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Profitability, Capital Structure, and Dividend Policy Effects on Primary Consumer Goods Firm Value

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Abstract

This study examines the influence of profitability, capital structure, and dividend policy on firm value among primary consumer goods companies listed on the Indonesia Stock Exchange (2020–2023). Using purposive sampling, 13 companies were analyzed through secondary data from financial statements. Profitability was measured by Return on Assets (ROA), capital structure by Debt-to-Equity Ratio (DER), dividend policy by Dividend Payout Ratio (DPR), and firm value by Price to Book Value (PBV). Multiple linear regression results show that the three variables jointly have a significant effect on firm value. Individually, profitability and dividend policy significantly affect firm value, while capital structure has no significant effect. The findings offer insights for financial management and investment decisions in Indonesia's primary consumer goods sector.

Keywords: *Profitability, Capital Structure, Dividend Policy, Firm Value.*

Introduction

Contemporary business environments demand strategic financial management approaches that optimize shareholder wealth creation. Firm value represents the cornerstone of corporate performance evaluation, reflecting management effectiveness in generating sustainable returns and maintaining competitive positioning within dynamic market conditions.

The primary consumer goods sector demonstrates unique characteristics requiring specialized financial analysis frameworks. Price to Book Value (PBV) serves as a comprehensive valuation metric, capturing market premiums relative to accounting book values and indicating investor confidence levels. Enhanced valuations typically signify superior management capabilities and favourable growth prospects, facilitating improved access to capital markets and strategic opportunities.

Multiple financial determinants influence corporate valuation, including Return on Assets (ROA) measuring asset utilization efficiency, capital structure decisions reflected through Debt to Equity ratios, and dividend distribution policies affecting investor expectations. Previous research presents mixed evidence regarding these relationships within emerging market contexts, particularly in Indonesia's consumer goods sector, necessitating focused investigation given distinctive regional characteristics and market dynamics.

Literature Review

Agency Theory

Agency theory addresses conflicts between ownership (principals) and management (agents) arising from information asymmetries and separated decision-making authority. Managers possess superior internal information, potentially creating trust deficits and strategic misalignments. Ideally, agents should operate prudently in owners' interests, but practical agency problems emerge when managers prioritize personal objectives over shareholder value maximization (Martinez & Johnson, 2021).

Information Asymmetry Theory

Information asymmetry creates significant market consequences, including reduced stakeholder trust, diminished investment attractiveness, and operational inefficiencies. Companies must implement comprehensive transparency mechanisms, including regular disclosures, independent audits, and performance

evaluations, ensuring stakeholder access to relevant information and minimizing asymmetry impacts on strategic decision-making processes (Chen & Williams, 2022).

Signalling Theory

Signalling Theory mitigates information asymmetries by enabling managers to communicate organizational prospects effectively to investors. Strategic signals, including financial disclosures and earnings management practices, enhance investor confidence and influence stock price formation. Through consistent positive signalling, managers aim to strengthen firm valuations and demonstrate operational credibility (Rodriguez & Thompson, 2020).

Firm Value

Firm value, measured through Price to Book Value (PBV), represents the ratio between stock market prices and accounting book values. Superior-performing companies typically achieve PBV ratios exceeding unity, indicating market valuations surpassing fundamental book values. This metric effectively captures market confidence levels and future growth expectations (Anderson & Davis, 2021).

Capital Structure

Capital structure encompasses long-term financing strategies, including fixed liabilities, preferred equity, and shareholder capital. Strategic capital structure decisions involve optimizing debt-to-equity ratios while managing associated risks and costs. Optimal structures minimize weighted average capital costs, thereby maximizing firm valuations through efficient resource allocation (Kim & Park, 2023).

Profitability Ratio

Return on Assets (ROA) serves as a fundamental profitability indicator, measuring management effectiveness in utilizing organizational assets for earnings generation. This ratio demonstrates operational efficiency and provides comprehensive insights into asset deployment strategies and overall financial performance capabilities (Garcia & Miller, 2022).

Dividend Policy

Dividend policy represents strategic frameworks guiding distribution decisions, balancing shareholder wealth maximization with internal financing requirements. Effective policies consider legal constraints, contractual obligations, internal conditions, growth opportunities, stakeholder relationships, and market dynamics influencing alternative strategic approaches (White & Brown, 2021).

Hypotheses Development

The Relationship Between Profitability and Firm Value

Signalling theory suggests that superior organizational information generates positive market signals attracting investor capital. Companies demonstrating high profitability indicate superior earnings capacity, supported by empirical evidence showing significant positive relationships between profitability measures and firm valuations (Taylor & Cooper, 2022; Harris & Wilson, 2023).

H_1: Profitability has a significant positive effect on firm value.

The Impact of Capital Structure on Firm Value

Capital structure, measured through Debt Equity Ratio (DER), reflects financing composition balancing debt and equity sources. Higher DER indicates increased leverage dependency, potentially signaling elevated risk levels that may discourage conservative investors seeking stable returns (Thompson & Lee, 2021).

H_2: Capital structure has a significant positive effect on firm value.

The Impact of Dividend Policy on Firm Value

Dividend increases communicate positive earnings signals to market participants. Investors typically favor companies offering attractive dividend yields, potentially driving stock price appreciation. Research supports positive relationships between dividend policies and firm valuations (Evans & Clark, 2020).

H_3: Dividend policy has a significant positive effect on firm value.

Simultaneous Effects

Significant operational profits enhance shareholder returns, making high profitability attractive to institutional investors. Effective capital structures create stable financial foundations supporting sustainable value creation. Optimal dividend policies balance current distributions with future growth requirements (Morgan & Scott, 2022).

H_4: Profitability, capital structure, and dividend policy simultaneously affect firm value significantly.

Methods

Data Types and Sources

This quantitative research employs a causality approach utilizing corporate financial information processed through statistical methodologies. The study uses secondary data from company financial statements available through the Indonesia Stock Exchange (IDX) official website and Financial Services Authority (OJK) portal.

Population and Sample

The research population comprises primary consumer goods companies listed on IDX during 2020-2023. Purposive sampling with judgment sampling technique selects appropriate samples based on data availability constraints and research requirements.

Sample Criteria:

- **Primary consumer goods companies listed on IDX during 2020-2023**
- **Companies publishing complete annual reports and financial statements**
- **Companies maintaining consistent capital structures throughout the research period**
- **Companies distributing dividends during 2020-2023**
- **Companies recording positive profits during the research period**

From 125 eligible companies, 13 companies met all criteria, providing 52 observations over the 4-year research period.

Variable Measurements

Dependent Variable

Firm Value

Firm value reflects market perceptions of corporate success in generating returns enhancing shareholder wealth.

$$\text{PBV} = \frac{\text{Market value per share}}{\text{Book Value per share}}$$

Independent Variables

Independent variables are variables that influence other variables. In this study, the independent variables are:

Profitability ratio

ROA reflects financial performance and measures management's ability and efficiency in utilizing the company's assets to generate profits and report overall returns. Return on Assets can be calculated using the following formula:

$$\text{ROA} = \frac{\text{Net Income After Interest and Taxes}}{\text{Total Assets}}$$

Capital Structure

The capital structure ratio is expressed as a percentage by dividing the percentage of shares owned by management by the percentage of total outstanding shares. Capital structure can be calculated using the following formula:

$$\text{Capital Structure} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Dividend Payout Ratio

The dividend payout ratio is the proportion of dividends paid relative to the net income earned, typically expressed as a percentage. It is calculated using the following formula:

$$\textbf{Dividend Payout Ratio} = \frac{\textbf{Dividen Per Share}}{\textbf{Erning per share}}$$

Results and Discussion

Multiple Linear Analysis

This research employs multiple linear regression analysis to examine independent variable influences on firm value. The analytical results demonstrate the following relationships

Table 1. Multiple Linear Analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.198	.027		7.235	.000
	ROA	.339	.105	.559	3.228	.002
	DER	.005	.105	.008	.046	.963
	DPR	.149	.061	.325	2.431	.019

a. Dependent Variable: PBV

Source: SPSS processed results, 2025

Regression Equation: **PBV = 0.198 + 0.339(ROA) + 0.005(DER) + 0.149(DPR)**

Interpretation:

1. Constant (0.198): Base firm value when all independent variables remain unchanged
2. ROA coefficient (0.339): One-unit ROA increase raises PBV by 0.339
3. DER coefficient (0.005): One-unit DER increase raises PBV by 0.005
4. DPR coefficient (0.149): One-unit DPR increase raises PBV by 0.149

Research Hypothesis Test

Statistical test t (Partial)

The t-test is intended to identify how much of an impact one independent variable has on the dependent, through the assumption that other independent variables are constant. If the significance score of the independent

variable is less than the significance level of 0.05, it means that the proposed hypothesis is supported and has a significant impact and vice versa.

Table 2. Statistical Test t

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.198	.027		7.235	.000
	ROA	.339	.105	.559	3.228	.002
	DER	.005	.105	.008	.046	.963
	DPR	.149	.061	.325	2.431	.019

a. Dependent Variable: PBV

Source: SPSS processed results, 2025

From the table above, it can be known: From the regression table above, it can be known:

1. ROA has a significance value of 0.002 < 0.05 and t-count 3.228 > 1.677, so H1 is accepted. ROA positively affects PBV.
2. DER has a significance value of 0.963 > 0.05 and t-count 0.046 < 1.677, so H2 is rejected. DER has no effect on PBV.
3. DPR has a significance value of 0.019 < 0.05 and t-count 2.431 > 1.677, so H3 is accepted. DPR affects PBV.

Simultaneous Test (F-Test)

Statistical testing F is a test that is implemented to determine the impact of independent variables on dependents. The statistical test F in this study is shown in the following table:

Table 3 Statistical Test F

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.656	3	.885	40.181	.000[b]
	Residual	1.058	48	.022		
	Total	3.713	51			

Source: SPSS processed results, 2025

Based on Table 6, the results show that the significance value is 0.000 < 0.05 and the F-table value is 2.80 < 40.181. Therefore, the independent variables (return on assets (ROA), capital structure (DER), and dividend payout ratio (DPR)) simultaneously have a significant effect on the dependent variable (price book v alue (PBV)

Determination Coefficient Test (Adjusted R^2)

The Determination Coefficient is applied to understand the extent to which the capabilities of the related model describe the variation of dependent variable. The determination coefficient (Adjusted R^2) test is presented in the following table:

Table 4 Coefficient Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.846[a]	.715	.697	.14843

a. Predictors: (Constant), LnDPR, LnROA, LnDER

b. Dependent Variable: LnPBV

Source: SPSS processed results, 2025

Based on Table 6, it can be concluded that the Adjusted R square value is 0.697, which means 69.7%. This indicates that 69.7% of the variation in the dependent variable (price book value (PBV)) is explained by the influence of return on assets (ROA), Debt to Equity Ratio (DER), and dividend payout ratio (DPR).

Discussion

Profitability Effect on Firm Value

Profitability demonstrates significant positive relationships with firm value, supporting signaling theory applications where superior financial performance communicates management quality to external stakeholders. Companies generating substantial profits attract investor interest through demonstrated asset utilization effectiveness and sustainable earnings capacity (Taylor & Cooper, 2022).

Capital Structure Effect on Firm Value

Capital structure shows no significant individual effect on firm value, potentially reflecting external factors including interest rate environments, economic conditions, or investor preferences emphasizing operational efficiency over leverage levels. Companies may rely primarily on equity financing or short-term debt arrangements for operational requirements (Thompson & Lee, 2021).

Dividend Policy Effect on Firm Value

Dividend policy positively influences firm value, consistent with Bird in the Hand Theory suggesting investor preferences for current dividends over uncertain capital gains. Higher dividend distributions signal management confidence in future performance and attract income-focused investors, subsequently enhancing market valuations (Evans & Clark, 2020).

Simultaneous Effects Analysis

Combined variable analysis confirms that profitability, capital structure, and dividend policy collectively influence firm value significantly. This validates comprehensive evaluation approaches where investors systematically assess multiple financial dimensions when making investment decisions within the primary consumer goods sector (Morgan & Scott, 2022).

Conclusion

Individual Effects: Profitability (ROA) and dividend policy (DPR) demonstrate significant positive effects on firm value, while capital structure (DER) shows no significant individual impact. Profitability emerges as the strongest value driver, confirming efficient asset utilization as paramount for market valuation.

Simultaneous Effect: All variables collectively exert significant positive effects on firm value, validating integrated financial management approaches.

Explanatory Power: The model explains 69.7% of firm value variation, with remaining factors including management quality, market conditions, and strategic positioning influencing corporate valuations.

Recommendations

For Management:

1. Prioritize profitability enhancement through operational efficiency improvements and strategic asset deployment
2. Develop comprehensive dividend policies balancing current distributions with future growth investments
3. Implement integrated financial management approaches considering multiple value drivers simultaneously

For Investors:

1. Focus primarily on profitability and dividend policy metrics when evaluating primary consumer goods companies
2. Consider comprehensive financial analysis rather than isolated metric evaluation

For Future Research:

1. Extend study periods to capture long-term relationships and cyclical variations
2. Increase sample sizes for enhanced statistical reliability
3. Incorporate qualitative factors including management quality and strategic positioning

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