

Effect of Profitability of Corporate Values through Dividend Policy

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Abstract : *The purpose of this study is to analyze the effect of profitability on the corporate value through dividend policy. The research was conducted on manufacturing companies listed in Indonesia Stock Exchange from 2012 to 2016. A total of 35 companies were obtained based on the criteria: the company must be a manufacturing industry type, the company publishes the annual financial statements continuously for five consecutive years, the company must show a positive balance of total equity and positive earnings for five consecutive years and the company is steadily paying cash dividends every year. Mathematical models that reflect the causal relationship between endogenous variables and exogenous variables in this study using path analysis. The results showed that profitability has a significant effect on dividend policy, and corporate value. Profitability and dividend policy have a significant effect on corporate value. Furthermore, profitability has a significant effect on the corporate value through dividend policy.*

Keywords - *profitability, dividend policy, corporate value*

Date of Submission: 15-07-2018

Date of acceptance: 30-07-2018

I. Introduction

Manufacturing firms have become one of the backbones of Indonesian economy with positive growth rates and stable when faced with the world economic conditions remain sluggish in the period 2008-2016. The share price, which includes a manufacturing company's stock price, determined at the market, where supply meets demand sellers but no buyers complete equation that tells exactly how stock prices will behave. Much of the literature and research only shows a few things about the power that drives stock prices up or down. These forces are divided into three categories: technical factors, fundamentals and market sentiment.

According to Welsch (1992), through the approval of the board of directors are usually distributed cash dividends to shareholders. It can also include the dividend in shares or other form of payment. Stock dividend is a distribution of additional shares to holders of ordinary shares (Higgins, 1998: 217). On the other hand, Ross (2002: 66) the profit is divided into two parts; either retained earnings or paid as dividends.

While Wild et al. (2005: 96) and Kieso (2004: 132-141) suggests that retained earnings are the main source of the distribution of dividends to shareholders. Regular cash dividend payments made by companies to shareholders. He also mentioned that dividend decided by the board of directors and can range from zero to nearly every company can afford to pay.

Wild (2005: 116) says that dividends are the only cash payments to shareholders who received directly from the company and this is the basis of assessment for ordinary shares. Stock price response to the announcement of unexpected dividend changes associated with the preference marginal investor in companies where other things are considered unchanged. In addition, a company that is changing the dividend policy is expected to experience a trend upward or downward on the return of its shares (Gunasekaran et al., 2006). The researchers also said that for a newly public company, stock prices continue to rise even after the initial public offering (IPO).

Higgins (1998: 239) says that if a company wants to have less money to invest, or would like to raise more money from external sources for the same investment, the shareholders will be is hoping on future cash flows, and would reduce the share price appreciation. Additionally, Affleck-Graves (2002) and Mendenhall (1992) found that stock prices react after an average of 8 days to 54 days after the dividend announcement.

Hampton (1990: 146-147) says that the value of the stock will increase because of the addition of the dividend policy and stock value will be below market value by the lower dividend policy. In addition, indicated also that there are two studies on the effect of dividends on the share price, which is one that the dividend does not affect the market price and the other is the dividend policy has a profound effect on the company's position in the stock market. Benartzi et al. (1997) found a positive correlation between stock prices and dividends. Furthermore, Campbell and Shiller (1988) found a relationship between the stock prices, earnings and dividends

expected and concluded that the very strong earnings and dividends in predicting stock returns for several years. The researchers analyzed the stock price index and dividend during the 76 months of the announcement and found the correlation coefficient under 0.7 for a period of 76 months, and also found that the maximum value of the regression coefficient reached after 79 months. Moreover, Shiller (1981, 1989) in his study recommends investors to buy the stock when the dividend is relatively low and sell shares when the dividends are high. On the other hand, Jensen (1976) argues that the dividend will be cut yield decline in the stock price. 1989) in his study recommends investors to buy the stock when the dividend is relatively low and sell shares when the dividends are high. On the other hand, Jensen (1976) argues that the dividend will be cut yield decline in the stock price. 1989) in his study recommends investors to buy the stock when the dividend is relatively low and sell shares when the dividends are high. On the other hand, Jensen (1976) argues that the dividend will be cut yield decline in the stock price.

John and Muthusamy (2010) concluded that the profitability ratios of EPS and P / E are negatively related to the payment of dividends. The researchers found that the leverage is negatively related to the payment of corporate dividends. Gill et al. (2010) reported a positive relationship between profitability and dividend payments in the service industry, but on the profitability of the manufacturing industry has a negative relationship with the payment of dividends, capital structure did not significantly affect the payment of dividends as well as the determinant of the dividend is industry specific, as reflected also in the findings Asad and Yousaf (2014). Shah and Ullah (2011) argues that the presence of the directors direct shareholder dividend policies that benefit shareholders. This argument is contrary to the findings of Franklin because of the influence of the shareholders of the BOD (board of directors) will create a negative impact on leverage is not significant to the dividend payment. Al-Twaijry (2007) argued that the Company's dividend payments linked to earnings but this association was not significant. On the other hand the level of leverage is negatively related to the level of dividends.

Profitability measured by financial ratios (Shapiro, 1991: 731). Financial ratios pertaining to profitability impact on the investment decisions of investors. High profitability will lure investors to invest money for the expansion of the company's business, otherwise investors are reluctant to invest or withdraw funds even if profitability is low. As for the company, the effectiveness of its business management can use profitability as an evaluation tool.

It is as revealed by Giulio et al. (2008) that the higher profitability gives good sign to investor to acquire stocks and raise company value. When investors realize the desire to own shares into shares of the company request it is possible the demand will increase. Increased demand on the one hand and stagnant stock offering on the other hand will increase the stock price. This constant high demand also reflects investors assessed the company in the market is higher than the value of the companies listed on the financial statements. Most of the studies reveal that profitability can increase the value of these companies is Sucuahi and Cambarihan (2016), Sudjoko and Soebiantoro (2007) and Rahmawati et al. (2015).

Dividend payments of closely linked to profitability. Larger companies and established with a predictable income often the best dividend payers, and vice versa (Demirgunes, 2015). Many factors influence the distribution of cash dividends such as profitability, asset size; current debt levels are low, good relationships with suppliers, and the health of healthy liquidity (Barclay and Clifford, 1988).

There are a number of reasons why a company might choose to release some of its earnings as dividends, which many investors like fixed income attributed to the dividend, so that they will be more likely to buy shares of companies that pay steady dividends. Investors also see the dividend payment as a sign (sign) the strength of the company and a sign that management has positive expectations for future earnings, which once again makes the stock more attractive. Greater demand for shares of the company will increase the price.

Many studies have shown that the ratio of profitability, which is part of the financial ratios there are influential and there is not the stock price. Aono and Iwaisoko (2010) provide evidence of a lower correlation between the ratio of the Japanese company's financial and share price performance.

On the other hand Lewellen (2004), Chapman (2006) and Indriani and Sugiharto (2010) concluded that the financial ratios did not significantly affect the performance of the stock price. Zhang et al. (2006), Martani et al. (2009), Cai and Zhang (2010) and Shams et al. (2011) found that financial ratios have a significant effect on the stock price. Kheradyar et al. (2011) states that the financial ratios include: (dividend yield, get the results and the book market ratio) can predict stock returns.

This study aimed to analyze the effect of profitability on the value of the company, analyzing the profitability of the dividend policy, dividend policy analysis on the value of the company and analyze the effect of profitability to corporate value through dividend policy.

II. Literature Review

Corporate Value

Value companies are always associated with financial decisions. The company's value is the size of the economy that reflects the market value of a business on the number of claims by creditors and shareholders (investors) (Brigham and Houston, 2015: 112). Fama and French (1998) shows the dividend is positively related to the value of the company while the debt is negatively related to the value of the company. Dividends and debt provide information about the profitability of the dominant in the financing decision. Consequently, if the company is quite profitable, companies need to pay dividends and does not need to issue debt in the first position.

Profitability

Profitability is the ability of the business to profit. Profit is revenue generated after paying all costs directly related to income, such as produce, and other costs associated with the implementation of business activities. Profitability is the company's potential profit on the business is run by its resources (Brigham and Houston, 2015: 99).

Dividend Policy

Dividends are corporate earnings are distributed to shareholders. Dividends paid in cash or shares and usually published every quarter. Dividends may only be paid from retained earnings and not from capital invested as capital or excess received over the par value of shares. In general, the more stable revenue, the more regular dividend payments (Brigham and Houston (2015: 489-491). Policy dividend is an exclusive decision by the management to decide what percentage of profits to be distributed among the shareholders or what percentage of it is retained for meet internal needs, in retain earnings (Van Horne and Wachowicz, 2009: 476).

III. RESEARCH METHODS

Population and Sample

Manufacturing companies listed in Indonesia Stock Exchange from 2012 to 2016 is a study population of 144 companies. Individual companies sampled sought by purposive sampling, ie sampling in accordance with the purpose of research or problem that was developed based on certain criteria. Companies that meet the criteria defined in the study of a sample of 35 companies.

Operational definition

a. Profitability

Profitability is a measure of the percentage of measuring the extent of a company's ability to leverage its resources to generate profit from operations.

b. Dividend Policy

Dividend policy is the company's decision to establish how much the dividend payment in shares kepadapemegang percentage.

c. The value of the company

The company's value is the value or market price applicable to common shares of the company.

Data analysis technique

Data analysis techniques in this study is an attempt to process data into information, so that the characteristics or properties of the data can be easily understood and can be beneficial to address the problems or test the hypotheses that have been formulated in the study. Data analysis techniques in this study with descriptive analysis and path analysis

IV. RESULTS AND DISCUSSION

Results Descriptive Analysis

Descriptive analysis was conducted to describe the profile of research data and explain the variable-variable research regarding the minimum and maximum values, the average (mean), and deviation standard of profitability (X1), Dividend Policy (Y1) and Value (Y2) during the period 2012-2016, as Table 1 below:

Table 1. Descriptive Statistics Variable

Descriptive statistics						
variables	Size	N	Minimum	Maximum	Average	Std deviation
Profitability (X1)	ROE	175	0.010	0.370	0.1369	0.0839
Dividend Policy (Y1)	DPR	175	0.001	0.650	0.1720	0.2079
Corporate value (Y2)	Tobin's Q	175	1.030	2.590	1.8186	0.5562

Source: Report SPSS.

In table 1 above in mind that the profitability as measured by return on equity (ROE) ranged from 0.01 to 0.37 with an average of 0.14. Profitability minimum value of 0.01 indicates that the lowest value the profitability of all observations have gain only 1% and the maximum value of 0.37 means that the highest value of all observations profitability of earning a return of 37%. The average overall profitability of 0.14 which indicates that the ability of manufacturing firms to produce an average return of 14% of its capital. That is pretty good company in generating profits. Standard deviation of 0.0839 or 8,

Furthermore, the variable dividend policy as measured by the Dividend Payout Ratio (DPR) as a whole has a minimum value of 0.001 and a maximum rate of 0.65 with an average of 0.17. The minimum value of 0.001 showed that during the period of observation there are companies that just pay a dividend of 0.1% of the profits. The maximum value of 0.65 meaning that there are companies that pay a dividend of 65% of profits, While the average value of the DPR of 0.17, meaning that on average companies paid a dividend during the observation period of as much as 17% of the net profits. DPR standard deviation of 0.2079 Parliament shows that the data sample in this study has a distribution which vary widely due to the standard deviation is greater than the average value.

At the last variable is the value of the company measured Q dengan Tobin's lowest value and the highest value worth 1,030 worth of 2.590 with an average of 1.820. A minimum value of 1,030 showed that during the period of observation there are companies that only rated by the market is slightly higher than the book value of the company or it can be said that the stock is considered reasonable, The maximum value of 2,590 means there shares company rated high or company produces a higher level than the replacement cost of its assets, which would lead to individuals or other companies create similar types of businesses to gain some of the benefits. While the average value Tobin's Q as big as 1,820, means that during the period of observation enterprises rated by the market is higher than the book value of companies listed or in other words, the average share of manufacturing companies are more expensive than the replacement cost of its assets, implying that the stock is overvalued. Standard deviation *Tobin's Q* at 0.2079 Parliament indicates that the data sample in this study had minimal distribution variation due to a smaller standard deviation from the average value.

Hypothesis Test Results

Hypothesis testing is done by testing the significance of the individual parameters of each track to ensure the independent variables on the dependent variable based on Table 2 below:

Table 2. Path Between Variable Coefficient

Influence	coefficient Line	p-Value	Information
profitability → The value of the company	0.005	0.038	Significant
profitability → Dividend Policy	0.441	0.000	Significant
Dividend Policy → The value of the company	0.305	0.000	Significant
profitability → Dividend Policy → The value of the company	0.134		Significant

Source: Data processed.

a. Testing Hypothesis 1

Hypothesis: profitability significantly influence the value of the company,

Direct positive impact profitability and significant to firm value. The magnitude of the direct influence of the profitability of the firm value is 0.005 with significance value amounted to 0,038 smaller than 0,05. That is, profitability has a significant and positive effect on the companies use values, Thus the first hypothesis tested.

b. Testing Hypothesis 2

Hypothesis: profitability significantly influence the dividend policy.

Direct positive impact profitability and significant to dividend policy, The magnitude of the direct influence of profitability on dividend policy is of 0.441 with significance value 0,000 less than 0.05. this means profitability has a significant and positive effect on dividend policy, the second hypothesis can be tested.

c. Testing Hypothesis 3

Hypothesis: dividend policy significantly influence the value of the company.

Directly dividend policy of positive influence and significant to firm value. The magnitude of the direct influence of profitability on the value of the company amounted to 0,305 with significant value 0,000 less than 0.05. That is, dividend policy has a significant and positive effect on the companies use values, And the second hypothesis tested.

d. Testing Hypothesis 4

Hypothesis: profitability significantly influence the value of the company through dividend policy.

Analysis of the effect of profitability via dividend policy on firm value, known direct effect given the profitability of the firm value of 0.005. While the indirect effect on the profitability of the company through dividend policy value is equal to 0.134. These results show that the indirect effect is greater than the effect of direct and indirect profitability via dividend policy has a significant influence on the value of the company so that it can be said hypothesis 4 tested.

V. Discussion

Profitability influence on Corporate value

Profitability has been tested in this study positively and significantly to corporate value. These results are in line to support the signaling theory, that the dividend payment is used as a signal to describe the outlook for the company's current and future. If the rate of return and the amount of the dividend is high, it will give a positive signal to investors, so investors will be interested in buying the company's stock and shares of the company will increase demand and raise stock prices. The share price is a reflection of the company's value as measured by Tobin's Q, thus the increase in stock prices will certainly increase the value of the company.

The findings are consistent with the results of research Sucuahi & Cambarihan (2016) and Kodithuwakku (2016) who find profitability have a positive effect on firm value. These findings also reinforce the notion McCabe (2011) that the profitability of the company is an important indicator of financial performance and reliable explain the company's value and dividends.

Based on the results of path analysis, contributes that profitability can be predicted and explained corporate value. Profitability provides broad indications that a company has the ability to raise the level of income. Profitability affect the value of the company for the value of the company has a positive sentiment towards the achievement of profit to justify the payment of dividends, so the stock price will increase because the company showed a positive signal to pay dividends. The greater the profitability of the company more profits distributed to shareholders, so that the value of the company is expected to be higher.

The results of analysis of this pathway provides a practical explanation, that in the period 2012 to 2016, that investors respond well to the profitability of the sample companies. Signal in the form of good news given by the company to investors in the form of information continues to increase corporate profits will increase investors' positive response to receiving a signal in the form of good news from the company. Investors believe that companies with high profitability had a great opportunity to pay dividends and have the opportunity to fund investment projects internally. Consequently, investors are increasingly interested in buying the stock corporate so its share price so that the company's value will increase as well.

The results of analysis of this pathway provides managerial implications that profitability provides broad indications that a company has the ability to raise the level of income. Profitability should be maintained stability due to the high profitability basically reflect management has worked effectively and efficiently operate the company.

Profitability Influence on Dividend Policy

The results of path analysis showed that the profitability of the direct effect on dividend policy. High levels of profitability which allows the company to pay dividends with ease so that a direct link between profitability and dividend payout rate runs in the same direction. Dividends paid out of profits recorded by the company so that the higher profitability, the higher the dividend payment (Brigham and Ehrhardt, 2011), In accordance signaling theory, the dividend payment is used as a signal to describe the outlook for the company's current and future. The findings are consistent with the results of research Demirgüneş (2015) and Elmi and Muturi (2016) which states profitability is the main factor that makes the company distributed dividends.

Based on the results of the path analysis, the contribution that is obtained is that profitability can be used to predict and explain the dividend policy. A company with a consistent high profits tend to pay higher dividends to shareholders. This may explain why the persistence of higher profitability witnessed in large companies because they are more flexible to changes than small-sized companies in the same market.

The results of path analysis provides a practical explanation, that in the period 2012 to 2016, earnings significantly affect dividend policy of the sample companies, in other words when there is an increase in

profitability, manufacturing companies will also increase dividend payments to shareholders. High profitability is considered to increase the company's revenue so as to encourage a high dividend payments to shareholders. On the other hand, low profitability will reduce the liquidity of the company, forcing the company to pay lower dividends or even almost no dividend at all. De Angelo and Skinner (2002) showed that the negative reaction to the abolition of dividend stock price is greater than the positive reaction of the dividend announcement.

The results of path analysis also implies managerial, that a moderate dividend payout ratio and dividend paid continuously every year is a good strategy to be adopted by the sample companies. Reinvestment of earnings that are not paid out as dividends to be constantly running as it helps the company to grow future revenue. The ratio is too high can also implies that the company does not have sufficient funds to make the investment of new projects that affect the future profitability of the company. The use of the ratio of the dividend policy should seek a balance between short-term cash flow and the company's future earnings growth. Expectations of the profitability of the company is that it should have an impact on the company's dividend policy at the appropriate places.

Effect of Dividend Policy of the Corporate Value

The results of path analysis showed the dividend policy affects the value of the company. These findings are inconsistent with Miller and Modigliani (1961) who argued irrelevant theory. Irrelevant theory carries the proposition that there is no relationship between the dividend policy and stock prices. The difference from the theory mainly because of the assumptions adopted by the theory of efficient markets is almost impossible to achieve in practice, especially in developing countries like Indonesia. The findings are consistent with the theory of signal (dividend signaling theory) which case the action on the payment of dividends manufacturing company examined carefully as a signal. It is generally considered that when a company started dividends, it indicates that management expects to generate sufficient cash flows in the future and thus believes that he will be able to restore most of the cash flows to its shareholders. Continuous dividend payments investor scrutiny as a good signal to positively lift stock prices which significantly adds to the prosperity of shareholders or the company's value.

Path analysis is also in line with bird in the hand theory and Differential tax theory for the purpose of any investors or shareholders is to maximize wealth, the choice of companies to invest is very important to investors interested in the best companies to put their money carefully because they avoid the risk (Guo, 2002). Shareholders as observed in this study that noted the company pursuing high profit and high dividend paying continuously. Stocks that pay high dividends will drive prices higher because shareholders would prefer the current values rather than the values of the future. The findings are consistent with the results of research Sulong and Nor (2008), Lai et al. (2016) and Kodithuwakku (2016) which stated dividend policy affects the value of the company. Previous Fama and French (1998) to inform you of a recent study that the dividend policy is positively correlated with the value of the company.

The results of path analysis can be used as a prediction that the dividend policy of the important factors rise and fall of stock prices led to the tinggirendahnya nilaiperusahaan. Dimaknaisebagaisinyal nice dividend payments by investors with future cash flows to be expected therefore positively affect stock prices thus increasing shareholder value in the long term. Initiation of dividends provide certainty to shareholders also indicates the company's prosperity and the prosperity of the company can be increased by increasing the dividend rate.

The results of path analysis empirically demonstrate a manufacturing company's dividend policy can raise the value of the company. It can be said that the dividend policy is active companies because dividend decision contains information (informational content of the dividend) in the sense that management uses these dividends to signal information 'high dividend indicates that the company is strong and a good investment'. Cash dividends are used by investors to meet their daily expenses and thus they would feel uncomfortable if the management of manufacturing companies suggested that divert income to investment opportunities rather than pay to shareholders in the form of cash dividends this course down the share price. The management of those companies really understand the purpose samples shareholder who is favored companies distributed dividends and look less happy about the company when the dividend was cut, because shareholders associate with the reduction of the company's financial problems. If not, the shareholders can sell their shares, which in turn can lower the price of the stock market. Thus, a stable dividend payments will boost the share price and therefore increase shareholder value in the long term. which in turn can lower the price of the stock market. Thus, a stable dividend payments will boost the share price and therefore increase shareholder value in the long term.

The results of path analysis provide managerial implications, too, that the payment of dividends by a company is a key indicator of financial strength, the future stability and growth potential. Stocks that pay dividends consistently very popular among investors Therefore, companies must establish and maintain a

dividend policy via constant payout ratio in which the constant percentage of the company's revenue is made every year (Fama and French, 2001). Management of manufacturing companies into the sample should seriously consider the payment of cash dividends as this will boost the share price and therefore increase shareholder value in the long term. Thus, maximizing shareholder value requires consideration of the needs of investors for dividends.

Profitability Influence on Corporate Value Through Dividend Policy

Path analysis concludes profitability affect the value of the company through dividend policy. These results support the argument signaling theory, which explained that the information on dividends paid are used by investors as a signal of the company in the future as well as the arguments of Fama and French (1998) that the dividend contains information relating to profitability. The results of path analysis also showed proof in the hand theory, said that investors prefer dividends rather than capital gains, so that it can be interpreted that the size of the dividend distribution company will give a positive sentiment for investors to invest, the more investment it could increase the value of the company and caused the stock price to be expensive. The greater the profitability,

The results of path analysis can be used as a prediction that the profitability and dividend policy interact to provide significant predictive information for manufacturing companies that have high profits should finance the dividend as a means to transmit signals from an internal source, ie, retained earnings, reserve funds, and the accumulation of funds and others for the financing of internal resources more secure and more economical than the cost of external capital. Stable dividend paid to investors indicates a high profitability and prosperity of the company. Regularity of dividend payments will strengthen the company's position in the market and increase its stock price and thus the value of the company will also increase.

The results of path analysis empirically demonstrated when manufacturing companies increased profits, such companies will hold most of its profits as earnings (retained earnings) and partly to pay dividends to investors. Therefore, investors responded positively to the proportion of the profits distributed as dividends, profitability will increase the value of the company. Similarly it can be said that the dividend policy is a proactive decision to send a signal the company healthy and profitable to investors instead of residual decision. Investors are favoring companies that pay dividends are high enough to meet the needs of current income. The investor attitudes are manifested in high demand will raise the value of the company shares.

Managerially, it also provides an understanding that most of the profit paid to shareholders in the form of dividend can increase the market value of companies and investors are favoring stocks that pay dividends continuously. Very proactive management of manufacturing enterprises pay dividends to shareholders to help attract people to invest as well as raise the value of the company. Commitment manufacturing firms to conduct regular dividend payments led to the payment of dividends is strongly influenced by the profitability.

VI. CONCLUSION

Profitability directly affect the value of the company, which significantly increase the profitability of sending signals of return of investment and investors believed bright prospects have a great opportunity to pay dividends and have the opportunity to fund investment projects internally. Consequently, investors are increasingly interested in buying shares of the company and its share price rise and this makes the value of the company will increase,

Profitability affect the dividend policy, which means a high level of profitability that allows the company to pay dividends to easily and continuously, The company recorded a large profit will pay dividends in bulk to give a signal 'firm in good condition and very appreciative' to the shareholders.

Dividend policy affects the value of the company, it demonstrates dividend policy is active companies because dividend decisions contain information 'Powerful company and a good investment' that perceived as positive by investors as a signal of future cash flows to be expected therefore positively affect stock prices and thereby increase shareholder value in the long term. Regular dividend payments will prosper shareholders, confirming the company's position in the market, raising the price of its shares, and thus the value of the company will also increase.

Profitability indirect effect on the value of the company through dividend policy. The company's value will increase if the increase profitability, even an increase in the value of the company will be even greater if the company decides to distribute dividends continuously from the profit to shareholders .. a stable dividend paid to investors indicates a high profitability and prosperity of the company. Regularity of dividend payments will strengthen the company's position in the market and increase its stock price and thus the value of the company will also increase.

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Anton Ferry Anandal. " Effect of Profitability of Corporate Values through Dividend Policy." IOSR Journal of Business and Management (IOSR-JBM) 20.7 (2018): 14-22.