



The Effect of Dividend Policy On Company Value with Profitability as A Moderation

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Abstract. In addition to analyzing the moderating effect of profitability, this study aims to investigate the relationship between dividend policy and the valuation of companies in Indonesia's consumer cyclical sector. In reaction to changes in economic cycles and consumption patterns, the consumer cyclical sector displays a variety of characteristics. To completely comprehend the relationship between dividend policy and firm value, a more thorough investigation is required. profitability, and company value. This quantitative study centers on the population of consumer cyclical firms listed on the Indonesia Stock Exchange from 2019 to 2023, with a particular emphasis on the dividend payout ratio, which serves as an indicator of dividend policy, Tobin's Q, which indicates firm value, and return on equity, which measures profitability, are the research variables. To investigate the influence and moderating function of profitability, a moderation regression analysis is utilized. The results show that dividend policy raises the value of the company. Furthermore, profitability not only has a favorable impact but also strengthens the bond between business value and dividend policy. This result emphasizes how important it is to include profitability factors in consumer cyclical enterprises' dividend policies. This study shows that a company's value is influenced by both its dividend policy and its profitability in Indonesia's consumer cyclical sector.

Keywords: Dividend Policy, Firm Value, Profitability, Consumer Cyclical

1 Introduction

The topic of dividend policy has been extensively studied in the literature on corporate finance. It is quite important when it comes to managing business funds as it influences market perceptions of a company's value and impacts investment choices. In the consumer cyclical sector, where the demand for goods and services fluctuates with economic cycles, the decisions surrounding dividend distribution take on heightened importance. This industry frequently experiences considerable variations in income, making it essential for a suitable dividend policy to accurately represent the company's stability and growth potential. The investigation into the connection between dividend policy and corporate value remains a subject of debate.

Dividend policy and corporate valuation are positively correlated, according to recent studies. For example, a study on businesses in poor nations by Farooq et al. [1]

found that businesses that pay dividends typically had higher market prices. Similarly, dividend policies have a favorable impact on company value in Vietnam, especially for companies with solid governance procedures, according to Nguyen et al. [2].

On the other hand, many studies have produced different results. The intricate relationship between dividend policy and business value is highlighted by Subramaniam et al. [3], who also shows that this relationship is non-linear among Malaysian corporations. Furthermore, Cheung et al. [4] found that the company's attributes and the state of the market have an impact on how dividend policies affect firm value.

A company's overall value, which is frequently determined by its market capitalization and stock prices, is greatly influenced by its dividend policy. In this regard, investors frequently view dividends as an indicator of a company's financial stability and success. However, the relationship between dividend policy and company value is not always clear-cut because a number of variables, such as profitability, can influence how a company's dividend choices affect its value. High profitability indicates a business's capacity to produce steady profits, which could affect the choice to pay dividends.

The profitability of the business has a significant impact on the relationship between dividend policy and corporate value. Tahir et al. [5] assert that, especially for businesses listed on the Pakistan Stock Exchange, a company's profitability reinforces the positive correlation between its dividend policy and its overall market valuation. This finding emphasizes how crucial it is to include profitability when analyzing the relationships between dividend policy and firm value.

The Central Statistics Agency has underlined the importance of the consumer cycle sector to the Indonesian national economy. [6] This sector contributed around 15% to Indonesia's GDP in 2022. However, global economic volatility and changes in consumer behavior post-COVID-19 pandemic have created new challenges for companies in this sector [7].

A recent study by Widyanti et al. [8] on manufacturing companies in Indonesia has discovered that the dividend policy increases the company's worth, but the effect is moderated by profitability. However, there are still gaps in our understanding of these dynamics, specifically in Indonesia's consumer cyclical sector.

Given the unique characteristics of the consumer cyclical sector and its importance to the Indonesian economy, to fully understand how dividend policy affects business value in this situation and how profitability influences this relationship, more research is needed. A deeper understanding of these patterns may have important ramifications for Indonesian investors, policymakers, and company management.

2 Theoretical Basic

2.1 Agency Theory

The relationship between a company's owners, known as principals, and its management, known as agents, is a useful framework that clarifies agency theory. Agency theory, according to Jensen and Meckling, is a conceptual model that illustrates a scenario in which one or more owners appoint other people, especially management, to oversee the business's operations [9]. It is typical for business

management to favor keeping profits rather than paying out dividends to shareholders. This is because management wants to increase the company's size and obtain long-term incentives. Company owners (principals) try to protect their interests by asking management (agents) to distribute part of the profit as dividends. Dividend distribution is a monitoring mechanism by company owners regarding management actions. By reducing conflicts of interest between the company's shareholders and management, the optimal dividend distribution level can impact the company's total worth.

2.2 Signaling Theory

According to the signaling theory, dividend decisions can help reduce the information asymmetry between a company's shareholders and management by informing the market about the company's financial standing and prospects [10]. This is because a business will utilize this idea to communicate its financial reports to investors and others in an effort to increase shareholder value [11]. When a company distributes dividends, this can be interpreted as a sign that management believes in the stability and growth of future profits. Conversely, reducing or eliminating dividends can create negative perceptions among investors.

2.3 Dividend Policy

A company's dividend policy has a big influence on its valuation. The cyclical consumer sector is especially vulnerable to changes in the economy. A "dividend policy" is a strategic choice made by a company's management about how to distribute profits to shareholders in the form of dividends. Determining whether to disperse profits to shareholders or hang onto them for potential future investments is part of this process. The company's whole approach to profit management is reflected in such a strategy. Dividend distribution is divided into two, namely cash dividends and stock dividends, but in Indonesia, cash dividends are preferred [11]. Considering several factors, cash dividend distribution is a more common choice in Indonesia. This reflects investor preferences and the company's management strategy for creating value and maintaining good relations with shareholders. The dividend payout ratio (DPR) is analyzed in this study to assess dividend policy.

2.4 Company Values

The value of a business is a crucial determinant of its success and general health. Significant shareholder wealth is usually linked to a high corporate valuation. The value of the company tends to expand in tandem with the stock price. Because it indicates significant wealth for shareholders, business owners prefer a high company valuation [12]. Tobin's Q is employed in this research to assess the company's worth by contrasting the market value of its shares with the book value of its equity.

2.5 Profitability

A company's profitability is a measure of its capacity to make money from its many business activities. This metric is crucial in determining how dividend policy and the firm's overall value are related. Firm value and profitability have a significant relationship; in particular, a profitable business is more likely to increase its value. This impression results from investors' conviction that companies that can turn a profit are skilled at handling their money, particularly the equity capital that investors contribute [13]. Return on Equity (ROE) was used as the assessment technique in this study since it assesses how well management of the company uses available capital to produce post-tax profits [12].

3 Research Methodology

According to the literature analysis, studies on dividend policy show a strong correlation with business value, especially when profitability is taken into account as a moderating factor. A hypothesis is then developed as a result of this theoretical framework.

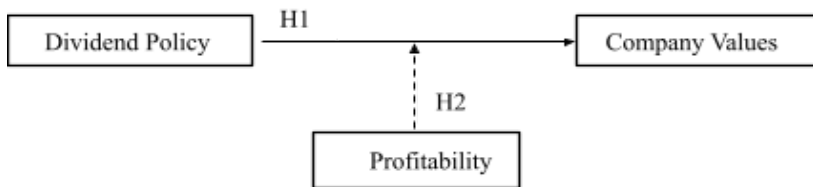


Fig. 1. Theoretical Framework

3.1 Research Hypothesis

Dividend Policy on Company Value. A corporation's dividend policy is an important evaluation criterion since it shows how well the business can return capital to its investors. For prospective investors thinking about making an investment, this dividend distribution becomes crucial information [14]. Investors consider it a positive sign when they believe a business is doing well and staying consistent [15]. These views are based on the knowledge that good dividend policy management can increase the business's overall worth; as a result, the company must maximize its current dividend payments in order to support a rise in its overall valuation.

H1: A dividend policy significantly increases the value of a corporation.

Profitability moderate's dividend policy on firm value. The relationship between a company's dividend policy and its total worth is mostly determined by its profitability. As demonstrated by rising stock prices, a company's value often rises in proportion to its capacity to turn a profit [9,16]. Higher-profitability companies are generally better equipped to pay dividends on a regular basis than are less profitable companies, which emphasizes the positive impact of dividend policy on the value of the company.

H2: The effect of dividend policy on business value is lessened by profitability.

Population and Sample. Explanatory research, a quantitative tool, is used in this study to test hypotheses and clarify the causal links between variables. The study employs a purposive selection technique and focuses on all 78 consumer cyclical companies listed on the Indonesia Stock Exchange (IDX). The following are the requirements for inclusion.

1. Businesses that were listed on the IDX during the study period (2019–2023)
2. Businesses that released comprehensive financial disclosures throughout the study period.
3. Businesses that paid dividends at least once over the study period

The final sample was modified to contain 65 companies, or 83.33% of the overall population.

The purpose of this study is to investigate how dividend policy affects company value while taking profitability's moderating effect into account. Numerous elements are examined, each of which is quantified by particular indicators. The dividend policy, represented by the Dividend Payout Ratio (DPR), is the independent variable in this study. The formula $DPR = \text{Dividends per share} / \text{Earnings per share}$ is used to compute this ratio. Tobin's Q, which is determined by dividing the market value of stock by the book value of all debt by the book value of all assets, represents the dependent variable, which reflects firm value. As a moderating variable, profitability is also assessed using Return on Equity (ROE), which is calculated using the formula $ROE = \text{Net profit}$.

The study makes use of secondary data from the companies' financial statements and annual reports. The Indonesia Stock Exchange (IDX) website, other company websites, and financial databases like ICMD are some examples of data sources. This study uses a variety of data analysis methods.

- Descriptive statistical analysis to calculate the mean.
- Median, standard deviation.
- Minimum value.
- Maximum value of each variable.

Additionally, traditional assumption tests are performed, such as the Shapiro-Wilk or Kolmogorov-Smirnov tests for determining normality. The Variance Inflation Factor (VIF) values are used to analyze multicollinearity, while the Glejser test or scatterplot analysis are used to assess heteroscedasticity. Autocorrelation is examined using the Durbin-Watson statistic. In order to investigate the correlations between the variables, this study employs moderated regression analysis. The individual effects of the independent variables are assessed using partial tests, also referred to as t-tests. On the other hand, F-tests, also known as simultaneous tests, evaluate the combined impact of various independent variables. The coefficient of determination, or R², is a measure of how much the independent factors influence the dependent variable. This study uses moderated regression analysis in conjunction with a quantitative methodology.

4 Research Results

4.1 Descriptive Statistics

Table 1. Table Descriptive Statistics

Variable	Mean	Median	Minimum	Maximum
Dividend Payout Ratio (DPR)	45,62%	40,15%	0,00%	95,82%
Tobin's Q	1,85	1,62	0,78%	4,23
Return on Equity	15,37%	13,89%	-5,16%	47,23%

According to the descriptive statistics in Table 1, the median Dividend Payout Ratio (DPR) for consumer cyclical companies listed on the Indonesia Stock Exchange during the study period was 40.15%, while the mean was 45.62%. This suggests that, on average, the sample companies paid out dividends to shareholders equal to about half of their net profits. A minimum DPR of 0.00% indicates the presence of companies that did not pay dividends in specific years. The maximum DPR of 95.82%, on the other hand, indicates that some businesses devote almost all of their profits to paying dividends.

As determined by Tobin's Q, the average value of companies is 1.85, while the median value is 1.62. When the Tobin's Q is more than 1, it indicates that, generally speaking, the market values consumer cyclical companies more than their book value. This indicates that investors are feeling upbeat about the company's performance and prospects going forward. On the other hand, the lowest Tobin's Q value of 0.78 suggests that some businesses are valued below their asset book value.

Conversely, the maximum value of 4.23 indicates that certain businesses have a notably high market price. Return on Equity (ROE), a measure of profitability, shows a median of 13.89% and an average of 15.37%. This indicates the sample companies' ability to generate an average net profit of 15.37% of the total equity held by shareholders. The minimum ROE value of -5.61% indicates that companies are experiencing losses, while the maximum value of 47.23% suggests that there are very profitable companies in the research sample.

4.2 Classical Assumption Test Results

Before doing the regression analysis, a classical assumption test was carried out to make sure the regression model complies with the basic statistical assumptions.

a. Normality Test

A significance score of 0.092 ($p > 0.05$) indicates that the regression model's residuals have a normal distribution, according to the results of the Kolmogorov-Smirnov test.

b. Multicollinearity Test

Each independent variable's Variance Inflation Factor (VIF) value is less than 10 (DPR = 1.45, ROE = 1.38, DPR * ROE = 1.62), indicating that there isn't any significant multicollinearity between the variables.

c. Heteroscedasticity Test

The Glejser test findings show that none of the independent variables are significant at the 5% level, indicating that there are no heteroscedasticity-related problems with the model.

d. Autocorrelation Test

The Durbin-Watson value of 1.87 indicates that there is no autocorrelation in the regression model because it falls between dU and 4-dU.

4.3 Results of Moderation Regression Analysis

Table 2. Results of Moderation Regression Analysis

Variables	Coefficient	T Result	Significancy
Konstanta	0,842	3,176	0,002
Dividend Payout Ratio (DPR)	0,018	2,754	0,007
Tobin's Q	0,045	3,892	0,000
Return on Equity	0,003	2,145	0,034

The results of the moderated regression analysis shown in Table 2 are the subject of the following explanation.

The Effect of Dividend Policy on Firm Value. The Dividend Payout Ratio (DPR) regression coefficient is positive (0.018) and statistically significant ($p = 0.007$) at the 1% significance level. This implies that the dividend program significantly increases the company's worth. In particular, a 1% rise in DPR causes a 0.018-unit increase in Tobin's Q when all other factors are held constant. The signaling theory, which maintains that management uses dividend policy to convey confidential information to investors regarding the company's prospects for the future, is in line with this observation. This result supports the study that O. Farooq did.

According to O. Farooq et al. [1], business value in developing countries is positively correlated with dividend policy. Regular dividend payments are seen as a sign of financial stability and management's faith in the company's future within Indonesia's consumer cyclical sector, especially given the inherent volatility of the industry. The company's dedication to consistent profit distribution is likely appreciated by investors, as indicated by its elevated valuations.

The Effect of Profitability on Firm Value. With a positive regression coefficient of 0.045, Return on Equity (ROE) exhibits statistical significance ($p = 0.000$). This implies that the profitability of the business greatly increases its worth. In particular, a 1% increase in ROE is linked to a 0.045-unit increase in Tobin's Q, provided that all other factors stay the same. This result emphasizes how important profitability is in determining firm value in the consumer cyclical industry. The results are consistent with theoretical models and empirical research showing that more profitable

companies typically have higher market valuations. The ability of a business to produce steady profits is a crucial factor for investors assessing its performance and future prospects, especially in the fiercely competitive consumer cyclical sector, which is more sensitive to changes in the economy.

Moderating Effect of Profitability on the Relationship between Dividend Policy and Firm Value. The Dividend Payout Ratio (DPR) and Return on Equity (ROE) have a positive (0.003) interaction coefficient that is statistically significant at the 5% level ($p = 0.034$). This implies that profitability has a favorable impact on the relationship between dividend policy and business value. Specifically, the positive impact of dividend policy on business value becomes more apparent as profitability rises. The notion that investors generally favor dividend policies associated with high profitability is supported by this research.

Businesses in the consumer cyclical sector view the ability to pay out large dividends during periods of increased profitability as a trustworthy indicator of their financial stability and potential for growth. The results of Tahir et al. [5], which imply that profitability reinforces the favorable correlation between a firm's value and its dividend approach, provide credence to this viewpoint.

5 Discussion

5.1 Implications for Companies in the Consumer Cyclical Sector

The research's conclusions have important ramifications for how businesses in Indonesia's consumer cyclical sector are run. First and foremost, implementing a steady and long-term dividend policy could be a tactical tool for raising company value. Nevertheless, because of the industry's cyclical nature, businesses must be careful to balance dividend payments with their investment needs while maintaining financial flexibility. Companies with high profitability are better positioned to implement an aggressive dividend policy. However, they also need to consider the trade-off between dividend payments and reinvestment of earnings for long-term growth. A strategy that may be effective is to implement a progressive dividend policy, where dividend payments increase as profitability increases but still maintain a moderate payout ratio to anticipate future earnings volatility.

5.2 The Role of Profitability in Determining Dividend Policy

The significant moderating effect of profitability on the relationship between business value and dividend policy emphasizes how important it is to consider profitability levels when developing dividend strategies. Profitable businesses have more flexibility in allocating dividends without jeopardizing their financial stability or future investment opportunities. The "pecking order" theory, which holds that businesses prefer internal funding sources over external ones, is consistent with this conclusion. This approach is especially pertinent to Indonesia's consumer cyclical industry, where earnings volatility can be a challenge, firms with high profitability can use dividend policy to differentiate themselves from competitors and attract long-term

investors. However, it is important to note that this relationship may not be linear. Firms must find the optimal balance between paying dividends and retaining earnings for reinvestment and as a buffer against potential future economic downturns.

5.3 Variation Across Subsectors in Consumer Cyclical

Although the results show general trends for the consumer cyclical sector, it is important to consider the variations that may exist across subsectors. For example, companies in the automotive subsector may have higher capital requirements for research and development than companies in the apparel retail subsector. This might have an impact on the dividend policy and how it affects the firm's value.

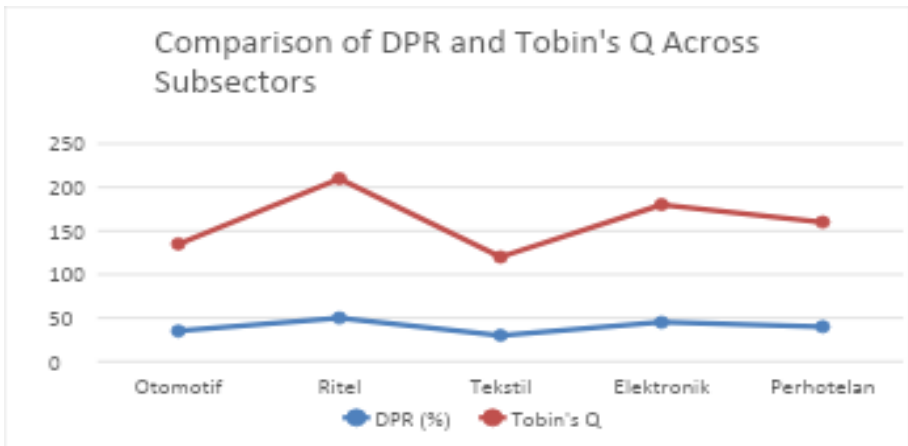


Fig. 2. Comparison of DPR and Tobin's Q Across Subsectors

The variations in Tobin's Q and the Dividend Payout Ratio (DPR) between the several consumer cyclical industry subsectors are depicted in Figure 2. According to the data, the textile subsector has the lowest average DPR and Tobin's Q values, while the retail subsector has the greatest values. These discrepancies could be a sign of differences in the subsectors' development potential, business cycles, and capital intensity. The automotive subsector, despite having a relatively low DPR, shows a relatively high Tobin's Q. This may reflect investors' expectations of the long-term growth potential of this industry in Indonesia. However, companies in this subsector tend to retain more profits for investment and product development.

5.4 Impact of Macroeconomic Factors

Given the cyclical nature of the consumer cyclical sector, it is imperative to examine how macroeconomic conditions affect the relationship among dividend policy, profitability, and company value. Variations in GDP growth, inflation rates, and rupiah values can have a significant impact on how well businesses in this sector do.

Businesses may be more inclined to increase dividend payments during periods of strong economic growth due to increased profitability. However, during periods of economic slowdown, companies may need to reduce dividends to maintain liquidity. This highlights the importance of a flexible and responsive dividend policy to macroeconomic conditions.

5.5 Implications for Investors

For investors in the Indonesian capital market, the study's findings highlight how important it is to consider profitability and dividend policy when choosing investments, especially in the consumer cyclical industry. Investors ought to concentrate on firms that can sustain regular dividend distributions while demonstrating robust profitability. Nonetheless, it is essential for investors to exercise caution regarding companies that offer elevated dividends without sufficient profitability backing, as such practices may prove unsustainable over time. Conversely, companies with high profitability that choose to reinvest a large portion of their profits may offer better long-term growth potential, albeit with lower dividend yields in the short term.

6 Conclusion

The research's conclusions show that dividend policy significantly contributes to increasing company value in Indonesia's consumer cyclical sector. It's crucial to remember that profitability acts as a positive moderator in this relationship, highlighting the need to take profitability into account when creating dividend policy. These observations have significant ramifications for both business management entrusted with creating successful dividend plans and investors thinking about making investments in this industry. However, when evaluating and applying these findings, it is essential to consider contextual factors including macroeconomic conditions and industry-specific characteristics, given the cyclical nature of the consumer cyclical industry and the heterogeneity within its subsectors. By shedding light on the unique dynamics of dividend policy among Indonesian consumers. Nonetheless, there is still need for more research to improve our understanding of the complex interrelationships among dividend policy, profitability, and company value in a developing market such as Indonesia.

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