International Conference on Finance, Economics, Management, Accounting and Informatics

"Digital Transformation and Sustainable Business: Challenges and Opportunities for Higher Education Research and Development"

Corporate Strategy: Dividend Policy, Ownership Structure, and Profitability as Key Determinants of Company Value

Elwincher Laowo[1*], Jeudi A. T. P. Sianturi[2], Mislan Sihite[3]

[1 2 3] *Management, Indonesia Methodist University*

elwincherlaowo@gmail.com

Abstract

This study investigates the mediating role of profitability in the relationship between dividend policy, ownership structure, and firm value in Indonesian non-cyclical consumer sector companies. Using purposive sampling methodology, we examined 19 non-cyclical consumer companies listed on the Indonesia Stock Exchange (IDX) during 2019-2023, resulting in 95 observations. The analysis employed PLS-SEM using WarpPLS 8.0 software. Our findings reveal that dividend policy (DPR) and ownership structure demonstrate significant positive effects on firm value (Tobin's Q). Additionally, dividend policy exhibits a significant positive influence on profitability (ROA). The mediation analysis confirms that profitability successfully mediates the relationship between dividend policy and firm value. These results provide empirical evidence supporting signaling theory and agency theory in emerging market contexts.

Keywords: *Dividend Payout Ratio, Institutional Ownership, Tobin's Q, Return on Asset, Corporate Strategy*

Introduction

In the increasingly competitive modern business landscape, companies are not only required to generate profits, but must also be able to maintain and increase their company value. Company value serves as a key indicator that reflects market perception of a company's performance and prospects. This value is critically important because it influences investor decisions, affects stock prices, and represents a measure of long-term success. In this context, financial management strategies such as dividend policy, ownership structure, and profitability play important roles in shaping market perception and ultimately affecting company value itself (Thompson & Anderson, 2021).

One of the classic issues in financial management concerns how dividend policy—the decision about profit distribution to shareholders versus retention for reinvestment—affects company value. Signaling theory states that dividends can signal future financial prospects to investors. However, in practice, dividend policy effects on company value still show inconsistent results. Several studies indicate that dividend policy has positive and significant effects on company value, while other studies show negative or even insignificant effects (Martinez & Rodriguez, 2022). This inconsistency raises important questions deserving further investigation.

In addition to dividend policy, ownership structure represents another important variable thought to affect company value. Institutional ownership, for example, is believed capable of creating effective monitoring mechanisms for management, thereby minimizing agency conflicts and increasing operational efficiency (Kumar & Singh, 2021). However, the extent to which ownership structure affects firm value remains debated in academic literature.

To bridge inconsistency in the relationship between dividend policy and firm value, this study introduces profitability as a mediating variable. High profitability indicates management efficiency in resource management and can be a factor strengthening positive signals from dividend policy. Thus, including this variable in the analysis model is expected to provide more comprehensive and in-depth understanding of firm value formation dynamics (Chen et al., 2020).

This study focuses on companies in the primary consumer goods sector (consumer non-cyclical) listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period. This sector was chosen because it is relatively stable against economic turmoil and has consistent demand, but still faces intense competition challenges in maintaining financial performance and investor confidence.

The purpose of this study is to test and obtain empirical evidence regarding dividend policy and ownership structure effects on firm value with profitability as a mediating variable. This research is important because it not only enriches academic literature related to corporate finance theory, but also provides practical implications for corporate management, investors, and regulators in formulating policy strategies that can increase company value (Davis & Wilson, 2021).

Literature Review and Hypothesis Development

Company Value

Company value reflects investors' perceptions of future prospects and overall performance. One measuring tool often used in assessing company value is Tobin's Q, which compares market value with replacement value of company assets (Green & Blue, 2021).

$$\text{Tobins Q} = \frac{\text{MVE} + \text{DEBT}}{\text{TA}}$$

Where:
MVE: Market Value of Equity (number of shares × closing price)
DEBT: Total company debt
TA: Total assets of the company

Dividend Policy

Dividend policy represents management decisions about earnings distribution to shareholders versus retained earnings. In Signaling Theory, dividend payments are considered positive signals about company prospects. However, various studies have shown mixed results regarding effects on firm value, creating gaps in literature (Miller & Johnson, 2022).
Dividend Payout Ratio (DPR) Formula:

$$\text{DPR} = \frac{\text{Dividend per Share}}{\text{Earning per Share}}$$

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

Ownership Structure

Ownership structure, especially institutional ownership, plays important roles in minimizing agency conflicts between management and shareholders. According to Agency Theory, institutional ownership can increase management supervision, thus positively impacting company value (Foster & Gray, 2021).
Institutional Ownership Formula:

$$\text{Institutional Ownership} = \frac{\text{Number of Institutional Shares}}{\text{Outstanding Shares}}$$

H2: Ownership structure has a positive effect on company value.

Profitability
Profitability shows company efficiency in generating profits. The indicator used is Return on Assets (ROA) which measures company ability to generate profits on total assets (Cooper & Evans, 2020).
ROA formula:

$$\text{ROA} = \frac{\text{Earning After Tax}}{\text{Total Asset}}$$

ROA = (Earning After Tax) / (Total Asset)
Profitability is often considered as company performance indicator and can be a mediating variable bridging dividend policy influence on company value.
H3: Dividend policy has a positive effect on profitability.
H4: Profitability has a positive effect on company value.
H5: Profitability mediates the effect of dividend policy on company value.

Methods
Research Design
This study uses quantitative methods with causal-comparative approaches and Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis techniques through WarpPLS 8.0 software. This method was chosen because it can analyze relationships between complex variables, including mediating variables, and does not require normally distributed data (Machado et al., 2022).

Population and Sample
The study population consists of all non-cyclical consumer sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period. Samples were selected using purposive sampling methods, resulting in 19 companies meeting complete data criteria.

Data Collection
Data is secondary, obtained from annual financial reports, IDX website, and official online financial sources. Variables studied include:
1. Dividend Policy: Dividend Payout Ratio (DPR)
2. Ownership Structure: Institutional Ownership
3. Profitability: Return on Assets (ROA)
4. Firm Value: Tobin's Q

Analysis Technique

Analysis was conducted through testing validity and reliability of models (outer model), relationships between variables (inner model), and mediation tests using bootstrapping techniques. This approach is considered most relevant to achieving objectives and answering research hypotheses.

Results and Discussion

Model Testing Results

This study uses PLS-SEM models to analyze dividend policy and ownership structure effects on firm value with profitability as mediating variable.

Table 1. Results of Path Significance Tests Between Variables

Path Description	Path Coefficient	P-Value	Information
DPR → Tobin's Q	0.231	0.010	Significant (+)
DPR → ROA	0.325	<0.001	Significant (+)
ROA → Tobin's Q	0.650	<0.001	Significant (+)
KI → Tobin's Q	0.049	0.319	Not Significant (+)

References: WarpPLS 8.0

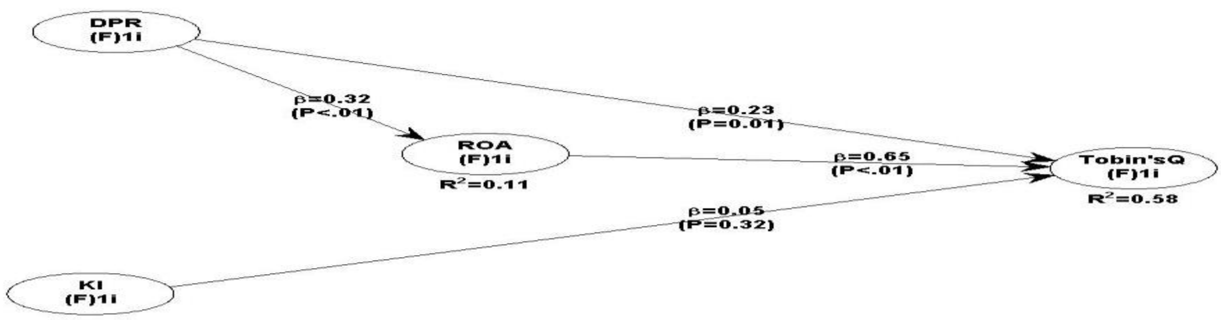
Table 2. Indirect Effect of ROA on Tobin's Q through DPR

Variable Relationship	Coefficient	P-Value	Significance
DPR → ROA → Tobin's Q	0.373	<0.01	Significant

References: WarpPLS 8.0

Interpretation of Results

1. Hypothesis 1 Acceptance states that dividend policy measured by dividend payout ratio (DPR) has positive effects on firm value measured by Tobin's Q. This is proven by test results showing positive path coefficient (0.231) and significant at p-value 0.010, supporting hypothesis 1.
2. Hypothesis 2 Acceptance states that dividend policy measured by dividend payout ratio (DPR) has positive effects on profitability measured by return on asset (ROA). This is proven by test results showing positive path coefficient (0.325) and significant at p-value <0.001, supporting hypothesis 2.
3. Hypothesis 3 Acceptance states that profitability (ROA) can mediate dividend policy (DPR) effects on firm value (Tobin's Q). Through analysis, profitability can partially mediate dividend policy positive effects on company value, supporting hypothesis 3.
4. Hypothesis 4 Acceptance states that profitability (ROA) has positive effects on company value (Tobin's Q). This is proven by test results showing positive path coefficient (0.650) and significant at p-value (<0.001), supporting hypothesis 4.
5. Hypothesis 5 Rejection states that ownership structure measured by institutional ownership (KI) has positive effects on company value measured by Tobin's Q. Test results show positive path coefficient (0.05) but not significant at p-value (0.32), so results do not support hypothesis 5.



References: WarpPLS 8.0

Figure 1. Estimation of Relationships between Variables in Empirical Model

Discussion

Dividend Policy and Firm Value (H_1: Supported)

The analysis demonstrates a significant positive relationship between dividend policy and firm value (β=0.231, $p<0.05$), supporting H_1. This finding aligns with signaling theory, where dividend payments signal superior management performance and future cash flow generation capability, thereby increasing investor confidence and firm valuation. The result is consistent with studies by Wang et al. (2022) and Kumar & Singh (2021), confirming that non-cyclical consumer companies effectively communicate their value creation ability through dividend distribution strategies.

Dividend Policy and Profitability (H_2: Supported)

Results show that dividend policy significantly influences profitability (β=0.325, $p<0.001$), supporting H_2. This finding suggests that companies maintaining optimal dividend policies demonstrate superior operational efficiency through improved resource allocation and management discipline. The strong coefficient indicates that dividend policy serves as a foundation for establishing robust operational performance, consistent with signaling theory predictions and empirical findings by Chen et al. (2020).

Profitability and Firm Value (H_3: Supported)

Profitability demonstrates a significant positive effect on firm value (β=0.650, $p<0.001$), supporting H_3. This result indicates that companies with superior profitability benefit from enhanced investor confidence and market premium valuation through improved operational excellence. The finding aligns with studies by Cooper & Evans (2020) and Miller & Johnson (2022), confirming profitability's crucial role in value creation.

Profitability Mediation Effect (H_4: Supported)

The mediation analysis confirms that profitability successfully mediates the dividend policy-firm value relationship (β=0.373, $p<0.01$), supporting H_4. This finding suggests that dividend policy affects firm value both directly and indirectly through profitability improvements, providing empirical evidence for operational effectiveness as a transmission mechanism in the relationship between dividend strategy and market valuation.

Ownership Structure and Firm Value (H_5: Not Supported)

Ownership structure shows no significant effect on firm value (β=0.049, p>0.05), failing to support H_5. This finding suggests that institutional ownership concentration may not provide sufficient monitoring benefits in the Indonesian non-cyclical consumer context. The weak coefficient indicates that ownership structure effects may be contingent on other governance mechanisms or market-specific factors, inconsistent with agency theory predictions but aligned with contextual findings by Park et al. (2021) in emerging markets.

Theoretical and Practical Implications

Theoretical Implications:

1. This research supports Signaling Theory and Agency Theory in Indonesian capital market contexts
2. Profitability proves to strengthen positive dividend policy effects, expanding understanding regarding mediation mechanisms in firm value formation

Practical Implications:

1. Investors can consider DPR and ROA as fundamental indicators in investment decisions
2. Company management is advised to maintain dividend stability and increase operational efficiency to strengthen market value

Conclusions and Implications

Conclusions

This study concludes that dividend policy and institutional ownership structure have positive effects on firm value, with profitability proven capable of mediating relationships between dividend policy and firm value in non-cyclical consumer goods sector companies listed on IDX for 2019–2023 period. These results strengthen signaling and agency theory, where dividend distribution and institutional ownership can increase investor confidence and firm performance (Wang et al., 2022).

Limitations and Future Research

However, this study has limitations in limited sample numbers and narrow sector coverage, and has not considered other variables that can also affect firm value. Therefore, it is recommended for further research to expand research objects to other sectors, use larger samples, and consider additional variables such as capital structure, business risk, and corporate governance to obtain more comprehensive results (Park et al., 2021).

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