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DIVIDEND POLICY TO IMPROVE FIRM VALUE, FINANCIAL SUSTAINABILITY MODERATING VARIABLE

ABSTRACT

Many industries in Indonesia do not share profits in the form of dividends with investors, which affects the value of the company. This condition really determines the investor's decision to invest in the future as a reaction to the company's dividend policy. The study is aimed at analysing the dividend policy in relation to investor behaviour and its impact on the value of a firm with financial stability as a moderate variable. This study uses 360 IDX-listed businesses from 2018 to 2022 for properties. Smart PLS was used to test the model. The study shows that the dividend policy affects the value of the company, but does not affect the behaviour of investors. However, financial stability has a negative impact on the dividend policy and the value of the company. In addition, financial stability cannot mitigate the relationship between the dividend policy and the value of the firm; Conversely, economic resilience can mitigate investor behaviour and affect a firm's value. The article emphasizes that managers who develop dividend policy, that managers who develop dividend policy should pay attention to the behaviour of investors, as this can be a positive signal for the future value of the company.

Keywords: dividend policy, investor behaviour, financial sustainability, firm value

JEL Classification: G1, G3, G4

INTRODUCTION

Dividend is the distribution of company profits to shareholders. Several studies of dividends in increasing firm value have been widely researched, such as by (Seth & Mahenthiran, 2022) dividends to signal sustainable future performance. While (Neugebauer et al., 2023) dividend payments can influence investors' perception of the firm value, the same study (Neugebauer et al., 2023) (Floyd et al., 2015) banking firms use dividends to signal financial strength to investors. Moreover, (Han et al., 2021) found that older investors in China prefer to invest in companies that distribute dividends.

Dividend payments are crucial for companies as a form of commitment in appreciating shareholders for investing in their company, especially in Indonesia. Based on KSEI data, dividends paid amount by the company throughout 2023 were recorded in the banking sector distributing dividends of IDR 50.7 trillion, meanwhile the energy sector IDR 56.2 trillion, and the industrial sector or multi-sector holdings IDR 11.7 trillion, also industrials integrated telecommunication services of IDR 6.8 trillion, and the industrials wireless telecommunication services sector IDR 4.2 trillion.

Investor behaviour is very sensitive to stock price fluctuations as a reflection of the firm value; managers must be sensitive to investor behaviour [5]. One of the considerations investors in Investing shares is the number of dividends given from the total profits obtained by the company; investors are pleased with stocks that provide high dividends to maintain the shares, investors are cautious about companies that have financial problems as a signal of anticipating the investment risks invested (Neupane et al., 2024) (Nguyen et al., 2023).

The company's financial sustainability effectively responds to changes in the company's financial condition caused by the company's demands and objectives, creates a healthy financial condition, and provides social benefits for investors (Deng et al., 2023). In

order to generate wealth for the company, every investor hopes that their investment will increase favourably and weather economic shocks brought on by the company's internal and external operations (Al-filali et al., 2023).

Firm value is essential for investors because firm value reflects the investment invested growth, this value can be seen from the rising stock price and the growth of the company's increased profit as a mirror of the company's overall performance. (Mousa et al., 2021) (Seth & Mahenthiran, 2022b), firm value can be created through caring for the company to investors by distributing decent dividends so that investors are loyal to investing in companies that provide large returns. (Ararat et al., 2017), one of investors' considerations for the firm value can be seen from the price earnings ratio, the higher PER shows the higher the company's positive performance in creating profitability (Neldi et al., 2023).

However, many companies still do not distribute dividends to shareholders, as research results (Kent Baker & Kilincarslan, 2019) that examined many companies in Turkey that do not distribute dividends. Furthermore, (Theiri et al., 2023) found that financial crises and constraints negatively impact dividends and company reputation. As (Neugebauer et al., 2023) said, stock prices decline when dividend payments are stopped, which shows a negative signal of investor behaviour. Furthermore, (Chronopoulos et al., 2023) on their research found that companies with high competition tend to distribute lower dividends. Last, (French & Naka, 2013) found that companies prefer to maintain profits rather than pay dividends.

Because investors expect dividends, which can provide positive signals about a company's value that result in future profitable returns, this study is essential. Studies on the impact of dividends on firm value have been widely conducted (Neugebauer et al., 2023) (Aljifri, 2023). This study differs from earlier research in that it examines how investor behaviour and dividend relations are affected by financial sustainability moderation, and how this affects the firm value. Given that sustainable financial capabilities are a crucial factor for investors to consider before making an investment, financial sustainability is a good model for raising a firm value. The purpose of this study is to examine how investor behaviour and dividend policy affect the firm value in moderation to financial sustainability. Because it can guarantee the company's long-term survival and operation without requiring the expenditure of its financial resources, financial sustainability is crucial for the business. Managers can use this study to help them make decisions about dividend payments that will raise the firm value.

LITERATURE REVIEW

The Influence of Dividend Policy on the Firm Value

Dividend policy is one of the ways management prospers shareholders. (Theiri et al., 2023) in their study shows that company management makes a dividend policy to distribute or not share company profits to shareholders in the form of dividends. Then, (Y. Y. Liu & Lee, 2022) on their research shows that investors respond more positively to the distribution of cash dividends. Furthermore, (Neugebauer et al., 2023) empirical analyses and experimental studies suggest that dividend payments can impact a firm value in real-world scenarios. Empirical data show that firm value tends to increase when dividend payments begin. Reservedly, firm value tends to decrease when dividend payments are stopped; (Kent Baker & Kilincarslan, 2019) in their study show that the decision not to pay cash dividends in Turkey shows that cash constraints, growth opportunities, low profitability and revenue, and external fundraising costs (debt). Moreover, (Floyd et al., 2015) in their study show that banks use dividends as a signal of financial (Stereńczak & Kubiak, 2022) found a strong two-way relationship between liquidity and dividend policy. A different study result by (Dyussemina & Park, 2024) shows that the firm value is getting weaker with increased dividend payments.

(Brawn & Šević, 2018) in their study examined American firms and showed that Company Size seems to be the impactful factor whether a company pays dividends or not, followed by the industry type and firm age. In addition to the study, older companies tend to distribute dividends, while the industry type that pays the most dividends is the health industry.

Furthermore (Khan & Shamim, 2017) on their study found that earnings per share had a positive impact on dividend payments in eight company sectors. However, forestry (paper and board) is negatively associated with dividend payout ratios. In addition, free cash flow has a positive impact on dividend payments in fixed-line telecommunications, and negatively impacts chemical, forestry, construction and materials, engineering, beverages, tobacco, travel and leisure, food processing, household goods, pharmaceuticals and biotechnology, and automobiles.

Next, (Pinto & Rastogi, 2019) a on their study found that dividend is influenced by the sector in which it is located, size, profitability, and interest coverage ratio have a significant positive relationship with dividend policy. In addition, business risks and debt disclosures are negatively correlated with dividends. This study also shows evidence that dividend policies vary significantly across industry sectors in India.

According to the study by (Quang, 2024), dividends are divided into two types: cash dividends and stock dividends. Dividends in cash or shares continue to be divided into 2 cases: higher dividends and lower dividends compared to the previous year. While (French & Naka, 2013) in their study show that some companies implement a stable dividend policy, while some companies pay dividends after the rest funds the desired investment.

Many companies distribute dividend payments as an internal discipline tool to reduce agency problems or to signify good financial performance. Meanwhile, companies that do not pay dividends or pay low dividends to reduce the tax burden of shareholders. More mature and profitable companies often maintain higher pay out rates, while smaller, heavily indebted companies are unwilling to distribute profits as cash dividends (Kent Baker & Kilincarslan, 2019). Companies that have a high potential growth rate in the market prefer to hold profits rather than pay dividends, (French & Naka, 2013).

When an efficient company generates a capital surplus, it may choose to pay dividends to investors rather than buy back treasury shares (Quang, 2024). Moreover, each industry sector has different income characteristics, which affects the difference in the tendency to pay dividends (Martono et al., 2020). Larger denominations of MDs increase the tendency to pay dividends and the rate of cash dividends paid to shareholders (Aguilar-Díaz et al., 2024). Companies that pay high dividends can create an over-reliance on external financing, which can exacerbate the risk of underinvestment.

H1: Dividend Policy Has a Significant Effect on Firm Value.

H2: Dividend Policy Has a Significant Effect on Investor Behaviour.

The Influence of Investor Behaviour on the Firm Value

According to (Aljifri, 2023), the study shows that investor overconfidence positively and significantly affects the firm value. (Meyer & Uhr, 2024) in their study shows that investors always consider the liquidity or financial condition of the company to reduce investment risk. The study's results of (Mullen et al., 2024) show that investors are primarily oriented toward companies that care about the environment or social ethics (Chen et al., 2022), and investors face two choices: to get profits or vice versa to experience losses. Furthermore, (Neupane et al., 2024) in their study show that domestic investors tended to behave 'flight-to-quality' while foreign institutional investors tended to exhibit 'fire-sale' behaviour. (Neupane et al., 2024) in their study also shows that investors show a "reduce risk or increase risk" response when faced with signals of increased market volatility. Next, a study from (Nguyen et al., 2023) explained that the more open and neurotic investors, the higher returns compared to market value. Moreover, (Altaf & Jan, 2023) in their study show that millennials always follow investment developments and have high confidence and a positive attitude when investing and (Borsboom et al., 2022) in their study shows that short-term investors tend to trade activities with a higher value directly proportional to the risks and investment costs.

H3: Investor Behaviour Has a Significant Effect on Firm Value.

Financial Sustainability

The study's results from (Frintrup & Hilgers, 2024) demonstrate how several factors, including debt levels and risk management skills, affect financial sustainability and how net cash surplus drives it. (Dharmayanti et al., 2023) also explained how crucial SCM and flexibility are to enhancing the influence of environmental innovation and SMCS on sustainable financial performance. Furthermore, a study by (Deng et al., 2023) shows that financial sustainability is the capacity to provide sound financial circumstances, accomplish concrete results in response to shifts in demand, and offer investors social advantages. Also, the study by (Tao et al., 2024) shows that corporate social responsibility significantly promotes financial sustainability by fulfilling responsibilities to shareholders. According to (Al-filali et al., 2023), sound business planning impacts financial sustainability. (Al & Hutahayan, 2024) Purchasing performance has a significant impact on sustainable financial performance. Moreover, (Sheng & An, 2024) explained that environmental uncertainty negatively impacts sustainability financial performance. Lastly, the study from (Dang et al., 2022) shows that innovation positively improves financial sustainability, even just as innovation and investment show that block ownership affects the sustainable development of smaller energy companies. In comparison, innovation investment significantly improves the sustainability of larger energy companies.

H4: Financial sustainability has a significant moderation effect on dividend policy with firm value.

H5: Financial sustainability has a significant moderation effect on investor behaviour with firm value.

AIMS AND OBJECTIVES

This study aims to analyse dividend policy on investor behaviour and its effect on firm value with financial sustainability as a moderating variable. This research was conducted on 360 companies listed on the IDX from 2018 to 2022.

The subject of this study lies in modelling the relationship between variables, namely dividend policy, investor behaviour towards firm value, and the moderating impact of financial sustainability. This study is based on the development of previous research models related to dividend policy, investor behaviour, financial sustainability, and firm value.

The objectives of the research specifically are:

1. Develop a research model on the impact of dividend policy and investor behaviour to increase the firm value.
2. Develop information and literature on increasing the firm value through strengthening financial sustainability, dividend policy and investor behaviour.
3. The causal relationship of dividend policy modelling and investor behaviour to increase the firm value.

METHODS

Research Design

A quantitative research design was used to test the model's impact on dividend policy and investor behaviour on firm value with financial sustainability.

Population and Research Sample

This study uses financial sustainability as a moderating variable to examine the dividend policy effects on investor behaviour and the effects on firm value. This study uses 360 manufacturing sector businesses registered on the Indonesia Stock Exchange between 2018 and 2022 for the sample, which means this study uses secondary data derived from the Annual Report published by IDX. The reason for choosing a manufacturing company in Indonesia is because of the complexity, ranging from processing raw materials to selling products in the market compared to other types of companies.

Research Variables

The independent variable of this study is the Dividend Policy (DP), which is proxied by the Dividend Payout Ratio (DPR) and dividend Per Share (DPS) (Dyussembina & Park, 2024) (Theiri et al., 2023). The intervening variable, namely Investor Behaviour (IB) in this study, is proxied by sales volume and frequency of stock trading (Muhammad, 2022); (Ross et al., 2010) (Neupane et al., 2024). The moderation variable is Financial Sustainability (FS), measured by sales divided by total assets (Zabolotnyy & Wasilewski, 2019). The dependent variable is Firm Value (FV) measured by PBV and Tobbin's Q (Dyussembina & Park, 2024) (Tarjo et al., 2022).

Data Analysis Methods

Smart PLS is used to test the hypothesis of dividend policy's effect on investor behaviour and its impact on investor behaviour and measure the impact of financial sustainability moderation. It is very suitable for testing predictive models (Ketchen, 2013), (Hair et al., 2017).

RESULTS

Model Measurement

Alpha Cronbach and Composite Reliability (CR) were used to measure the consistency of the model; all indicators had values above the provision of 0.7 (Hair et al., 2017). Furthermore, the loading factor also has a value above the threshold of 0.70 (Harir, 2018). Measured convergent validity is done by looking at the AVE value of each variable, which is required to be 0.50 (Hair et al., 2017) in terms of the consistency of the inner model and convergent validity. The validity of the discriminant can be seen in Heterotrait-Monotrait (HTMT) and the results of all variables below 0.90 according to the threshold (Table 1).

Table 1. Discriminant validity: HTMT and Contract Measurement. (Source: Output SEM PLS)

Discriminant validity: HTMT						
	Dividend Policy	Financial Sustainability	Firm Value	DP*FS	IB*FS	Investor Behaviour
Dividend Policy						
Financial Sustainability	0.032					
Firm Value	0.106	0.098				
DP*FS	0.202	0.084	0.011			
IB*FS	0.056	0.317	0.057	0.108		
Investor Behaviour	0.038	0.066	0.074	0.016	0.553	

Contract Measurement					
Construct	Indicators	Loading	Alpha	CR	AVE
Dividend Policy (DP)	Dividend Payout Ratio	0.729	0.821	0.846	0.765
	Dividend per Share	0.999			
Investor Behaviour	Stock market volume	0.991	0.940	0.959	0.921
	Stock market Frequency	0.927			
Financial Sustainability	Sales by Total Asset	1.000	1.000	1.000	1.000
Firm Value	Price Value book	0.920	0.813	0.915	0.843
	Tobin's Q	0.916			

The R2 value can be used to measure the strength of the model. The results showed that the R2 value for variable dividend policy towards investor behaviour was 0.000. In contrast, R2 variable dividend policy and investor behaviour towards firm value were 0.246 or 24.6%, and other factors influenced the rest.

Additionally, Table 2 illustrates the moderating and direct and indirect effects, showing how the dividend policy directly affects investor behaviour and how firm value is affected. From Smart PLS testing, it can be seen that dividend policy has a positive coefficient of firm value of 0.135 and has a significant effect ($p\ 0.031 < 0.05$). Then, the dividend policy on investor behaviour has a path coefficient of 0.009 and is insignificant ($p\ 0.825 > 0.05$). Investor behaviour has a favourable path coefficient to the firm value of 0.952 and has a significant effect ($p\ 0.016 < 0.05$). Financial sustainability to firm value has a positive coefficient of 0.661 and has a significant effect ($p\ 0.001 < 0.05$).

Table 2. PLS-SEM and Moderating Results. (Source: Output SEM PLS)

PLS-SEM results.						
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Result
Dividend Policy -> Firm Value	0,135	0,148	0,062	2,163	0,031	Supported
Dividend Policy -> Investor behaviour	0,009	0,006	0,043	0,222	0,825	Rejected
Investor behaviour -> Firm Value	0,952	0,926	0,395	2,412	0,016	Supported
Firm Value (R2=0,246)						

Moderating results.						
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Result
Dividend Policy Financial Sustainability -> Firm Value	-0,121	-0,099	0,072	1,668	0,096	Rejected
Investor Behaviour *Financial Sustainability -> Firm Value	2,381	2,285	0,938	2,539	0,011	Supported

The effect of financial sustainability moderation in the relationship of dividend policy to firm value has a negative coefficient of 0.021. It is not significant ($p\ 0.096 > 0.5$), indicating that financial sustainability has a negative impact on dividend policy and firm value. Furthermore, the effect of financial sustainability moderation on investor behaviour on firm value has a coefficient of 2.831. It significantly impacts ($0.011 < 0.5$), meaning financial sustainability can improve investor behaviour and firm value relationships (Figure 1).

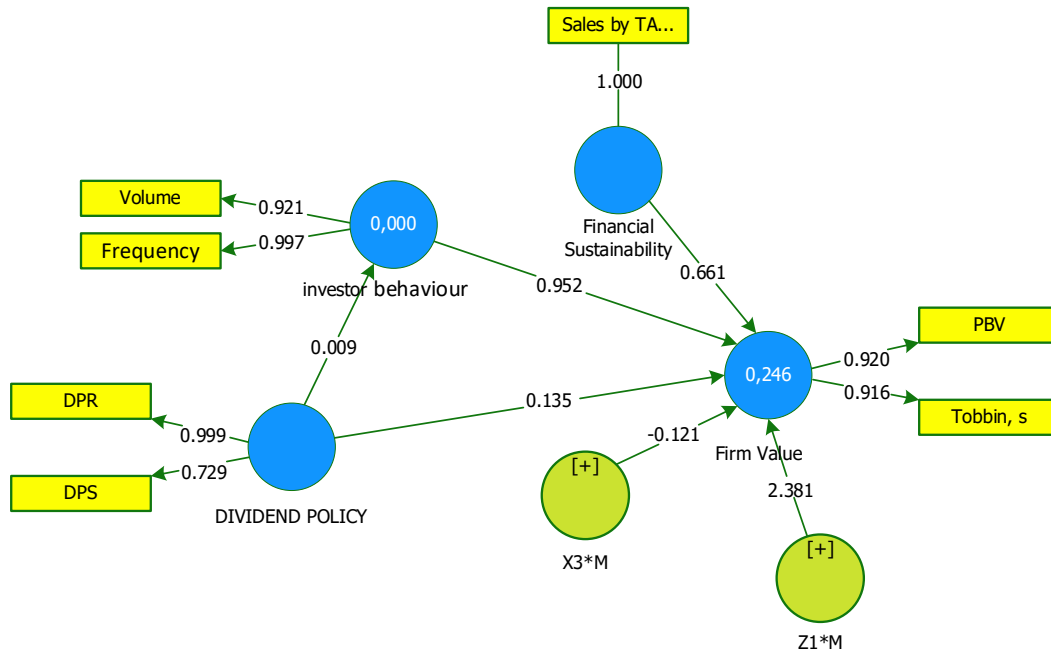


Figure 1. Path Analysis. (Source: Output SEM PLS)

DISCUSSION

From the analysis, dividends have a significant effect on the firm value. Dividend payments are one indicator that the company has a positive financial performance, which means dividends record profits that can be distributed to shareholders. Companies that provide high dividends have a good reputation in investors' sight because they have a high commitment to shareholders' welfare. This positive signal can be seen in investors' enthusiasm when the company distributes cash dividends to shareholders and is immediately welcomed by rising stock prices on the Stock Exchange. The study results are relevant to the study from (Y. Liu & Lee, 2022) that explained one of the strategies of companies in Taiwan to keep the firm value from falling is to distribute cash dividends. The same finding (Neugebauer et al., 2023) is that dividend payments can impact firm value.

Dividend policy does not have a significant effect on investor behaviour, which indicates that manufacturing companies in Indonesia provide dividends (Dividend Payout Ratio) to shareholders, which is relatively small. Investors respond less positively to the distribution of small dividends because they are considered less profitable when compared to capital gains or profits from selling and buying values. Psychologically, investors expect stable return investing, which tends to increase or be positive. According to the study's findings from (Neugebauer et al., 2023), the company's value decreases when dividend payments are stopped.

Companies that consistently pay dividends tend to be more attractive to investors because dividend gives a positive signal about the company's financial health, besides that dividend payments can help stabilize stock prices in the market. Investors often perceive dividends as a sign that the company has a strong cash flow, which can reduce stock price volatility. Dividends provide direct returns to shareholders, which increases their satisfaction. This can be an important factor in maintaining shareholder loyalty and firm value. If dividend payments are increased then the firm value will be increased.

The theory of signalling in (Quang, 2024) explained that dividends show that the market usually responds positively to higher dividend events and negatively to lower dividend events. The high DPR indicates that most of the company's income is distributed as dividends, which may indicate that the company generates large cash flows and returns value to shareholders. However, it can also indicate that the company is not reinvesting enough in its business. On the other hand, a

low DPR indicates that the company is holding back most of its revenue, which can be used for growth, debt servicing, or other strategic purposes. This could indicate that the company prioritizes growth over dividend payments.

Another result, we can know how investor behaviour has a significant effect on firm value. Positive investor sentiment towards the company's financial performance significantly improves its sustainability; investors are enthusiastic about investing in companies with increased stock price growth because it can create profits for investors. This is demonstrated by the fact that the stock price rises when the company declares it will pay dividends. The study from (Aljifri, 2023; Li & Roberts, 2023) validates and demonstrates how an investor's overconfidence positively and significantly impacts the firm value.

Financial Sustainability cannot moderate the relationship of dividend policy to firm value. One of the most critical components in dividend policy is financial health, where companies making dividend payments must take into account cash flow and company growth so that it does not have an impact on declining company financial performance; companies that distribute dividends tend to have good financial performance and can meet short-term and long-term obligations. This is reflected in the positive company profits recorded yearly, which impacts a good reputation in the eyes of investors. The results of this study (Oduro, 2024) show that companies facing financial difficulties may need to adjust their dividend policies, which has the potential to have a negative impact on firm value. The same study from (Kent Baker & Kilincarslan, 2019) shows that companies must pay dividends due to limited funds, availability of profitable investment opportunities, low profitability and income, and costs to raise external funds (Li & Roberts, 2023).

Lastly, financial sustainability moderates the relationship between investor behaviour and firm value. This result empirically proves that investors always consider the growth of the stock market price, financial performance, and company profit growth. High corporate profits indicate that the company is healthy and has sustainable financial performance. The perspective of its investors mostly determines the worth of a firm. This is reflected in the stock market valuation, which rises for companies that perform well over the long term. This result demonstrates that research is significantly influenced by the company's financial status (Singhania et al., 2024), investor perceptions, the company's ability to manage risk, and long-term sustainability (Frintrup & Hilgers, 2024) (Dharmayanti et al., 2023).

CONCLUSIONS

This study aims to assess how dividend policy affects investor behaviour and to know how the impact on firm value, with financial sustainability to moderate. This study uses go-public manufacturing firms as the research object. According to the results, we can conclude that dividend policy increases the firm value. Furthermore, investor behaviour was unaffected by the dividend policy. In addition, we also conclude that financial sustainability can moderate investor behaviour relationships with firm values. However, financial sustainability cannot moderate the relationship between dividend policy and firm value.

One factor that does not contribute to dividend policy to investor behaviour is the low dividend payout ratio given so that investors do not respond to it; the small DPR value is considered less profitable when compared to capital gains. Not only does financial sustainability exist, but the inability to control the dividend policy's correlation with the firm value sends out signals that could negatively affect investors' impression of financial sustainability in the future, affecting declining firm value.

Furthermore, dividend policy can increase firm value. This is shown by the increased stock prices on the stock exchange during dividend distribution, which is a positive response from investors to the company's financial performance and positively affects the firm value. Financial sustainability has a role in increasing investor confidence, where the perception of investors of companies that distribute dividends is that a company that financially has good sustainable performance and prospects for future investment.

This research hopefully can be a good reference to managers for establishing dividend policy, demonstrating that dividends are significant in building a company's reputation and signalling investors to invest in the company. In addition, this research also contributes to potential investors' making investment decisions, demonstrating that financial sustainability is essential to consider before buying shares as an indicator of company growth in the future. However, this research has limitations because it is carried out only on manufacturing companies. Therefore, further research is needed using other types of companies to develop the research results.

ADDITIONAL INFORMATION

AUTHOR CONTRIBUTIONS

All authors have contributed equally.

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CONFLICT OF INTEREST

The Authors declare that there is no conflict of interest.

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ДИВІДЕНДНА ПОЛІТИКА ДЛЯ ПІДВИЩЕННЯ ВАРТОСТІ ФІРМИ, ПОМІРНОЇ ЗМІНИ ФІНАНСОВОЇ СТІЙКОСТІ

Багато галузей в Індонезії не діляться прибутком у формі дивідендів з інвесторами, що впливає на вартість компанії. Ця умова справді визначає позицію Інвестора при ухваленні рішення про інвестування в майбутнє як реакцію на дивідендну політику компанії. Дослідження спрямоване на аналіз дивідендної політики щодо поведінки інвесторів та її впливу на вартість фірми з фінансовою стійкістю як помірною змінною. У цьому дослідженні використано як об'єкти 360 компаній, зареєстрованих на IDX із 2018 по 2022 рік. Для тестування моделі застосовано Smart PLS. Це дослідження показує, що дивідендна політика впливає на вартість фірми, проте не впливає на поведінку інвесторів. Однак фінансова стійкість негативно впливає на дивідендну політику й вартість фірми. Крім того, фінансова стійкість не може пом'якшити співвідношення між дивідендною політикою й вартістю фірми. І навпаки: економічна стійкість може пом'якшувати поведінку інвесторів і впливати на вартість фірми. У статті наголошено, що менеджери, які розробляють дивідендну політику, повинні звертати увагу на поведінку інвесторів, оскільки це може бути позитивним сигналом для майбутньої вартості компанії.

Ключові слова: дивідендна політика, поведінка інвестора, фінансова стійкість, вартість фірми

JEL Класифікація: G1, G3, G4