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The Effect *of Dividends* as a Moderating Variable on *Firm Value* LQ45 on the Indonesia Stock Exchange

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Abstract
The policy regarding the percentage of *retained earnings* and *dividends* to be distributed is one of the important strategic decisions that must be chosen by the Company's management in order to attract investor interest and influence investor perceptions of the Company's prospects . This study aims to determine the effect *of dividends* as a moderating variable on the influence of *retained earnings* on *the firm value of* LQ45 on the Indonesia Stock Exchange. The type of research is associative quantitative. Location and Time of the study The research was conducted on LQ45 index companies listed on the Indonesia Stock Exchange website www.idx.go.id in 2025 and the observation year of the LQ45 index was 2015-2024. The type of research data is secondary data in the form of annual financial reports of Manufacturing Companies listed on LQ45 2015-2024. The research variables are: *Retained earnings* (X), *Dividend* (Z), and *firm value* (Y). Based on the research results, the direct relationship between *Retained earnings* and *firm value* shows a positive and significant influence. Meanwhile, the interaction between *Retained earnings* and *Dividend* on *firm value* has a positive influence but is not statistically significant. The direct influence of *Dividend* on *firm value* shows no significance.

Keywords: *Dividend , retained earnings, firm value*

Abstrak
Kebijakan tentang persentase *retained earnings* dan *Dividend* yang akan dibagikan merupakan salah satu keputusan strategis penting yang harus dipilih oleh manajemen Perusahaan dalam rangka menarik minat investor dalam memengaruhi persepsi investor terhadap prospek Perusahaan. Penelitian ini bertujuan untuk mengetahui efek *Dividend* sebagai variabel moderasi pada pengaruh *retained earnings* terhadap *firm value* LQ45 di Bursa Efek Indonesia. jenis penelitian kuantitatif Asosiatif. Lokasi dan Waktu penelitian dilakukan terhadap Perusahaan indeks LQ45 yang terdaftar di website Bursa Efek Indonesia www.idx.go.id pada tahun 2025 dan tahun pengamatan indeks LQ45 adalah tahun 2015-2024. Jenis data penelitian adalah data sekunder berupa laporan keuangan tahunan Perusahaan Manufaktur yang tercatat LQ45 2015-2024. Variabel penelitian; *Retained earnings* (X), *Dividend* (Z), dan *firm value* (Y). Berdasarkan hasil penelitian, hubungan langsung antara *Retained earnings* terhadap *firm value* menunjukkan pengaruh positif dan signifikan, Sementara itu, interaksi antara *Retained earnings* dan *Dividend* terhadap *firm value* memiliki pengaruh positif dengan tetapi tidak signifikan secara statistik. Adapun pengaruh langsung *Dividend* terhadap *firm value* menunjukkan tidak signifikan.

Kata Kunci: *Dividend, retained earnings , firm value*

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INTRODUCTION

The advancement of technology today is inextricably linked to public awareness of its use. Existing technology can be utilized to generate income in various ways, facilitated by various websites offering income to their members. One easy way to generate returns or income is by investing in shares on the Indonesia Stock Exchange. Consequently, Indonesians are increasingly aware of the importance of investing in shares on the Indonesia Stock Exchange. However, investors cannot simply choose a company to invest their capital in. This is because investors must consider various factors to ensure their investment generates the desired return (Reilly & Brown, 2011). Investors consider various factors and factors, aiming to reduce their risk and increase their chances of achieving returns (Bodie, Kane, & Marcus, 2014).

Investors frequently conduct various types or forms of consideration, including fundamental and technical analysis (Mishra & Jain, 2012). Fundamental analysis is an approach in which investors analyze a company's financial statements. This relates to assessing a company's financial health, such as revenue growth, net profit, cash flow, and market position, which can be determined through various financial ratios (Gitman & Zutter, 2015). Investors also analyze the company's business prospects, the quality of management in making strategic decisions, and use a SWOT approach to understand the company's market position (Widyastuti & Puspitasari, 2020). Furthermore, they pay attention to macroeconomic factors, such as interest rates, inflation, government policies, and global economic conditions that can affect company performance (Brigham & Houston, 2022). This evaluation helps investors understand the intrinsic value of a stock, whether the stock is trading at a fair price or not (Investopedia, 2023). Meanwhile, technical analysis involves analyzing historical price patterns and trends to predict the direction of stock price movements (Murphy, 1999). This approach focuses on using historical data such as price and trading volume to forecast future stock price direction (Schwab, 2022). This method assumes that the past behavior of financial assets can provide clues to future behavior, as investors believe that certain patterns tend to repeat themselves (NewTrading.io, 2023). These patterns and trends are closely related to a company's ability to overcome various obstacles and challenges in the past, which then becomes important data for investors to predict the company's ability to adapt if faced with similar problems in the future (Daloopa, 2023). All of this information is used by investors to assess a company's prospects, whether the company is in a good position, both now and in the future. The following is actual data on stock sales transactions that occurred on the IDX.

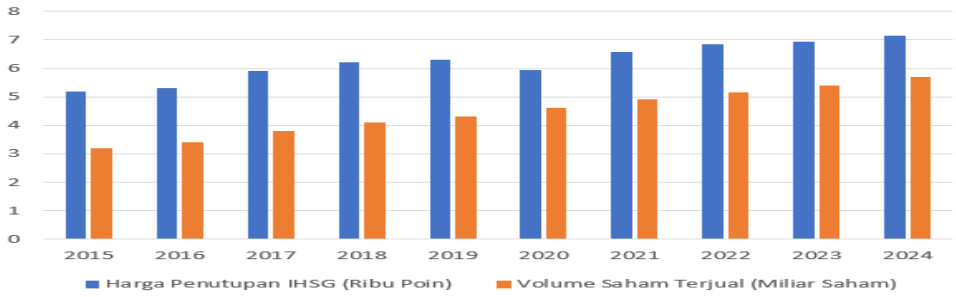

Figure 1. Increase in the number of transactions on the IDX

The graph above shows the increasing number of transactions conducted by investors on the IDX. This year's increase demonstrates that the stocks listed on the IDX remain highly sought after. The stocks offered on the IDX represent companies that have maintained and improved their performance despite the uncertain global

economic climate. Investors remain confident in their performance, as they have conducted various analyses, thus establishing confidence in *the firm value of* their chosen companies.

Firm value is important to consider because it reflects market perception of a company's overall financial performance, growth prospects, and risk. This value is a key indicator in evaluating the effectiveness of management strategies and the efficiency of a company's asset utilization (Brigham & Daves, 2021). Companies with high firm value tend to be more likely to attract investors and obtain financing because they are perceived to have strong fundamentals and promising prospects (Tandelilin, 2010). Furthermore, *firm value* is also an important basis for making decisions regarding investments, mergers, acquisitions, and corporate restructuring, as it reflects potential long-term profits and competitiveness (Damodaran, 2012).

Therefore, understanding and optimally managing *firm value is an important part of efforts to create added value for shareholders and maintain business sustainability.* The Company's efforts or policies in attracting investors can be seen from various strategic aspects. One of the most influential policies and must be determined by the Company's managers is determining the percentage of *retained earnings* and the amount *of dividends* to be distributed to investors. The policy regarding the percentage of *retained earnings* and *dividends* to be distributed is one of the important strategic decisions that must be chosen by the Company's management in order to attract investor interest and influence investor perceptions of the Company's prospects (Shaleh, Astuti, & Prastyowati, 2021), (Putri & Permata, 2022), (Sari & Andriyani, 2021).

Facing an uncertain global economy, many companies choose to retain profits in the form of retained earnings. This is because *retained earnings* are considered a crucial source of internal funding for maintaining operational stability and strengthening capital structures (Kusuma, Damar, & Hasanatina, 2023). By increasing *retained earnings,* these companies will utilize their retained earnings to improve their performance, aiming to strengthen their financial health or position. These companies believe that strengthening their finances will make them more attractive to investors. Companies implementing this policy believe that by strengthening their finances through profit accumulation, they can better face economic challenges (Kristanti & Ardiningrum, 2022).

However, many investors prefer companies that consistently distribute *dividends* annually, even in unstable economic conditions. This indicates that the company has healthy liquidity and profitability (Nurwulandari, 2022). From an investor perspective, distributed *dividends* are tangible evidence of the company's performance and management's confidence in the company's future (Prasasti, 2025). Investors also often consider companies that consistently distribute *dividends* amid global uncertainty to be resilient and possess a competitive advantage (Kumaemaroh & Khamimah, 2023). This is a positive signal for the market because it demonstrates management's confidence in the company's financial stability (Shaleh, Astuti, & Prastyowati, 2021).

Dividend distribution in uncertain times is often viewed as a form of corporate appreciation for shareholders and a way to maintain investor loyalty (Suhandi, Purnamaningrum, & Sihombing, 2021). Therefore, *dividend* distribution is not only a form of shared profits but also a strategic signal that strengthens market confidence in the company's future prospects. The stocks included in the LQ45 index are examples of companies with high liquidity and large capitalization, and are often a primary

focus for investors when considering *dividend strategies* and *retained earnings* (Kristanti & Ardiningrum, 2022). The financial decisions/policies of these companies serve as a reference in understanding the behavior of the Indonesian capital market in general.

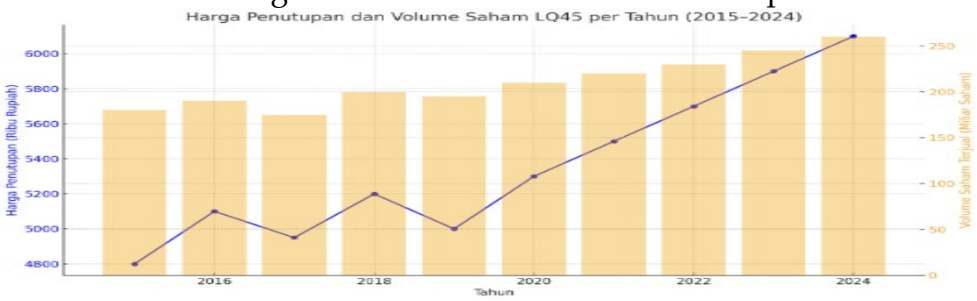

Figure 2. Closing price and volume of LQ45 shares

The LQ45 is a sector comprised of well-known companies with stock values considered favorable by investors. This is because investors consider LQ45 companies to have superior *firm value* compared to companies in other sectors. However, some companies in the LQ45 sector still distribute small *dividends* per share, and some have even stopped paying *dividends* . Meanwhile, most investors expect higher *dividends* or *returns* . This is due to several factors that influence the percentage difference between *dividend distribution* and retained earnings . The following are some LQ45 companies that have experienced obstacles in distributing *dividends* .

Table 1. Companies that do not pay *dividends*

Year	**(Code)**	***Dividend* Status**
2019–2023	WIKA	Not paying *Dividends* since 2019
2019–2023	ADHI	Not paying *Dividends* since 2019 (former LQ45)
2019–2023	PTPP	Not paying *Dividends* since 2019 (former LQ45)
2023	GGRM	Not paying *dividends* for the 2023 financial year
2022	HMSP	Not paying *dividends* starting from the 2022 financial year

This data shows the *Dividend payment status* of several Companies listed on the Indonesia Stock Exchange (IDX) during the 2019 to 2023 fiscal year period. The main focus is on Companies that do not pay *Dividends* , either continuously or recently.

METHODOLOGY

This study uses quantitative research. Quantitative research is a form of research that uses numerical calculations and statistics to analyze hypotheses and requires a number of analytical tools. This study uses an associative research method. According to Dr. H. Ahmad Qurtubi, MA (2008), associative research is defined as research that aims to determine the relationship between two or more variables. Location and Time of Research This research was conducted on LQ45 index companies listed on the Indonesia Stock Exchange website www.idx.go.id. The research was conducted in 2025 and the LQ45 index observation years were 2015-2024. The type of data used in this study is secondary quantitative data. The data collected in this study are the annual financial reports of Manufacturing Companies listed on the LQ45 for 2015-2024, sourced from the Indonesia Stock Exchange website (www.idx.co.id).

A population is the entire group of people, events, or things that a researcher wishes to study (Sakaran, 2011). The population in this study was 45 companies listed on the LQ45 for the years 2015-2024. The sample is a subset of the population (Skaran, 2011). In this study, the sampling method used was purposive sampling, which is the determination of the sample based on the following criteria:

a. Companies listed in LQ45 for 2015 – 2024
b. Manufacturing Companies listed on LQ45
c. Provide complete annual reports for the years 2015 – 2024
d. There is a distribution *of dividends* in the annual report consecutively during 2015 – 2024

The sample of this research that met the requirements were 6 manufacturing companies, namely: Astra International Tbk (ASII), Indofood CBP Sukses Makmur Tbk (ICBP), Indofood Sukses Makmur Tbk. (INDF), Indocement Tunggal Prakarsa Tbk (INTP), Kalbe Farma Tbk (KLBF) and Unilever Indonesia Tbk (UNVR)

Dependent Variable (Y); *Firm value* indicates how well the book value of a stock relates to shareholder wealth. Therefore, the market value of a stock is greatly influenced by investment opportunities that determine the company's growth. When the stock price increases, so does *the firm value* . According to Wijaya and Wibawa (2010), the formula for measuring a company's value is:

Price to Book Value	$(\text{PBV}) = \frac{Market\ Price\ per\ Share}{Book\ Value\ per\ share\ of\ commonstock}$

Moderation/Mediation Variable (Z), namely *Dividend.* According to Beaver *et al* (1970) *Dividends* are measured as dividends paid divided by profits available to common shareholders. This independent variable is calculated by Tampubolon (2004) with the formula:

Cash Dividend	$Dividend = \frac{\text{Total } Dividend \text{ yang dibayarkan Perusahaan}}{\text{Jumlah saham yang beredar}}$

The independent variable (X) is retained earnings . According to Kieso (2002) defines *retained earnings* as profits used in a company's operational activities. Therefore, it can be concluded that *retained earnings* are profits not distributed to shareholders as *dividends* and serve as additional capital to finance the company's operations. In this study, the variable *Retained earnings* will be measured by the nominal value or total annual *retained earnings of the company.*

Structural Model Testing *(Inner Model) The* path coefficient is a numerical estimate that indicates the direction and strength of the relationship between latent constructs in a structural model (Hair et al., 2022). Bootstrapping results produce t-statistics and p-values, which are used to test hypothesized relationships between variables. A path coefficient is considered significant if the t-value is > 1.96 for a 5% significance level (Ghozali & Latan, 2015). Therefore, path coefficient testing is a key step in confirming the suspected causal relationship in a research model. The R^2 value or coefficient of determination is an indicator that shows the extent to which endogenous constructs can be explained by exogenous constructs in the structural model. In the context of PLS-SEM, R^2 is used to measure the predictive power and accuracy of the model. The R^2 value ranges from 0 to 1, where a higher value indicates a greater proportion of the variation of the endogenous construct that can be explained by the model (Hair et al., 2022). Hair et al. (2019) suggested the following interpretation of R^2 values: 0.75 (strong), 0.50 (moderate), and 0.25 (weak).

RESULTS AND DISCUSSION

The following data shows 6 manufacturing companies that were studied regarding fluctuations *in dividends* , retained earnings and company value.

Table 2. *Dividend Data* for 6 LQ45 Companies

	ASII	ICBP	INDF	INTP	KLBF	UNVR
2024	617	200	267	90	31	118
2023	650	188	257	160	38	134
2022	282	215	278	500	35	69
2021	291	215	278	1000	56	132
2020	157	215	278	725	26	200
2019	211.13	137	171	550	20	1205
2018	190	220	302	700	26	915
2017	155	152	235	929	25	410
2016	168	154	168	415	22	835
2015	177	256	220	1350	19	766

The table above shows the development of *Dividend distribution* (in Rupiah per share) of six leading companies included in the LQ45 index on the Indonesia Stock Exchange (IDX) during the period 2015 to 2024, namely Astra International Tbk (ASII), Indofood CBP Sukses Makmur Tbk (ICBP), Indofood Sukses Makmur Tbk (INDF), Indocement Tunggal Prakarsa Tbk (INTP), Kalbe Farma Tbk (KLBF), and Unilever Indonesia Tbk (UNVR). In general, it can be seen that *Dividend distribution* is fluctuating, following the dynamics of financial performance and macroeconomic conditions. ASII, for example, experienced a decline *in its dividend* in 2020 to IDR 157, which then increased again to IDR 617 in 2024. Meanwhile, UNVR showed a significant downward trend from IDR 1,205 in 2019 to IDR 118 in 2024. ICBP and INDF tended to be stable in their *dividend distribution* , although INTP experienced a sharp spike in 2021 of IDR 1,000, but then decreased drastically in the following years. KLBF maintained a relatively small and stable *dividend* . This pattern reflects the company's strategy in managing profits, maintaining financial health, and adapting to economic conditions such as the crisis caused by the pandemic in 2020–2021.

Table 3. *Retained earnings data* for 6 LQ45 companies

	ASII	ICBP	INDF	INTP	KLBF	UNVR
2024	187814000	39932408	48670921	19298711	21877938	2683435
2023	188997000	34111051	47164083	19172800	21506772	3208938
2022	163800000	29342631	41298161	17770195	20497739	3824956
2021	163800000	26917455	36855458	17669148	18746849	4148969
2020	149068000	22576202	31115800	17636769	16875671	4765068
2019	140487000	18495204	26779999	18703116	15361121	5109562
2018	127732000	15029629	23303960	18892488	14073109	7405833
2017	106440000	11269700	19709007	19365435	11600510	4733814
2016	97039000	10979473	19506084	21883459	11415505	4531958
2015	92989000	8850067	16827340	19540851	10006398	4655060

The table above presents *Retained earnings data* (in thousands of Rupiah) from six companies listed in the LQ45 index on the Indonesia Stock Exchange (IDX) for the period 2015 to 2024, namely Astra International Tbk (ASII), Indofood CBP Sukses Makmur Tbk (ICBP), Indofood Sukses Makmur Tbk (INDF), Indocement Tunggal Prakarsa Tbk (INTP), Kalbe Farma Tbk (KLBF), and Unilever Indonesia Tbk (UNVR). In general, the majority of companies showed an increasing trend in *Retained earnings* from year to year, although there were fluctuations in certain periods. ASII recorded

significant growth from IDR 92.9 trillion in 2015 to IDR 187.8 trillion in 2024. ICBP and INDF also showed stable increases, in line with continued business expansion and operational efficiency. Meanwhile, INTP experienced a decline in profits in recent years, reflecting the challenges facing the cement sector. KLBF maintained relatively stable profit growth, demonstrating consistency in its operational strategy. UNVR has fluctuated and tended to decline since 2018, indicating pressure on the company's profitability. This data reflects how management strategies, operational efficiency, and market conditions have impacted each company's financial performance over the past decade.

Table 4 ***Firm value of*** **6 LQ45 companies**

	ASII	ICBP	INDF	INTP	KLBF	UNVR
2024	0.73	1.94	0.55	1.66	3.21	33.46
2023	0.91	1.88	0.59	1.74	4.24	39.83
2022	0.95	1.77	0.59	2.28	3.43	44.86
2021	1.13	2.04	0.69	2.58	3.26	36.28
2020	1.43	2.58	0.88	3.16	4.16	56.79
2019	1.78	4.57	1.21	2.94	4.27	60.67
2018	1.93	4.57	1.34	3.48	5.18	45.71
2017	2.21	4.99	1.65	2.44	6.16	37.05
2016	2.54	5.61	1.55	2.23	6.01	59.53
2015	1.92	4.79	1.05	3.44	5.66	58.48

The table above illustrates *the firm value* (in the Price to Book Value/PBV ratio) of six issuers who are members of the LQ45 index on the Indonesia Stock Exchange, namely Astra International Tbk (ASII), Indofood CBP Sukses Makmur Tbk (ICBP), Indofood Sukses Makmur Tbk (INDF), Indocement Tunggal Prakarsa Tbk (INTP), Kalbe Farma Tbk (KLBF), and Unilever Indonesia Tbk (UNVR), during the period 2015 to 2024. The PBV ratio shows how much the market values the Company's book value, and is an important indicator for investors in assessing whether a Company's shares are undervalued or overvalued. From the data, it can be seen that UNVR consistently has the highest PBV value, although it experienced a downward trend from 60.67 in 2019 to 33.46 in 2024, reflecting the adjustment of market value to financial performance or investor expectations. Meanwhile, other Companies such as ASII, INDF, and INTP showed relatively low PBV values, below 3, indicating a more conservative valuation by the market. KLBF recorded a relatively high PBV, although it declined from a peak of 6.16 in 2017 to 3.21 in 2024. Overall, this table reflects market perceptions of the value of each company, influenced by financial performance, industry prospects, and investor sentiment over time.

Table 5. R-Square Test Results

	R Square	R Square Adj
Y	0.422	0.387

The table above shows the results of the regression analysis containing the coefficient of determination (R Square) and adjusted R Square values for the dependent variable Y. The R Square value of 0.422 indicates that approximately 42.2% of the variation in the Y variable can be explained by the independent variables in the regression model. Meanwhile, the Adjusted R Square value of 0.387 (moderate)

indicates that after adjusting for the number of variables and sample size, the model still explains approximately 38.7% of the variation in Y, although there is still 57.8% of the variation that is not explained by the model and can be influenced by other factors outside the variables used.

Table 6. Research Hypothesis Testing

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
X -> Y	0.643	0.637	0.181	3,553	0.000
X*Z -> Y	0.460	0.431	0.257	1,787	0.074
Z -> Y	-0.022	0.004	0.177	1,122	0.903

The table above presents the results of the analysis of the relationship between three variables: *Retained earnings* (X), *Dividend* (Z), and *firm value* (Y). Based on these results, the direct relationship between *Retained earnings* and *firm value* (X→Y) shows a positive and significant influence, with a coefficient of 0.643, a t-statistic value of 3.553, and a p-value of 0.000 (below 0.05), which indicates that *Retained earnings* play an important role in increasing *firm value* . Meanwhile, the interaction between *Retained earnings* and *Dividend* on *firm value* (X*Z→Y) has a positive influence with a coefficient of 0.460, but is not statistically significant, because the p-value of 0.074 is still above the significance threshold of 0.05. This indicates that the moderation of *Dividend* on the relationship between *Retained earnings* and *firm value* is not strong enough to be considered statistically significant. The direct effect *of dividends* on *firm value* (Z→Y) shows a coefficient of -0.022 with a p-value of 0.903, indicating a very small and insignificant effect. Overall, only *retained earnings* were shown to have a significant effect on increasing *firm value* in this model.

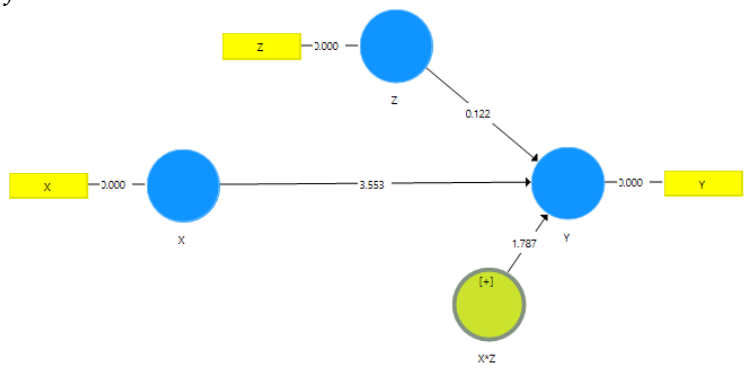

Figure 3. Relationship between variables

In this study, an increase in the Company's *retained earnings* is able to increase *firm value* . *Retained earnings* are considered to play a crucial role in improving the Company's performance in the following period. The increased *retained earnings* in LQ45 Companies will be used to finance strategic projects that will bring greater profits in the future. The strategic project carried out by the 6 LQ45 Manufacturing Companies in this study is ASII (Astra International) Diversification into energy, digital, and EV. It is believed that this project will increase the long-term growth potential of the digital and green energy sectors (in line with global trends) and can increase the Company's valuation and investor appeal. ICBP (Indofood CBP Sukses Makmur) is carrying out a Project in the form of Pinehill Acquisition and overseas expansion of this strategic project will have an impact on increasing international sales, causing sales of increased economies of scale, better production and distribution efficiency. INDF (Indofood Sukses Makmur) has a strategic Project in the field of

vertical integration of agribusiness and food which aims to increase profit margin stability because it controls the supply chain from upstream to downstream and has an impact on resilience to fluctuations in global market prices. INTP (Indocement Tunggal Prakarsa) has strategic projects in the areas of green cement and digital efficiency. The benefits include reduced operational costs through energy efficiency and factory digitalization that meet international environmental standards. KLBF (Kalbe Farma) has strategic projects in biotechnology, exports, and digital health. The resulting profits will increase export contributions and business scale by increasing consumer loyalty through digital health services. UNVR (Unilever Indonesia) has a strategic project in the field of portfolio transformation & digitalization which is able to increase brand equity, because the product is considered healthier and more environmentally friendly, resulting in distribution efficiency and wider market penetration through e-commerce.

The strategic projects undertaken by the six sample companies are believed to have a positive impact because, in general, the future benefits of these strategic projects include increased company competitiveness, sustainable profit growth, strengthened positions in the digital and green energy markets, and contributions to environmental sustainability through energy and operational efficiency. Therefore, investors believe that strategic projects financed by *retained earnings* are considered to increase company competitiveness while strengthening business resilience amidst evolving market dynamics. Thus, this proves that higher *retained earnings* are able to increase future profits, a positive signal for investors and indirectly increase the *firm's value* . Thus, increased *retained earnings* are also often associated with improved long-term company performance, as these funds can be used for productive investments (Ardelia & Lukman, 2020). Furthermore, increased retained earnings are also a strategy that reflects management's view that the company is in an expansion or strengthening phase and requires financing from internal sources (Aulia & Sukiswo, 2024). It is therefore not surprising that companies that focus on *retained earnings* are considered more attractive by long-term investors.

When a company's *retained earnings increase* , accompanied by an increase *in dividends* distributed to investors, this theoretically signals a positive outcome for investors. Investors believe that both increases reflect improved company performance, which is reflected in increased profits (Brigham & Houston, 2010). Indirectly, this signals a positive outlook for investors and encourages them to invest by purchasing shares in the stock market. Demand for the company's shares increases, ultimately driving up the stock price and *firm value (* Ross , Westerfield, & Jordan, 2008).

However, company management is often faced with two important choices: maintaining *retained earnings growth* or maintaining the level *of dividends* paid. In many cases, companies are unable to maintain both growth simultaneously (Ardiyos, 2004). According to Ardiyos (2004), *dividend policy* is a company's policy in determining the ratio between profits distributed as *dividends* and profits retained for investment and company growth purposes. The value of a company's *retained earnings* is highly dependent on the net profit earned and the *dividend distribution policy* implemented. This policy can also change depending on the company's internal and external conditions.

Furthermore, Ruthiana in Ramadhania (2010:30–31) explains that a large increase *in retained earnings can reduce the amount of dividends* received by shareholders.

If this continues, it will disappoint shareholders, especially those who need short-term income. Conversely, if the company increases *dividend payments* , *retained earnings* will decrease. If *retained earnings* are too small, the company will depend on external capital, which in the long run can be difficult for the company, especially in poor economic conditions. Therefore, the decision to pay *dividends* must be considered carefully. Too large *dividend payments* can reduce the resources needed for expansion or the company's long-term needs. On the other hand, shareholders also expect *dividend stability, and* drastic *dividend* reductions can affect perceptions of the company's performance (Gitman & Zutter, 2012). Therefore, the effect *of dividends* is highly dependent on the company's *dividend policy* , which of course varies from company to company.

This is consistent with the conditions encountered in this study, where companies are only able to maintain one of the two—either increasing *retained earnings* or increasing *dividend payments* . The company's ability to generate fluctuating profits from year to year is the main contributing factor. The companies sampled in this study show that the nominal amount *of dividends* given to investors is unable to strengthen the relationship between *retained earnings* and *firm value* . This is because investors are already confident and believe in the capabilities of these companies. As a result, investors no longer consider *dividends* as a benchmark for a company's value. The distribution of *dividends* , which fluctuate and are uncertain from year to year, has This has led to *dividends* being increasingly considered less of a strong indicator or signal of a company's future prospects or *firm value* by investors , particularly those investing in the Indonesia Stock Exchange. This instability in *dividend policy* has given rise to the perception that increases and decreases in nominal *dividends* are no longer a direct reflection of the company's fundamentals, but rather merely the result of short-term tactical management decisions or are beginning to be perceived as company policy, aimed solely at attracting investors to the IDX capital market. This is particularly evident in the Indonesian capital market, particularly on the Indonesia Stock Exchange (IDX), where many investors are becoming more skeptical of *dividend signals* . Consequently, an increase in nominal *dividends* does not necessarily reflect the company's ability to make progress on the LQ45 index. Because most investors are technologically literate, information related to the company is readily accessible through various media and applications.

Amid growing investor awareness of fundamental quality and long-term business sustainability, variable *dividends are increasingly perceived as a management strategy to maintain market sentiment rather than* reflecting actual financial performance. In practice, some companies actually increase *dividends* even when earnings are suboptimal, in order to attract retail investors or maintain share prices, which can be detrimental to the company's long-term financial health (Brav et al., 2005). Furthermore, global uncertainties such as the ongoing impact of the COVID-19 pandemic, geopolitical conflicts, and global interest rate volatility are making companies increasingly cautious in setting *dividend policies* (Baker & Wurgler, 2004). Investors are increasingly aware that *dividends* are not the only primary consideration in investment decision-making. Many investors are now starting to pay attention to other indicators such as revenue growth, operational efficiency, debt ratios, and the company's digital innovation strategy (Lintner, 1956; Gordon, 1963).

In recent years, particularly from 2023 to 2025, investment trends in Indonesia have also shown a shift: young investors are becoming more interested in capital gains

than *dividend income* (Financial Services Authority, 2024). Stocks that do not pay *dividends* but have high growth potential remain popular, particularly in the technology, renewable energy, and digital-based consumer sectors. Therefore, it can be concluded that *dividends* are no longer the sole primary signal of *firm value* in the eyes of IDX investors. Companies that consistently pay *dividends* are still valued, but investment decisions are increasingly influenced by a comprehensive consideration of the company's prospects and resilience, rather than simply the amount of *dividends* distributed (Brealey, Myers, & Allen, 2020).

CONCLUSION

The results of the analysis of the relationship between three variables: *Retained earnings* (X), *Dividend* (Z), and *firm value* (Y). Based on these results, the direct relationship between *Retained earnings* and *firm value* shows a positive and significant influence, indicating that *Retained earnings* play an important role in increasing *firm value* . Meanwhile, the interaction between *Retained earnings* and *Dividend* on *firm value* has a positive influence but is not statistically significant. This indicates that *Dividend moderation* on the relationship between *Retained earnings* and *firm value* is not strong enough to be considered statistically significant. Meanwhile, the direct effect *of Dividend* on *firm value* shows no significance. Overall, only *retained earnings* are proven to have a significant effect on increasing *firm value* in this model.

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