual variance is no longer minimized.

In this study, the autocorrelation test was conducted using the Durbin–Watson (DW) test, which yields values ranging from 0 to 4. A DW value close to 2 indicates no autocorrelation, a value close to 0 indicates positive autocorrelation, and a value close to 4 indicates negative autocorrelation.

Table 5. Autocorrelation Test Results.

Equality	D (Durbin-Watson)	You	4 − Du	Conclusion
Substructure 1 (k = 2)	1,599	1.67615	2.32	No positive autocorrelation (D < Du)
Substructure 2 (k = 3)	0.670	1.63 to 1.68 at k = 3, n = 88	2.36–2.37	Positive autocorrelation confirmed (D < Du)

Source: processed by the author, 2025.

Based on the Durbin–Watson test results in Table 5, it can be seen that in Substructure 1, which includes two independent variables with a sample size of 88, the Durbin–Watson value obtained is 1.599. This value is lower than the upper limit (Du) of 1.67615 but still above the lower limit (dL), indicating no evidence of positive autocorrelation in the model. The value of 4 − Du (2.32385) also confirms that no negative autocorrelation is present.

Meanwhile, in Substructure 2, which includes three independent variables with the same sample size, the Durbin–Watson value is 0.670. This value is significantly lower than the upper limit (Du), ranging between 1.63–1.68, and also below the lower limit (dL). This finding indicates the presence of significant positive autocorrelation in the model. The value of 4 − Du (approximately 2.32–2.37) further supports that the model does not exhibit negative autocorrelation, though the detected positive autocorrelation should be addressed in further analysis.

4. Heteroscedasticity Test

In this study, the heteroscedasticity test was conducted using the Glejser method, which involves regressing the absolute residual values against each independent variable in the model. If the regression results show a significance value (Sig.) for each independent variable greater than the 0.05 significance level, it can be concluded that there is no indication of heteroscedasticity.

Table 6. Glesjer Substructure Test 1.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.707	.172		-4.107	.000
	LOG_X1	.080	.087	.100	.916	.362
	LOG_X2	-.128	.070	-.199	-1,814	.073

Source: processed by the author, 2025.

Based on the results in Table 6, the significance (Sig.) value for the Profitability variable is 0.362, while for Leverage, it is 0.073. Both values are greater than 0.05, which means that statistically, there is no significant influence between the independent variables and the absolute residual values.

Thus, it can be concluded that the regression model does not contain heteroscedasticity symptoms; in other words, the assumption of homoscedasticity is met. This indicates that the residuals are evenly distributed (constant variance) and not affected by the independent variables, meaning the regression model is appropriate for further hypothesis testing without requiring data transformation or additional variance correction.

Table 7. Glesjer Test of Substructure 2.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,304	.772		5,575	.000
	LOG_X1	1,353	.360	.395	3,759	.000
	LOG_X2	.061	.294	.022	.208	.836
	LOG_Z	.091	.447	.021	.203	.839

Source: processed by the author, 2025.

Based on the Glejser Test for Substructure 2 in Table 7, the regression equation of the absolute residuals against the logarithm-transformed independent variables shows that LOG_X1 has a coefficient of 1.353, a t-value of 3.759, and a significance value of

0.000. Since the significance value is less than 0.05, it can be concluded that LOG_X1 has a significant effect on the absolute residual values, indicating potential heteroscedasticity arising from this variable.

Meanwhile, LOG_X2 has a coefficient of 0.061, a t-value of 0.208, and a significance value of 0.836, which is much greater than 0.05. Similarly, LOG_Z has a coefficient of 0.091, a t-value of 0.203, and a significance value of 0.839. These results suggest that neither LOG_X2 nor LOG_Z significantly affect the absolute residuals and therefore are not sources of heteroscedasticity in the model.

Overall, the results indicate that in Substructure Model 2, heteroscedasticity is detected because one of the independent variables (LOG_X1) significantly affects the absolute residuals. According to Ghozali (2018), this condition violates the classical regression assumption that requires constant residual variance (homoscedasticity). To address this issue, the researcher may consider using data transformation, the Weighted Least Squares (WLS) method, or robust standard errors to ensure more reliable parameter estimation results.

Direct Effect

After conducting the classical assumption tests and ensuring that the regression model meets the feasibility criteria, the next stage is to examine the direct effects among the research variables. This test aims to determine the extent to which profitability and leverage affect firm value, as well as how dividend policy influences firm value in the Energy Sector listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period.

The analysis of direct effects was carried out using multiple linear regression, where each relationship between variables was tested partially to obtain the coefficient value, direction of the relationship, and level of significance. This allows identification of which variables have a significant influence on the dependent variable and the strength of their direct relationship before considering any mediating variables.

The results of the direct effect analysis are presented in the following table, which includes the regression coefficients, relationship directions, significance levels, and interpretation of the results.

Table 8. Direct Effect of Research Variables.

Influence of Variables	Direct Influence	Significant	Results
X1 Y	8,913	0.001	Significant
X2 Y	0.224	0.624	Not Significant
ZY	0.076	0.951	Not Significant
X1 M	0.162	0.458	Not Significant
X2 M	-0.091	0.022	Significant

Source: Secondary Data, 2025.

Based on the regression analysis results in Table 8, the following conclusions can be drawn:

1. **The effect of profitability on Firm value**

H0: There is no effect of profitability on firm value.

H1: Profitability has a significant positive effect on firm value.

Profitability (X1) has a direct positive and significant effect on firm value (Y), with a coefficient of 8.913 and a significance value of 0.001 (< 0.05). This indicates that the higher a firm's ability to generate profit, the higher its firm value will be. Based on these results, it can be concluded that profitability has a significant positive effect on firm value, thus H0 is rejected and H1 is accepted.

2. **The effect of profitability on Firm value**

H0: There is no effect of leverage on firm value.

H1: Leverage has a significant positive effect on firm value.

Leverage (X2) has a direct positive but insignificant effect on firm value, with a coefficient of 0.224 and a significance value of 0.624 (> 0.05). This indicates that the level of leverage does not directly affect firm value during the research period. Based on

these results, it can be concluded that leverage has an insignificant positive effect on firm value, meaning H0 is accepted and H1 is rejected.

3. The Effect of Dividend Policy on Firm Value

H0: There is no effect of dividend policy on firm value.

H1: Dividend policy has a significant positive effect on firm value.

Dividend policy (Z) has a coefficient of 0.076 and a significance value of 0.951 (> 0.05), which means the effect is not significant. This implies that the level of dividend policy does not directly influence firm value during the study period. Based on these results, it can be concluded that dividend policy has an insignificant positive effect on firm value, thus H0 is accepted and H1 is rejected.

4. The Effect of Profitability on Dividend Policy

H0: There is no effect of profitability on dividend policy

H1: Profitability has a significant positive effect on dividend policy.

Profitability (X1) has a coefficient of 0.162 on dividend policy with a significance value of 0.458 (>0.05), indicating an insignificant effect. This indicates that profitability does not directly influence dividend policy during the study period. Based on these results, it can be concluded that dividend policy has a positive but insignificant effect on firm value, thus H0 is accepted and H1 is rejected.

5. The Effect of Leverage on Dividend Policy

H0: There is no effect of leverage on dividend policy

H1: Leverage has a significant negative effect on dividend policy.

Leverage (X2) has a negative and significant effect on dividend policy, with a coefficient of -0.091 and a significance value of 0.022 (< 0.05). This means that an increase in leverage tends to decrease dividend policy, and the relationship is statistically significant. Based on these results, it can be concluded that leverage has a significant negative effect on dividend policy, thus H0 is rejected and H1 is accepted.

Sobel Test Results

The mediation hypothesis testing can be conducted using the Sobel Test. The Sobel Test is used to examine the strength of the indirect effect of the profitability variable (X1) and the leverage variable (X2) on firm value (Y) through the dividend policy variable (Z). The indirect effect of profitability (X1) on firm value (Y) through dividend policy (Z) is calculated by multiplying the path coefficient from X to Z (a) by the path coefficient from Z to Y (b), or ab. The standard errors of coefficients a and b are denoted as Sa and Sb, respectively. The magnitude of the indirect effect's standard error is then used to determine its statistical significance. If the calculated Z value exceeds 1.96 (with a 95% confidence level), the mediating variable is considered to significantly mediate the relationship between the dependent and independent variables.

$$Z = \frac{ab}{\sqrt{b^2 S\frac{2}{a} + a^2 S\frac{2}{b} + S\frac{2}{a} S\frac{2}{b}}}$$

1. The Effect of Profitability on Firm Value Mediated by Dividend Policy

The Sobel Test calculation for the effect of profitability on firm value mediated by dividend policy in the Energy Sector listed on the Indonesia Stock Exchange for the 2021–2024 period is as follows.

Know Values:

a = 0.162 (coefficient of Profitability → Dividend Policy)

SE_a = 0.218 (standard error of a)

b = 0.076 (coefficient of Dividend Policy → Firm Value)

SE_b = 1.232 (standard error of b)

$$Z = \frac{(0{,}162).(0{,}076)}{\sqrt{(0{,}076^2).(0{,}218^2) + (0{,}162^2).(1{,}232^2) + (0{,}218^2).(1{,}232^2)}}$$

$$Z = 0{,}037$$

Based on the results of the Sobel test, the calculated Z-value is 0.037, which is smaller than the critical value of 1.96 at a 5% significance level (α = 0.05). This indicates that H1 is rejected and H0 is accepted, meaning that the dividend policy variable as a

mediating variable is not able to significantly mediate the relationship between profitability and firm value. Thus, the role of dividend policy is not proven to be a mediating variable. Based on these results, the hypothesis in this study stating that "Dividend Policy is able to mediate the effect of profitability on firm value" is rejected.

2. The Effect of Leverage on Firm Value Mediated by Dividend Policy

Based on the Sobel test calculation for leverage → firm value through dividend policy:

a = −0.091
SEa = 0.039
b = 0.076
SEb = 1.232
SEab = 0.122

$$Z = \frac{(-0{,}091).(0{,}076)}{\sqrt{(0{,}076^2).(0{,}039^2) + (-0{,}091^2).(1{,}232^2) + (0{,}039^2).(1{,}232^2)}}$$

$$Z = 0{,}057$$

Based on the results of the Sobel test, the calculated Z-value is 0.057, which is smaller than the critical value of 1.96 at a 5% significance level (α = 0.05). This indicates that H1 is rejected and H0 is accepted, meaning that the dividend policy variable as a mediating variable is not able to significantly mediate the relationship between leverage and firm value. Thus, the role of dividend policy is not proven as a mediating variable. Based on these results, the hypothesis in this study stating that "Dividend Policy is able to mediate the effect of leverage on firm value" is rejected.

Hypothesis Test Results

Table 9. Direct and Indirect Effects of Profitability (X1) and Leverage (X2) on Firm Value (Y) and Dividend Policy (Z)).

Variable Relationship	Direct Effect	Indirect Effect (mediation)	Total Effect	Significant	Result
X1 Y⟶	8,913	0.012	8,925	0.001	Significant
X2 Y⟶	0.224	-0.007	0.217	0.624	Not Significant
ZY⟶	0.076			0.951	Not Significant
X1 Z⟶	0.162			0.458	Not Significant
X2 Z⟶	-0.091			0.022	Significant

Source: Secondary Data, processed 2025.

After conducting classical assumption testing and confirming that the regression model met the feasibility criteria, the next step was to analyze the effect of profitability and leverage on firm value with dividend policy as the mediating variable. The analysis aimed to determine the magnitude of the direct influence of each independent variable on the dependent variable, as well as the indirect influence that occurs through the mediating variable. Thus, it can be identified whether dividend policy serves as full mediation, partial mediation, or has no mediating role in the relationships being tested.

a. The Effect of Profitability on Firm value

Based on the regression analysis results, it is known that profitability (X1) has a direct positive and significant effect on firm value (Y), with a coefficient of 8.913 and a significance value of 0.001 (< 0.05). The indirect effect of profitability on firm value through dividend policy (Z) is 0.012, resulting in a total effect of 8.925. These findings indicate that the effect of profitability on firm value is more significant directly than through dividend policy, suggesting that the mediating role of dividend policy is very weak.

b. The effect of leverage on Firm value

Furthermore, leverage (X2) has a direct positive but insignificant effect on firm value, with a coefficient of 0.224 and a significance value of 0.624 (> 0.05). The indirect effect of leverage on firm value through dividend policy is -0.007, resulting in a total effect of 0.217. This indicates that both the direct and indirect effects of leverage on

firm value are insignificant, implying that leverage is not a determining factor of firm value in this model.

c. The Effect of Dividend Policy on Firm Value

The variable of dividend policy (Z) has a direct positive effect on firm value (Y) with a coefficient of 0.076 and a significance value of 0.951 (> 0.05). Therefore, it can be concluded that dividend policy does not have a significant effect on firm value.

d. The Effect of Profitability on Dividend policy

The relationship between the independent variable and the mediating variable shows that profitability (X1) has a positive but insignificant effect on dividend policy (Z), with a coefficient of 0.162 and a significance value of 0.458 (> 0.05). Hence, it can be concluded that profitability does not have a significant effect on dividend policy.

e. The Effect of Leverage on Dividend policy

Meanwhile, leverage (X2) has a negative and significant effect on dividend policy (Z), with a coefficient of -0.091 and a significance value of 0.022 (< 0.05). This indicates that an increase in leverage tends to reduce dividend distribution, and this relationship is statistically significant.

f. The Role of Dividend Policy in Mediating the Effect of Profitability on Firm value

The indirect effect of profitability on firm value in the Energy Sector listed on the Indonesia Stock Exchange for the 2021–2024 period through dividend policy (Z) is only 0.012, which is obtained by multiplying the effect of profitability on dividend policy (0.162) with the effect of dividend policy on firm value (0.076). This very small value (Z < 1.96) indicates that the mediating contribution of dividend policy to the relationship between profitability and firm value is nearly negligible.

g. The Role of Dividend Policy in Mediating the Effect of Leverage on Firm value

The indirect effect of leverage on firm value through dividend policy (Z) is -0.007, obtained by multiplying the effect of leverage on dividend policy (-0.091) with the effect of dividend policy on firm value (0.076). This very small and negative value (Z < 1.96) suggests that the mediating contribution of dividend policy to the relationship between leverage and firm value is practically insignificant.

Discussion of Research Results

The Effect of Profitability on Firm Value

This study shows that profitability has a positive and significant effect on firm value. This means that the higher the level of profitability a company has, the higher its firm value will be. Profitability reflects the company's ability to generate profits from its operational activities. High profitability indicates the company's efficiency in utilizing its assets to generate income (Maharani, 2021). A high ROA increases PBV by demonstrating the company's efficiency in managing assets to produce profits (Rusnaeni et al., 2024). High profit levels are viewed by investors as a positive signal regarding the company's prospects, thereby increasing investor interest in buying the company's shares. This increase in share demand eventually drives up share prices, as reflected in the increase in firm value (Arumuninggar & Mildawati, 2022).

These results are consistent with signaling theory, which states that high profitability is considered a positive signal about a company's future performance and prospects. This condition builds investor confidence that the company can provide good returns, thereby strengthening market perceptions of the firm's value.

Empirically, the findings of this study are consistent with those of Maharani (2021), Juliani Putri (2023), Rusnaeni et al. (2024), Butar-Butar et al. (2021), Suliastawan & Purnawati (2020), and Sumanti & Mangantar (2015), who also found that profitability has a positive and significant effect on firm value.

The Effect of Leverage on Firm Value

This study indicates that leverage has no significant effect on firm value. This suggests that fluctuations in leverage fail to provide meaningful signals to investors and, therefore, do not influence firm value. These findings contradict previous studies by Hamzah et al. (2022), Rejeki & Haryono (2021), Maharani (2021), Gunawan Setyabudi

(2021), and Lestari et al. (2020), which found that leverage negatively and significantly affects firm value.

Investors do not always consider a company's dependence on debt as a critical factor in investment decisions, since most firms naturally maintain some level of debt (Arumuninggar & Mildawati, 2022). Dependence on debt does not necessarily indicate higher risk. Under certain conditions, debt that is effectively managed can generate returns exceeding both interest expenses and returns on equity (Karina & Sulistiyo, 2022).

These findings are inconsistent with signaling theory, which argues that a high level of leverage can be interpreted as a negative signal, indicating increased interest expenses and higher financial risk, leading investors to become more cautious. As a result, highly leveraged firms are perceived as riskier, reducing investor interest and lowering firm value. Empirically, this insignificant result supports the studies of Sumanti & Mangantar (2015), Soleman et al. (2022), Dwicahyani & Jan (2022), Wicaksono & Fitriati (2022), Pandelaki et al. (2023), and Eni & Rakhmanita (2024), which found that leverage does not significantly affect firm value.

The Effect of Dividend Policy on Firm Value

This study shows that dividend policy has no significant effect on firm value. This implies that fluctuations in dividend policy do not provide meaningful signals to investors and, therefore, do not affect firm value. These findings contradict the studies of Jayanti et al. (2021), Butar-Butar et al. (2021), Setyabudi (2021), and Kristianti & Foeh (2020), which found a positive and significant relationship between dividend policy and firm value.

Theoretically, this finding aligns with Miller and Modigliani's (1961) Dividend Irrelevance Theory, which posits that in a perfect market, dividend policy does not affect firm value because investors can create their own dividends by selling part of their shares. In other words, investors are more concerned with total returns rather than the form of the return—whether dividends or capital gains. According to this theory, dividend payments to shareholders reduce retained earnings that could otherwise be used for asset acquisition. Thus, companies may prefer reinvestment for long-term growth rather than dividend distribution (Sumanti & Mangantar, 2015).

This finding contradicts signaling theory, which suggests that dividend policy can provide positive signals to investors about the company's future prospects. Dividend increases are often seen as an indication of strong cash flow and sustainable profitability, thereby increasing investor confidence. However, in this study, dividend policy was found to have no significant effect on firm value, suggesting that investors do not rely solely on dividends when assessing company performance or prospects. Instead, they may prioritize other factors such as earnings growth, capital structure, or industry outlook. Empirically, these insignificant results support the studies of Sumanti & Mangantar (2015), Pandelaki et al. (2023), Pranata & Awaludin (2024), and Fadhillah (2025), which found that dividend policy has no significant effect on firm value.

The Effect of Profitability on Dividend Policy

Profitability does not significantly affect dividend policy, indicating that fluctuations in profitability are not the main determinant of dividend decisions. This finding contradicts Jayanti et al. (2021), Anisah & Fitria (2019), Maharani (2021), and Setyabudi (2021), who found a positive and significant relationship between profitability and dividend policy.

Theoretically, this contradicts signaling theory (Spence, 1973), which argues that higher profitability should serve as a positive signal to investors about a company's financial strength and its ability to pay dividends. However, in practice, this is not always the case. This study is also inconsistent with the pecking order theory (Myers & Majluf, 1984), which posits that highly profitable firms tend to prioritize internal financing through retained earnings rather than distributing dividends.

Additionally, according to residual dividend policy theory (Miller & Modigliani, 1961), dividends are paid only after investment and cash reserve needs are met. Thus, companies with large profits may allocate the remaining funds to dividends, implying that higher profitability should increase dividend payments.

On the other hand, based on agency theory (Jensen & Meckling, 1976), management may choose to retain earnings for investment or operational needs, resulting in lower dividends even with higher profitability. Firms may prefer reinvestment over dividend distribution, particularly if they aim for future asset growth (K. A. N. Sari & Sudjarni, 2015). Empirically, these insignificant results support the studies of K. A. N. Sari & Sudjarni (2015), Sumanti & Mangantar (2015), Pandelaki et al. (2023), Pranata & Awaludin (2024), and Fadhillah (2025), which found that profitability does not significantly affect dividend policy.

The Effect of Leverage on Dividend Policy

The findings show that leverage has a negative effect on dividend policy. In conditions of high leverage, the company's cash flow is prioritized for interest and principal debt payments rather than for dividend distribution. This aligns with the pecking order theory (Myers & Majluf, 1984), which suggests that companies prefer internal financing before resorting to debt. However, when internal cash reserves are insufficient, firms use debt as a financing source, limiting their ability to pay dividends.

Thus, a high leverage ratio directly reduces a firm's capacity to distribute dividends, as management prioritizes debt repayment to maintain financial stability.

From a strategic perspective, maintaining dividends despite high leverage can signal investor confidence in the firm's financial management (Abdullah, 2021). Companies that continue paying dividends despite heavy debt demonstrate resilience and effective debt management, distinguishing them from those that reduce dividends as a sign of financial distress (Victoria & Viriany, 2019).

Empirically, this finding is consistent with Akhyar et al. (2014), Asad & Yousaf (2014), Maharani (2021), Jayanti et al. (2021), and Setyabudi (2021), who also found that leverage has a negative and significant effect on dividend policy.

The Role of Dividends in Mediating the Effect of Profitability on Firm Value

Dividends play a mediating role in the relationship between profitability and firm value, although the strength of this mediation is relatively weak. The findings show that the indirect path between profitability and firm value through dividends exists, but its contribution is small compared to the direct effect. This means that while profitability can encourage firms to distribute dividends and such dividends may influence investors' perception of firm value the effect is not strong enough to serve as the main channel for enhancing firm value.

Profitability remains the dominant factor directly influencing firm value. High profit levels reflect operational efficiency and managerial success, which naturally increase investor confidence and boost the firm's market value. In many cases, investors prioritize direct financial performance such as net income over managerial decisions about dividend distribution, especially when the company is more focused on long-term growth.

One of the reasons behind the weak mediation of dividends may be that not all profitable companies distribute large dividends. Many prefer to retain earnings for reinvestment to promote expansion and asset growth. This policy is common among firms in the growth phase, where the main focus is increasing value through investment rather than distributing profits to shareholders.

On the other hand, modern investors do not always view dividends as the primary indicator of a firm's value. In today's efficient markets, many investors regard potential capital gains or share price growth as more attractive indicators than dividend payments. This weakens the relationship between dividends and firm value, especially when dividend policies are inconsistent or insignificant in amount.

The dividend relevance theory acknowledges that dividends can influence firm value, but this is not universally applicable. In the context of this study, the effect of dividends on firm value is weak, limiting their effectiveness as a mediating variable. This supports the view that the impact of profitability on firm value is primarily determined by market perceptions of the company's ability to generate sustainable profits.

Nevertheless, the mediation pathway through dividends still exists, even though its contribution is small. This indicates that dividends still play a role, albeit not a dominant one. Companies should continue to consider dividend policy strategically, as even weak

dividends can serve as a positive signal in maintaining relationships with investors especially those who rely on dividends as a source of steady income.

Corporate management should regularly evaluate how dividend policies can be integrated into the company's value-enhancement strategy. A combination of profit growth and proportional dividend distribution can help maintain investor confidence. Therefore, even if dividend mediation is statistically insignificant or weak, it may still play a symbolic and psychological role in the market.

Overall, it can be concluded that dividends do mediate the relationship between profitability and firm value, but their influence is not dominant. The main path remains the direct impact of profitability on firm value. Thus, in efforts to enhance firm value, management should focus on improving profitability while selectively maintaining dividend policies in alignment with the company's condition and strategic goals.

The Role of Dividends in Mediating the Effect of Leverage on Firm Value

The path analysis results indicate that dividends mediate the relationship between leverage and firm value, but their role is very weak and statistically insignificant. Although leverage significantly influences dividend policy, the indirect effect of leverage on firm value through dividends does not make a meaningful contribution to firm value enhancement. This suggests that the role of dividends as an intervening variable is not strong enough to bridge the effect of leverage on firm value.

Within the framework of capital structure theory, leverage is often associated with increased financial risk. When a company has a high proportion of debt, management tends to be more cautious in profit distribution decisions, which can lead to lower dividend payouts. However, even though leverage affects dividend policy, the results show that investors do not necessarily value companies higher simply because they pay dividends especially if those dividends come from firms with heavy debt burdens.

This finding reinforces the understanding that dividends are not always the primary indicator investors consider when assessing a company. In the context of high leverage, investors tend to focus more on the firm's ability to repay debt, maintain operating cash flow, and ensure business sustainability. Therefore, even though the leverage–dividend–firm value mediation path exists, its influence is not empirically significant.

From a managerial perspective, deciding to distribute dividends under high debt pressure can be a dilemma. If dividends are still paid, liquidity and solvency may be threatened. On the other hand, if dividends are withheld, negative market signals may emerge. As a result, many highly leveraged firms choose to retain earnings or pay only minimal dividends. Such policies diminish the role of dividends as a positive market signal, ultimately making their impact on firm value insignificant.

In this context, the mediating role of dividends becomes very limited. The mediation occurs only mathematically, but not strongly in practical or psychological terms in shaping investor perceptions of firm value. The lack of a significant impact of dividends on firm value suggests that other factors—such as overall financial performance, asset efficiency, and long-term growth prospects—play a more dominant role.

Furthermore, the evolving dynamics of capital markets have made investors more rational and comprehensive in evaluating company performance. Dependence on dividends has declined, especially when firms demonstrate sustainable growth potential. In the case of leverage, investors focus more on debt management capability and repayment strategies than merely whether dividends are distributed.

In conclusion, although leverage affects dividend policy, dividends fail to effectively transmit this effect to firm value. Consequently, the total effect of leverage on firm value remains largely direct rather than mediated through dividends. This explains why the total influence of leverage on firm value remains low, even when the dividend factor is considered.

4. Conclusion

Based on the descriptive analysis of the four main variables profitability measured by Net Profit Margin (NPM), leverage measured by Debt to Equity Ratio (DER),

dividend policy measured by Dividend Payout Ratio (DPR), and firm value measured by Price to Book Value (PBV) the following conclusions can be drawn:

1. Profitability has a positive and significant effect on firm value. This finding indicates that firms with higher profitability levels tend to have better firm value.
2. Leverage has no significant effect on firm value. This result shows that the extent of a firm's debt usage does not necessarily increase or decrease firm value in the eyes of investors.
3. Dividends have no significant effect on firm value. This suggests that a firm's decision to distribute dividends does not directly influence investors' perception of the firm's value. Although dividends are often considered a form of assured return to shareholders, in certain contexts investors place greater emphasis on other fundamental indicators such as profit growth, business prospects, and long-term innovation.
4. Profitability has no significant effect on dividends. This indicates that the firm's profit level is not the main factor in determining dividends. Firms tend to consider other factors such as investment needs, liquidity, and reputation management strategies rather than relying solely on profitability when formulating dividend policies.
5. Leverage has a negative and significant effect on dividends. The findings show that the higher the firm's leverage or debt ratio, the lower the likelihood that the firm will distribute dividends to its shareholders.
6. Dividends play a mediating role in the effect of profitability on firm value, although the strength is relatively weak. This means that while profitability can encourage firms to distribute dividends and such dividends can influence investor perceptions of firm value the effect is not strong enough to serve as the main channel for enhancing firm value.
7. Dividends mediate the effect of leverage on firm value, but their role is very weak and statistically insignificant.Although leverage significantly affects dividends, the indirect effect through dividends does not make a meaningful contribution to the enhancement of firm value. This indicates that the role of dividends as an intervening variable is not strong enough to bridge the effect of leverage on firm value.

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