The Effect of Dividend Policy on Company Value: Empirical Studies in the Industrial Manufacturing Sector for the 2016-2020 Period

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Abstract

The purpose of this study is to examine the effect of dividend policy on the value of manufacturing companies in the industrial sector listed on the Indonesia Stock Exchange. The sampling technique is purposive sampling technique, and 8 samples were obtained, which were accessed through the official account idx.co.id in the form of annual financial statements. The variables in this study use two variables, namely the dependent variable and the independent variable. The dependent variable (Y) of this study is the value of the company. The independent variable (X) of this study is dividend policy. The research method used is quantitative. For the analysis method, namely using multiple linear regression analysis. As for data processing using the IBM SPSS Statistics 22 program. The results of this study show that dividend policy has a positive effect on the value of manufacturing companies in the industrial sector listed on the Indonesia Stock Exchange for the period 2016-2020.

One of the main goals of a company is to increase company value through increasing the welfare of owners and shareholders. This goal is broad because, in practice, the goal is always influenced by policy. A dividend policy is one of the policies that can be implemented by management by deciding whether the profits earned by the company during one period will be distributed to shareholders as dividends or will be retained in the form of retained earnings to finance future investments.

Therefore, the establishment of a company must have clear direction and objectives, namely being able to reflect the value of the assets owned by the company. To realize maximum company value, several things are needed, including dividend policy, debt policy, and profitability (Jasman, 2023). Dividend policy is a financial strategic decision in determining the welfare of investors (shareholders) in terms of whether to distribute year-end profits or as retained earnings with the aim of increasing capital to finance future investments (Jumady et al., 2022).

According to Nadhiroh in Sartini and Purbawangsa, dividend policy is a decision taken by company management in distributing company profits to its shareholders but still paying attention to the allocation of retained earnings as internal funds for reinvestment in order to maximize company value (Moch Fajar Assyaari, Dudi Pratomo, S.ET., M., Ak., Siska P.Yudowati, SE., 2018). The value of the

company is only determined by the company's ability to generate income and business risks. In contrast, how to divide the income stream into dividends and retained earnings does not affect the value of the company.

As is the case with manufacturing companies, the large number of companies in the industry, with current economic conditions, has caused intense competition between manufacturing companies. Competition in the manufacturing sector makes every company increasingly improve its performance in order to achieve its goals. Manufacturing companies are one of the industries that have potential and are developing very quickly. Manufacturing companies are the dominant group in all companies listed on the IDX, so the value of the company is really taken into account so that investors evaluate the company favorably.

Based on the phenomenon of increasing share prices in several manufacturing companies listed on the IDX during a certain observation period, special attention needs to be paid because the increase and decrease in company share prices can change the image or view of the value of the company which will have an impact on investors' interest in the company (Yanti et al., 2023).

Company value is very important for a company because an increase in company value will be followed by an increase in share prices, which reflects an increase in shareholder prosperity. The market will believe not only in the company's current performance but also in the company's prospects with an increase in company value (Silvia Indrarini, 2020). Company policies that are considered good will cause share prices to increase (Mohammad et al., 2020).

Dividend policy is an inseparable part of the company's funding decisions because the size of the dividends distributed will affect the company's profit. Therefore, this research was conducted to explain the influence of dividend policy and company size on company value in

manufacturing companies in the industrial sector.

HYPOTHESIS

Every company always wants growth for the company on the one hand and also to be able to pay dividends to shareholders on the other hand. Dividends contain information as a condition for the company's prospects. The greater the dividends distributed to shareholders, the better the company's performance will be, and ultimately, the assessment of the company as reflected in the share price will be better, too. Policy.

According to the Bird in the Hand theory discovered by Myron Gordon (1963) and John Lintner (1962), investors prefer cash dividends over capital gains in the future because receiving cash dividends now is a form of certainty, which means reducing risk. Irene Maitri Pandansari and Etna Nur Afri Yuyetta (2016) stated that shareholders will respond positively if the company is able to distribute high dividends (Selvy & Esra, 2022).

High dividend distribution causes the company's performance to be considered better by shareholders so that the value of the company also increases. Therefore, dividend policy influences company value. Company value is the company's performance as reflected by the share price, which is formed by the demand and supply of the capital market, which reflects the public's assessment of the company's performance (Safiah & Kuddy, 2021).

Dividends are net profits earned by the company. Therefore, dividends will be distributed if the company makes a profit. The greater the dividends distributed, the more the value of a company will increase. Dividends must be in accordance with the company's needs and the needs of shareholders. When a company is experiencing growth, dividends may be small because it focuses more on accumulating funds. However, when it is in the maturity period (revenue obtained is large enough), while the

need for raising funds is smaller, the dividends paid can be increased.

By paying reasonable dividends, the company can help attract investors looking for dividends, and this can help maintain company value. The results expected by investors are in the form of dividends and an increase in share value. Therefore, paying dividends to shareholders will increase the value of the company. An increase in dividend payments is seen as a signal that the company has good prospects. On the other hand, a decrease in dividend payments will be seen as a bad company prospect.

The results of previous research regarding the influence of dividend policy on company value were carried out by Hidayat (2013), Martikarini (2014), and Ariyanto (2017), which resulted in dividend policy having a positive and significant effect on company value. Thus, the hypothesis that can be made is:

H1: Dividend policy has a positive effect on company value.

H0: Dividend policy does not affect company value

METHOD

This research is quantitative research, with the research design used being descriptive. The data used in this research is secondary data. Secondary data in this research uses the company's annual financial reports obtained through the company website as well as the official website of the Indonesian Stock Exchange, namely, www.idx.co.id. The population of this research is manufacturing companies in the industrial sector listed on the Indonesian Stock Exchange.

RESULTS

The research object in this study is manufacturing companies in the industrial sector listed on the Indonesia Stock Exchange. 2016-2020 period. Using a sampling technique, namely a purposive sampling technique, namely

a method of determining samples using certain criteria that have been explained in the previous chapter. So that a sample of 8 manufacturing companies in the industrial sector was obtained. The results of sample determination can be seen in table 1 below:

Table 1 Sample Selection using Purposive Sampling Method

Information	Amount
All manufacturing companies in the industrial sector listed on the Indonesia Stock Exchange for the 2016-2020 period	31
Food and beverages manufacturing companies that did not publish audited financial reports during the 2016-2020 period	12
Manufacturing companies in the industrial sector that do not have positive net working capital during the 2016-2020 period	6
All companies manufacturing in the industrial sector that did not distribute dividends during the 2016-2020 period	5
Total Research Sample	8
Number of samples processed (n x 5 years)	40

4.1 Classical Assumption Test Results Normality Test Results

The normality test aims to test whether, in the regression model, the confounding or residual variables have a normal distribution. As is known, the t and F tests assume that the residual values follow a normal distribution. If this assumption is violated, the statistical test will be invalid for small sample sizes. There are two ways to detect whether the residuals are normally distributed or not, namely by graphic analysis and statistical tests.

This research uses residual normality testing, which can be seen with the non-parametric Kolmogorov-Smirnov (K-S) statistical test. Suppose the results of the Kolmogorov-Smirnov (K-S) test show a significance value greater than 0.05. In that case, the data is normally distributed, and conversely, if the significance

value is smaller than 0.05, then the data is not normally distributed. The following are the results of the normality test, which has been tested using SPSS.

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test			Unstandardized Residual
N			40
Normal Parameters[a,b]		Mean	.0000000
		Std. Deviation	5.53267521
Most Extreme Differences		Absolute	.107
		Positive	.107
		Negative	-.064
Test Statistic			.107
Asymp. Sig. (2-tailed)[c]			.200[d]
Monte Carlo Sig. (2-tailed)[e]		Sig.	.290
	99% Confidence Interval	Lower Bound	.278
		Upper Bound	.301

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.
e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 624387341.

There is table 2 above with the nonparametric Kolmogorov-Smirnov statistical test obtained from the Asymp value. Sig. (2-tailed) is $0.200 > 0.05$, so it can be concluded that the data is normally distributed. So, the data in this research is suitable for use.

4.2 Multicollinearity Test Results

The multicollinearity test aims to test whether the regression model finds a correlation between the independent variables. A good regression model should not correlate with independent variables. If independent variables are correlated, then these variables are not orthogonal. Orthogonal variables are independent variables whose correlation value between independent variables is equal to zero. Multicollinearity testing can be seen from the tolerance value and VIF. If the tolerance value is > 0.1 and the VIF value is < 10, it can be concluded that there is no multicollinearity of the independent variables in the regression model. The following are the results of calculations using the SPSS program:

Table 3. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Dividend Policy (X)	.986	1.014

Based on Table 3, the independent variable, namely dividend policy, has a tolerance value > 0.1 and a VIF value < 10, so multicollinearity does not occur. In this regression model, it can be interpreted that there is no similarity in the independent variable in this research, namely dividend policy.

4.3 Autocorrelation Test Results

The autocorrelation test aims to test whether, in the linear regression model, there is a correlation between confounding errors in period t and confounding errors in period t-1 (previously). If correlation occurs, it is called an autocorrelation problem. Autocorrelation arises because successive observations over time are related to each other. This problem arises

because the residuals (nuisance errors) are not independent from one observation to another. This often results in autocorrelation. This test will use the Durbin-Watson test. The following shows the results of the Durbin-Watson calculation test using SPSS:

Table 4. Autocorrelation Test Results
Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.720ᵃ	.518	.478	5.759	.798

a. Predictors: (Constant), Dividend Policy (X)
b. Dependent Variable: Company Value (Y)
Source: Data processed by SPSS, 2023

The basis for decision-making on whether there is autocorrelation or not is by looking at the Durbin-Watson value. The DW value is 0.798, and we will compare this value with the table value using a significance value of 5%, a sample size of 40 (n), and a number of independent variables of 3 (k=3), then in the Durbin Watson table we will get a value namely: $0 < d < dl = 0 < 0.798 < 1.3384$. Because the value 0 is smaller than the value 0.798 and the value of d is smaller than dl, namely 1.3384, it can be concluded that there is no autocorrelation.

4.4 Heteroscedasticity Test Results

The purpose of carrying out a heteroscedasticity test is so that in the regression model, there is an inequality of variance from the residuals of one observation to another so that further testing can be carried out. The following are the results of heteroscedasticity testing using the Glejser test:

Table 5. Heteroscedasticity Test Results
tas Coefficientsa

Model		B	Std. Error	Beta	t	Sig.
		UnstandardizedCoefficients		Standardized Coefficients		
1	(Constant)	1.390	.599		2.321	.001
	Dividend Policy (X1)	2.373	1.253	.182	1.889	.067

a. Dependent Variable: Abs_RES
Source: Data processed by SPSS, 2023

Based on the calculation results above, the significance of all independent variables is > 0.05, so it can be concluded that in this model, there is no heteroscedasticity problem.

4.5 Multiple Linear Regression Analysis Test Results

Multiple linear regression is a development of simple linear regression which can be used to determine the effect of one or more independent variables on one dependent variable. From statistical analysis using the SPSS program, the results of the multiple linear regression equation were obtained, which can be seen in Table 6 below:

Table 6. Multiple Linear Regression Results
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5.377	2.178		-2.469	.018
	Kebijakan Deviden (X)	6.320	2.098	.351	3.012	.005

a. Dependent Variable: Company Value (Y)
Source: Data processed by SPSS, 2023

From Table 6 above, the multiple linear regression equation between dividend policy variables and company value can be drawn as follows:

Y = -5.377+6.320X + e

The regression equation has the following meaning:

1. Constant = -5.377

If the dividend policy variable is (X), then the company value variable (Y) is -5,377.

2. Coefficient X = 6.320

If the dividend policy variable (X) increases by one unit, it will affect the increase in the company value variable (Y) by 6,320 units.

4.6 Coefficient of Determination Test Results (R²)

The coefficient of determination (R2) is used to measure the percentage of variance in the dependent variable that the independent variables in the model can explain. The greater the R square approaches one, the independent variable provides almost all the information needed to predict variations in the dependent variable. The results of data processing using the SPSS program can be seen in Table 7 below:

Table 7. Coefficient of Determination Test Results
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.720[a]	.518	.478	5.759

a. Predictors: (Constant), Dividend Policy (X)
Dependent Variable: Company Value (Y)
Source: Data processed by SPSS, 2023

The value of R square is 0.518, and this means that 51.8% of the variation in Company Value can be explained by the Dividend Policy variable (X). Meanwhile, the remaining 48.2% is explained by other variables outside the research regression model.

4.7 Simultaneous Significance Test Results (F Statistical Test)

The F test is used to determine whether all independent variables influence the dependent variable. Testing is carried out using a significance level of 0.05 ((α) = 5%). If the significance value is <0.05, then the independent variables jointly influence the dependent variable. The results of data processing using the SPSS program can be seen in Table 8 below:

Table 8 F Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1282.867	3	427.622	12.895	.001[b]
	Residual	1193.809	36	33.161		
	Total	2476.677	39			

a. Dependent Variable: Company Value (Y)
b. Predictors: (Constant), Dividend Policy (X),
Source: Data processed by SPSS, 2023

Table 8 above shows that there is a value of sig = 0.001 = 0% < 5%, so it can be interpreted that hypothesis H0 is rejected. Hypothesis H1 is accepted, which means that the independent variables, namely dividend policy (X1), affect the dependent variable, namely company value (Y), which is a fit model.

4.8 Individual Parameter Significance Test Results (t Statistical Test)

Hypothesis testing using the t-test is used to determine the significance of the influence of the independent variable partially on the dependent variable. This test was carried out by comparing the significant value α (0.05). If the p-value <0.05, then it can be concluded that the independent variable affects the dependent variable.

Table 9.t Test Results

Variable	Koef.	T	Sig	Results	Description
Constant	-5.377	-2.469	.018		
Dividend Policy (X)	6.320	3.012	.005	significance	H1 accepted

N = 40; R^2 = 0.518; Adj R^2 = 0.478; F =12.895; Sig = .001b

From Table 4.9 above, it can be seen that:

The dividend policy variable (X) has a significant value of 0.005<0.05, so hypothesis 1 is accepted (H1), meaning that dividend policy has a positive and significant effect on the effect of dividend policy on company value.

DISCUSSION

Company value is very important because it can reflect company performance, which can influence investors' perceptions of the company (Aprianto et al., 2021). Company value is the present value of the income stream or cash flow that is expected to be received in the future. Company value can show the condition of the company. High company value indicates good company performance (Setiono et al., 2017). Company value is a reflection of public trust in the company since the company was founded

until now. Company value is related to share prices (Selvy & Esra, 2022).

High company value is the main focus of company owners because high company value shows that the company is able to attract investors to invest in their company (Rahmah et al.., M.Si. & Febriani, 2021). Company value is a reflection of the market value of a company, where a large share market value means that investors will like the shares. Increasing demand for shares will cause the company value to be higher (Purwaningtyas & Abbas, 2021). Dividend policy influences company value in industrial sector companies (Selvianah & Hidayat, 2022).

Dividends are payment decisions from the company to shareholders. A dividend policy is a decision where the company will distribute profits to shareholders or retain profits to be reinvested. High dividends will provide a

positive signal that can attract investors, increasing the demand for shares (Julia & Andini, 2016). A dividend policy is a policy regarding the management of profits earned by the company, whether they will be distributed to shareholders in the form of dividends or whether they will be retained in the form of retained earnings and used to fund investments. Dividend Policy and Company Value can be interpreted in various ways (Moch et al., 2018).

According to Gordon and Lintner (1962), their theory is known as the Bird in the Hand Theory, which states that dividends are more certain than capital gains. Dividend distribution is considered certain because the company will distribute it, but the amount of distribution is different compared to capital acquisition, which requires looking at a company's performance first (Yanti et al., 2023). A financial manager's decision is the policy regarding dividend distribution. The amount of dividends to shareholders requires consideration by considering several considerations (Jumady et al., 2022). Funding sources are calculated by the dividend payout ratio with the amount of profit that can be retained in the company.

A dividend policy is a decision to determine how much profit will be distributed to shareholders and which will be retained in the company to be reinvested (Adinda et al., 2023). Dividend policy can be linked using enterprise value. Dividend policy is a decision on whether the profits produced by the company should be distributed to shareholders as dividends or will be retained in the form of retained earnings to finance future investments (Jasman, 2023).

A dividend policy is a policy regarding the management of profits earned by the company, whether they will be distributed to shareholders in the form of dividends or whether they will be retained in the form of retained earnings and used to fund investments. If the company chooses to distribute profits in the form of dividends, the company's internal funds will decrease.

Dividend policy is a company's financial decision made to determine whether the profits earned by the company will be distributed to shareholders or will be retained as retained earnings in the company (Erawati & Ramadhani, 2021).

Dividend Policy has a positive and significant effect on Company Value. This is stated based on the results of the t-test of dividend policy on company value. Company value with a t value of 3.012, where the significance value is 0.005<0.05. This means that the size of the dividend policy will affect the value of the company.

The company should continue to do this so that consistent performance can be achieved. According to Martha (2017), if a company increases dividend payments, it can be interpreted by investors as a signal of management's hopes for improving company performance in the future so that dividend policy influences company value. Dividend policy determines how much profit shareholders will get. This will ensure shareholder happiness, which is the company's main goal. Dividends of large value are distributed to shareholders, the better the company's performance.

This research supports research conducted by Hidayat (2013), Martikarini (2014), and Ariyanto (2017), which resulted in dividend policy having a positive and significant effect on company value, so the first hypothesis is proven.

CONCLUSION

Based on the discussion in the previous chapter, the results of this research show that Dividend policy has a positive and significant effect on company value in manufacturing companies in the industrial sector listed on the Indonesia Stock Exchange. 2016-2020 period. Meanwhile, the low R Square (R2) value is only 51.8%, while other independent variables outside this research explain 48.2%.

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