

Dividend Policy and Firm Value in Indonesia: The Moderating Role of Capital Structure

Vriska Mega PRATIWI^a, Anggita Langgeng WIJAYA^b, Ratih PARAMITASARI^c

^{a, b} Universitas PGRI Madiun, Indonesia

^c Universitas Terbuka, Indonesia

Abstract

This study aims to examine the effect of dividend policy on firm value with capital structure as a moderating variable. The research was conducted on manufacturing companies on the Indonesia Stock Exchange in 2016-2019. The purposive sampling technique took the research data. Data analysis used a moderated regression analysis. The findings of this study indicate that the dividend policy increases firm value. However, this analysis demonstrates that the capital structure has a moderating influence on the effect of dividends on firm value. Investors in Indonesia's capital market have reacted positively to manufacturing businesses' dividend payout policies. However, if the company's capital structure is highly leveraged, this reaction will be diminished.

Key terms: firm value, capital structure, dividend, risk, shareholders

JEL Classification: G32

To cite this article: Vriska Mega Pratiwi, Anggita Langgeng Wijaya, Ratih Paramitasari, *Dividend Policy and Firm Value in Indonesia: The Moderating Role of Capital Structure*, *CECCAR Business Review*, N° 3/2022, pp. 62-72, DOI: <http://dx.doi.org/10.37945/cbr.2022.03.08>

➔ Introduction

Lumapow and Tumiwa (2017) explain that the primary purpose of investments made by shareholders is to improve long-term welfare. Miceli da Silveira *et al.* (2007) stated that firm value results from the investors' assessment of the company's performance. If a company has good performance and is considered to have good prospects in the future, investors will provide a high value, and vice versa (Miceli da Silveira *et al.*, 2007). Therefore, efforts to optimize the company's value will be influenced by the financial decisions taken by the company (Fama & French, 1998). Irawati and Komariyah (2019) stated that the high value of the company indicates that it is regarded as having market prospects. Company managers must be able to take advantage of profitable investment opportunities in the future, to increase the company's value.

This research is motivated by the inconclusiveness of research on dividend policy and firm value in Indonesia. Previous research has provided positive, negative results, and there is no influence between dividends and firm value on the Indonesia Stock Exchange. Ria and Husnah (2006) explains that the company's ability to pay cash dividends can be interpreted as the company's ability to provide free cash flow for investors. Rehman (2016) states that dividend policy is a good signal to investors that the company is in a good performance and can provide returns to investors.

Kim *et al.* (2018) explain that although there have been many studies on dividend policy, there is still little consensus among researchers regarding the effect of dividend policy on firm value. Since Miller and Modigliani (1961) stated that the theory is irrelevant regarding dividend policy, research on dividends has varied widely. Miller and Modigliani (1961) assert that dividend policy is irrelevant to firm value, assuming that only earnings and cash flows from the company affect firm value, and that investments are unrelated to dividends. Ham *et al.* (2020) explained that this dividend policy is prone to conflicts of interest between shareholders and bondholders, due to concerns about wealth transfers to shareholders. The agency cost hypothesis explains that dividend policy helps align the interests of managers and shareholders related to the use of company cash flows for the personal benefit of managers (Jensen & Meckling, 1976).

This study aims to examine the effect of dividend policy on firm value by considering the role of capital structure as a moderating variable. López-Iturriaga and Lima Crisóstomo (2010) explain that dividend policy and capital structure policy will impact the company's investment decisions and compensation schemes. This condition will have an impact on the performance and value of the company. Almahadin and Oroud (2020) explain that capital structure affects the average cost of equity capital and is a critical component in determining shareholder welfare. Kewal (2019) states that a company's source of funding that comes from debt at some point can help increase the value of the company. However, to a certain extent, the value of debt can increase business risk, which can impact company bankruptcy.

The basic idea of the researcher is that if a company pays dividends and the market reacts positively, what if, at the same time, the company has high external debt in the composition of its capital structure? Will a high capital structure weaken the effect of dividends on firm value? This study will try to answer this question. This research has two main contributions. The study's initial contribution is a re-examination of the relationship between dividend policy and firm value in manufacturing companies listed on the Indonesian Stock Exchange. The results of this study are expected to complement previous research on dividend policy and firm value in Indonesia. The second contribution in this study is to clarify the role of capital structure in the relationship between dividend policy and firm value. This study predicts that a high debt composition will weaken the positive influence between dividend policy and firm value on manufacturing companies in Indonesia.

➤ Review of literature and hypothesis

■ Dividend policy

Kim *et al.* (2020) explain that dividend policy is a critical managerial decision and gets excellent attention from the financial literature. Dividends are rewards to investors and efforts to maximize the value of the company. Livoreka *et al.* (2014) explain that, in conditions of business uncertainty, management must make important decisions, namely retaining a portion of profits for resource reserves, investing and maintaining liquidity or making payments to shareholders in the form of dividends.

Miller and Modigliani (1961) stated that dividends convey information on the company's future earnings prospects. According to Ham *et al.* (2020), this opinion has been relatively stable and proven by previous research. The dividend decision is a private function of the company's current and future earnings. Investors evaluate earnings information on dividend announcements in the form of changes in stock prices in the same direction. Kumar (2017) stated that dividend announcements will increase stock returns and will reduce stock prices in companies that do not pay dividends.

According to signal theory (Bhattacharya, 1979), dividend policy is expected to affect the company's future performance positively. Brucato and Smith (1997) explain that the company's commitment to pay dividends is credible information that shows the company's prospects in the future. Dividend payments are a differentiating signal from other companies that have poor prospects. Dasilas and Leventis (2011) found that the dividend yield and the percentage change in dividends became the dominant factors in determining changes in stock prices during the dividend announcement period.

According to Kim *et al.* (2018), three theories could explain the dividend policy of the company. The free cash flow hypothesis pioneered by Jensen (1986) explains that investors are attracted to companies that pay high dividends to reduce the agency costs of free cash flow. Therefore, companies that pay high dividends will increase the value of the company. Dividend payments are a form of protection for investors, so that high dividends will increase firm value. Kim *et al.* (2018) explains the dividend clientele hypothesis demonstrating that dividend payments are an effort to satisfy several components of investors. Finally, the dividend catering hypothesis explains that the cross-sectional effect between dividends is not stable over time.

Sheikh and Banafa (2014) explains that an old theory mentions the analogy of cash dividends as bird-in-the-hand compared to future capital gains, which tend to be “two in the bush”. This theory implies that dividend payments provide a definite return for investors compared to capital gains which are subject to risk and uncertainty. Dividend payments minimize the uncertainty surrounding the firm’s future cash flows, lower the cost of capital, and improve the stock price of the company. As a result, a rise in the cash dividend payments of the company will be related to an increase in the company’s value (Sheikh & Banafa, 2014).

■ Research on dividend policy and firm value in Indonesia

Research on dividend policy on the Indonesia Stock Exchange has been carried out quite a lot, but the research results vary widely. For example, Ria and Husnah (2006) researched cash dividends and firm size on investor behaviour in manufacturing companies in Indonesia. This study has not proved the positive effect of dividends per share on changes in the volume of investor transactions in the Indonesian Capital Market. Wati *et al.* (2018) examined the effect of dividend policy on business value using debt structure as a mediator. This study demonstrated a favorable effect of dividend policy on company value. However, it could not prove the role of debt structure as a mediating variable. The research results conducted by Wicaksono and Mispiyanti (2020) also revealed items that were in line with Wati *et al.* (2018). Wicaksono and Mispiyanti (2020) argue that a dividend policy can increase firm value. However, the findings of evaluating the capital structure have not been able to verify the role as a mediating variable.

Irawati and Komariyah (2019) state that dividend policy and business risk have a beneficial effect on firm value. In addition, this study can prove that the capital structure can act as a mediating variable in the effect of dividend policy and business risk on firm value. Giriati (2016) finds an effect of free cash flow, dividend policy, investment opportunities, and opportunistic behaviour on firm value in Indonesia. Lumapow and Tumiwa (2017) examined the impact of dividend policies, firm size, and productivity on firm value. This study revealed that dividend policies had a detrimental influence on business value, whereas firm size and productivity had a beneficial effect. Setiyawati *et al.* (2018) explained that dividend policies and firm size have no impact on firm value, debt policies, independent commissioners, institutional ownership, and profitability.

As evidenced by several of the evaluations above, the research findings on dividend policy and business value in Indonesia are inconclusive and yield inconsistent outcomes. For instance, several researches demonstrate that dividend policies have a detrimental influence on firm value. On the other hand, some provide favorable results, while others produce no effect. This circumstance compels scholars to perform a re-examination of the relationship between dividend policies and firm value in Indonesia.

■ Capital structure

According to Bajaj *et al.* (2021), the key to a business’s success is to maintain a healthy balance of debt and equity in its capital composition. According to Haryono *et al.* (2017), the explanation of the capital structure begins with an explanation of the trade-off theory presented by Modigliani and Miller (1958). The theory explains that the capital structure will be optimal if the company is able to balance the benefits of using debt. The use

of debt in the company's capital structure will provide benefits for the company, namely the reduction of taxation aspects obtained on interest payments. On the other side, increasing corporate debt increases the business risk of the corporation. According to Liu *et al.* (2020) on the explanation of the theory of trade off on capital structure, the company has a leverage target as an effort to maximize the value of the company.

Referring to Modigliani and Miller (1958), the optimal combination of capital and debt will impact efforts to minimize the cost of equity capital. As a result, the cost of equity capital will impact increasing economic returns and firm value. According to Almahadin and Oroud (2020), the capital structure theory presented by Modigliani and Miller (1958) has several assumptions, including a perfect capital market, homogeneous investors and the absence of taxes and transaction costs. In actual conditions, this assumption is complicated to occur on the actual capital market. Modigliani and Miller (1963) added another proposition, namely the taxation benefits in the use of debt. In this proposition, managers prefer to use debt as an effort to increase firm value.

Shoib and Siddiqui (2021) explain that the following theory that clarifies capital structure is the pecking order theory presented by Myers (1984). The pecking order theory explains that to reduce information asymmetry and consideration of costs related to debt, the company implements a policy by first financing investments using retained earnings, safe debt, riskier debt and only then equity. Abeywardhana (2017) explains that, in the pecking order theory, companies will only add large debts if internal funding sources are not sufficient to finance investment.

Shoib and Siddiqui (2021) state that the third theory of capital structure is agency theory, as revealed by Jensen and Meckling (1976), Jensen (1986). This theory explains that there are unidirectional interests between managers and company owners. Managers are more likely to use existing cash flows for personal interests, that can harm the interests of shareholders. To limit the management's deviant behaviour, the company owner asks the company to use debt. The use of debt shows the owner's effort to limit the company's free cash flow by managers.

➤ Hypothesis development

■ Dividends and firm value

Odum *et al.* (2019) state that although dividends have become a controversial research theme in finance and dividends are still a puzzle. Investors are very interested in the return on their investment. Therefore, management must make decisions related to the sustainability of the company, potential profits, investor satisfaction, and prices related to holding or sharing the profits earned by the company. Lumapow and Tumiwa (2017) explain that the dividend policy determines the portion of profits distributed to shareholders. A dividend policy is essential to determine the cash flow paid to investors or reinvested in the company.

Jensen (1986) explains that, in the agency theory approach, the company management has an opportunistic behaviour that tends to hold cash holdings in the company and invest it in projects that increase personal prestige and are not oriented towards the interests of company owners. Jensen (1986) explains that the dividend policy attempts to reduce information asymmetry between principals and agents. Dividend payments are a mechanism to reduce the cash in company management control, reduce agency problems and increase shareholder welfare. The dividend policy is a signal from the management, showing that it has managed the company well (Giriati, 2016).

López-Iturriaga and Lima Crisóstomo (2010) explain that the opportunity for company growth can explain the relationship between dividends and firm value. The payment of dividends is a signal of the company's growth. In this explanation, the effect of dividends on firm value is positive. According to another theory, namely the free cash flow theory, dividend payments reduce cash in the negative control of company managers, so that they have a positive impact on firm value.

Budagaga (2017) explains that investors prefer dividends to capital gains because dividends have a degree of certainty, while capital gains have risks and uncertainties in the future. La Porta *et al.* (2000) explains that dividends are a mechanism created to reduce agency conflict. When the company has free cash flow, the payment of dividends is an attempt by shareholders to avoid using cash for the personal utility of managers. Bhattacharya (1979) explains that dividends are a form of signal on the company's business prospects in the future. The increase in dividends shows the company's optimism for an increase in the company's future cash flows. Therefore, dividend payments will be directly proportional to the increase in the value of the company.

In light of the foregoing, the initial hypothesis in this research is as follows:

✓ H_1 : *The dividend policy has a positive effect on firm value.*

■ Moderate role of capital structure

Al-Nsour and Al-Muhtadi (2019) explain that capital structure describes the composition of the company's sources of funds consisting of short-term debt, long-term debt and equity. The relationship between capital structure and firm value will be closely related to the use of debt in the composition of the capital structure, which will impact returns and risks. Managers must be able to select a capital structure policy that maximizes the company's worth.

According to Irawati and Komariyah (2019), company managers must optimize their capital structures in order to increase the company's share price. The stock price of a company is a representation of its value. Managers must properly manage internal and external sources of funding in order to reduce the cost of equity capital, increase firm value and optimize performance. It should be noted that the increase in debt in the company's capital structure also impacts business risk. Business risk increases along with the costs attached to debt, business competition and the failure of the company's future profits.

Abeywardhana (2017) explains that the capital structure theory recommends that an optimal capital structure occurs if the company can balance the profit and marginal cost of debt. However, researchers have no consensus on what is meant by the benefits and costs of capital structure. Companies can optimize their capital structure by adjusting debt and equity by considering tax benefits, agency costs and bankruptcy costs. The capital structure at the optimal point will increase the company's value, but if the cost of debt is very high, then what happens is that the company is faced with the cost of financial distress, which will cause a decrease in the firm value.

Vo and Ellis (2017) found a negative effect of capital structure on firm value in companies on the Vietnam stock exchange. This study supports the arguments described in the pecking order theory (Myers & Majluf, 1984). The company will use internal sources of funds that are not risky and then use external resources. The higher the amount of debt in the composition of the capital structure implies an increased business risk, especially related to the cost of debt and the threat of bankruptcy. The high level of corporate debt will harm firm value. Hossain (2021) finds that companies with high debt financing have a lower performance and a higher bankruptcy risk when compared to companies with low debt funding. The additional use of debt can erode the company's value due to the risk of bankruptcy and inadequate credit.

In this study, the authors examines the negative influence of capital structure on firm value (Vo & Ellis, 2017). López-Iturriaga and Lima Crisóstomo (2010) stated that dividends and capital structure are two crucial financial decisions. The previous research conducted by Budagaga (2017), Lumapow and Tumiwa (2017) and Irawati and Komariyah (2019) stated that dividend policy has a positive impact on companies, while Hossain (2021), Vo and Ellis (2017) considered that capital structure can reduce the firm value. The authors argues that if the company's dividend policy can increase the company's value and, at the same time, the company has a large debt, then the capital structure will have a negative impact on the relationship between dividend policy and company value. The high debt will reduce the positive effect of dividend policy on the company value due to an increase in the company's business risk assessment.

In light of the foregoing, the second hypothesis in this investigation is as follows:

✓ H_2 : *The capital structure weakens the positive effect of dividend policy on firm value.*

➤ Research methodology

■ Data sources and sampling techniques

This research evaluated the Indonesian Stock Exchange from 2016 to 2019. The analysis included all companies listed on the Indonesian Stock Exchange that were classified as manufacturing. The study gathered data from audited financial statements, annual reports and summary records of the performance of companies listed on the Indonesian Stock Exchange. The research samples for this study were chosen using a purposive sampling method. The researcher establishes the sampling criteria, which include the following specifics: (1) The example companies are manufacturing industry enterprises that have traded on the Indonesia Stock Exchange between 2016 and 2019. (2) The enterprises have audited financial statements in Indonesian currency that have been presented to the public. (3) The company does not currently have a capital shortfall and has accurate financial data that meets the researcher's data analysis requirements.

■ Variable measurement

The company's dividend policy is the independent variable in this study. According to Odum *et al.* (2019), the dividend policy is measured by the dividend payout ratio. The dividend payout ratio is a financial ratio that compares dividends per share with earnings per share. Firm value becomes the dependent variable in this study. The company's value shows the appreciation of capital market investors to the company's performance which is manifested in the movement of the company's stock price. Concerning research by Lumapow and Tumiwa (2017), Tobin's Q is used to approximate firm value in this study. Tobin's Q is calculated as the market value of the company's equity plus total debt divided by the entire value of the company's assets.

The capital structure is the moderating variable in this study. The capital structure was determined in this study using the debt-to-equity ratio, which is defined as total debt divided by total equity, in accordance with Irawati and Komariyah (2019). Additionally, this study requires only a single control variable, namely firm size. In this study, the natural log of the company's total assets was utilized to determine the company's size, based on the research of Odum *et al.* (2019), Lumapow and Tumiwa (2017).

■ Analysis techniques

In this study, two regression equations were used to test the hypothesis. The first equation is a multiple regression model, and the second equation represents a regression with moderating variables. The next sections describe the two regression equation models that were employed in this investigation.

$$TOBINQ_{it} = + 1 DIV_{it} + 2 DER_{it} + 3 LNSIZE_{it} + e$$

$$TOBINQ_{it} = + 1 DIV_{it} + 2 DER_{it} + 3 DIV_{it} * DER_{it} + 4 LNSIZE_{it} + e$$

TOBINQ_{it} is the value of company i in year t. DIV_{it} is the dividend policy of company i in year t, DER_{it} is the ratio of the capital structure of company i in year t, DIV_{it} * DER_{it} is the interaction between dividend policy and capital structure, LNSIZE_{it} is the size of the company measured by natural log of firm size of firm i in year t.

➤ Empirical findings and discussion

■ Descriptive statistics

The following table summarizes the descriptive statistics for the factors examined in this study.

Table 1. Descriptive statistics

Variable	N	Min	Max	Mean	Standard deviation
DIV	143	0.01	0.94	0.39	0.23
DER	143	0.08	4.19	0.81	0.76
LNSIZE	143	25.71	33.49	29.07	1.65
TOBINQ	143	0.15	5.10	1.64	0.98

Source: Authors' calculations.

Table 1 shows that the dividend policy of Indonesian manufacturing companies varies from 0.01 to 0.94, with a standard deviation of 0.23. On average, manufacturing companies in Indonesia during 2016-2019 paid dividends of 0.39 or 39% of the profits earned by the company. The composition of the capital structure of Indonesian manufacturing companies is spread between 0.08 to 4.19, with a standard deviation of 0.76. The average value of the company's capital structure is 0.81, or it can be said that manufacturing companies in Indonesia have an average of 81% debt compared to their total equity. The value of manufacturing companies is spread from 0.15 to 5.10, with a standard deviation of 0.98. The average value of manufacturing companies as measured by Tobin's Q is 1.64. The size of the manufacturing companies varies from 25.71 to the largest, 33.49, with a standard deviation of 1.65 and an average firm size of 29.07.

The following table summarizes the correlations between research variables.

Table 2. Correlation matrix

	DIV	DER	LNSIZE	TOBINQ
DIV	1	-0.071	0.282	0.411
DER	-0.071	1	0.037	-0.243
LNSIZE	0.282	0.037	1	0.287
TOBINQ	0.411	-0.243	0.287	1

Source: Authors' calculations.

Based on Table 2, we can see that the most significant correlation occurs between dividend policy and firm value with a correlation of 0.411. Thus, there is no multicollinearity problem in the variables tested in this study.

■ Hypothesis testing results

Table 3 shows empirical results from a study of the impact of dividend policy on firm value in Indonesian manufacturing companies.

Table 3. Regression results

Description	Coefficient	Standard error	t-Statistic	p-value
Constanta	-0.222	1.318	-1.685	0.094
DIV	1.482	0.335	4.418	0.000
DER	-0.297	0.097	-3.077	0.003
LNSIZE	0.121	0.046	2.611	0.010
F-Value	15.605			0.000
Adjusted R-squared	23.6%			

Source: Authors' calculations.

Based on the table above, it is known that the first regression model has a coefficient of determination of 23.6%. The regression F-value shows the number 15.605 with a p-value of 0.000. Thus, the first regression test results show that 23.6% of changes in firm value can be explained by dividend policy, firm capital structure and firm size. The examination of the company's dividend policy reveals a regression coefficient of 1.482 with a p-value of 0.000 for the dividend. The findings of this investigation indicate that dividend policies have a positive effect on firm value. The capital structure analysis of the company reveals a regression coefficient of -0.297 with a p-value of 0.003. Capital structure, as an independent variable, has a negative effect on company value in this regression equation model. The regression coefficient for the control variable company size was 0.121 with a p-value of 0.010. Firm size has a positive effect on firm value.

The test was continued on the second regression model, using a moderated regression analysis. The test results for the moderated regression analysis are presented in the following table.

Table 4. Results of moderated regression

Description	Coefficient	Standard error	t-Statistic	p-value
Constanta	-2.244	1.298	-1.728	0.086
DIV	2.284	0.477	4.786	0.000
DER	0.120	0.203	0.591	0.555
DIV*DER	-0.921	0.396	-2.328	0.021
LNSIZE	0.109	0.046	2.375	0.019
F-value	13.430			0.000
Adjusted R-squared	25.9%			

Source: Authors' calculations.

Based on Table 4 above, it can be seen that the moderated regression analysis test shows a coefficient of determination of 25.9%. Furthermore, the coefficient of determination increased by 2.3% compared to the first model, which produced a coefficient of 23.6%. Therefore, the use of the capital structure variable as a moderating variable can improve the research model.

The analysis of the dividend variable as an independent variable still shows significant results with a regression coefficient of 2.284 and a p-value of 0.000. The capital structure variable shows insignificant results with a regression coefficient of 0.120 and a p-value of 0.555. Significant results are obtained for the control variable firm size, with a regression coefficient of 0.109 and a p-value of 0.019. The moderating variable (DIV*DER) has a p-value of 0.021 and a regression coefficient of -0.921. The empirical testing leads in statistically significant results with a negative coefficient value. According to the analysis results, the capital structure is a moderating variable that dampens the positive effect of dividend policy on firm value in the case of manufacturing companies listed on the Indonesia Stock Exchange.

■ Discussion

This study discovered that dividend policies have a beneficial effect on the value of manufacturing companies listed on the Indonesia Stock Exchange. The results of this study support the results of research by Irawati and Komariyah (2019) and Budagaga (2017), which explains that dividend policy will increase firm value. The capital market responded positively to the dividend payment policy carried out by manufacturing companies in Indonesia. The results of this study support the opinion of Sheikh and Banafa (2014), which states that dividends are a definite result in the hands of stockholders, while capital gains are still uncertain and full of risk, so the market reacts positively to the company's dividend policy. According to Jensen (1986) and La Porta *et al.* (2000), the dividend payment is an effort to overcome agency problems. López-Iturriaga and Lima Crisóstomo (2010) explain

that the free cash flow owned by the company has the potential to be misused for the personal interests of company managers. Therefore, dividend payments are a form of protection for shareholders against conditions of information asymmetry.

Capital structure testing proves a moderating role of capital structure in the relationship between dividend policies of manufacturing companies in Indonesia. The first regression test showed that the capital structure as an independent variable had a negative effect on the company's capital structure. Then in the second regression, it was found that the interaction between dividend policy and capital structure had a negative effect on firm value. The capital structure weakens the positive effect of dividend policy on firm value. Based on these results, the author concludes that the capital structure has a quasi-moderating nature, because it can act as an independent or moderating variable.

The market's negative reaction to the large capital structure indicates that investors perceive a high debt composition in the capital structure, as a risk for investors. Large corporate debt is prone to be the cause of financial difficulties and bankruptcy. Investors give appreciation when the company pays dividends, but gives a negative response when, at the same time, the company has a high debt. Abeywardhana (2017) explains that companies are expected to form an optimal capital structure by balancing profits and marginal costs on debt. Jensen (1986) states that the use of debt has advantages to overcome agency problems in a company. Modigliani and Miller (1963) stated that debt in the capital structure has a potential tax advantage over interest payments. Bajaj *et al.* (2021) and Irawati and Komariyah (2019) explain that a large debt will have inherent risks. The cost of debt will be even greater, and the business risk will increase with the potential for bankruptcy. At a certain optimal level, as stated by Jensen (1986), Modigliani and Miller (1963), high debt has a positive contribution to the company's management. However, on the other hand, according to Bajaj *et al.* (2021), Irawati and Komariyah (2019), high debt is a risk for investors, causing a decrease in firm value.

➔ Conclusion

This study examines the effect of dividend policy on firm value for manufacturing companies on the Indonesia Stock Exchange by considering the role of capital structure as a moderating variable. Based on the previous section's analysis and discussion, this study concludes that dividend policy positively affects firm value. This study also concludes that the capital structure can act as a moderating variable (quasimoderating), which weakens the effect of dividend policy on firm value. This study implies that investors on the Indonesian capital market provide a positive response to dividend payments, and a negative one to the large debt in the company's capital structure.

The weakness of this research is that it has not been able to find the optimal level of capital structure that can increase firm value. In future research, the authors suggest being able to conduct a more in-depth study of the optimal point of the capital structure, that can increase the value of the company and provide an explanation at a certain point. The value of the capital structure can cause a decrease in the value of the company. Further research also suggests examining other variables that impact the relationship between dividend policy and firm value, such as audit quality, corporate social responsibility and accounting conservatism.

References

1. Abeywardhana, D.K.Y. (2017), *Capital Structure Theory: An Overview*, Accounting and Finance Research, Vol. 6, No. 1, <https://doi.org/10.5430/afr.v6n1p133>.
2. Almahadin, H.A., Oroud, Y.S. (2020), *Capital Structure-Firm Value Nexus: The Moderating Role of Profitability*, Revista Finanzas Y Política Económica, Vol. 11, No. 2, pp. 375-386, <https://doi.org/10.14718/revfinanzpolitecon.2019.11.2.9>.
3. Al-Nsour, O.J., Al-Muhtadi, A. (2019), *Capital Structure, Profitability and Firm's Value: Evidence from Jordan*, Research Journal of Finance and Accounting, Vol. 10, No. 20, pp. 73-80, <https://doi.org/10.7176/rjfa/10-20-07>.

4. Bajaj, Y., Kashiramka, S., Singh, S. (2021), *Application of Capital Structure Theories: A Systematic Review*, Journal of Advances in Management Research, Vol. 18, No. 2, pp. 173-199, <https://doi.org/10.1108/JAMR-01-2020-0017>.
5. Bhattacharya, S. (1979), *Imperfect Information, Dividend Policy, and "The Bird in the Hand" Fallacy*, The Bell Journal of Economics, Vol. 10, No. 1, pp. 259-270, <https://doi.org/10.2307/3003330>.
6. Brucato, P.F., Smith, D.M. (1997), *An Analysis of the Role of Firm Reputation in the Market's Reaction to Corporate Dividends*, The Quarterly Review of Economics and Finance, Vol. 37, No. 3, pp. 647-665, [https://doi.org/10.1016/s1062-9769\(97\)90015-6](https://doi.org/10.1016/s1062-9769(97)90015-6).
7. Budagaga, A. (2017), *Dividend Payment and Its Impact on the Value of Firms Listed on Istanbul Stock Exchange: A Residual Income Approach*, International Journal of Economics and Financial Issues, Vol. 7, No. 2, pp. 370-376.
8. Dasilas, A., Leventis, S. (2011), *Corrigendum to "Stock Market Reaction to Dividend Announcements: Evidence from the Greek Stock Market"*, International Review of Economics and Finance, Vol. 20, No. 4, pp. 302-311, <https://doi.org/10.1016/j.iref.2011.03.001>.
9. Fama, E.F., French, K.R. (1998), *Taxes, Financing Decisions, and Firm Value*, The Journal of Finance, Vol. 53, No. 3, pp. 819-843, <http://www.jstor.org/stable/117379>.
10. Giriati (2016), *Free Cash Flow, Dividend Policy, Investment Opportunity Set, Opportunistic Behavior and Firm's Value: A Study About Agency Theory*, Procedia – Social and Behavioral Sciences, Vol. 219, pp. 248-254, <https://doi.org/10.1016/j.sbspro.2016.05.013>.
11. Ham, C.G., Kaplan, Z.R., Leary, M.T. (2020), *Do Dividends Convey Information About Future Earnings?*, Journal of Financial Economics, Vol. 136, No. 2, pp. 547-570, <https://doi.org/10.1016/j.jfineco.2019.10.006>.
12. Haryono, S.A., Fitriany, F., Fatima, E. (2017), *Pengaruh Struktur Modal dan Struktur Kepemilikan Terhadap Nilai Perusahaan (The Effect of Capital Structure and Ownership Structure on Firm Performance)*, Jurnal Akuntansi dan Keuangan Indonesia (JAKI), Vol. 14, No. 2, pp. 119-141.
13. Hossain, M.S. (2021), *A Revisit of Capital Structure Puzzle: Global Evidence and Analysis*, International Review of Economics and Finance, Vol. 75, pp. 657-678, <https://doi.org/10.1016/j.iref.2021.05.001>.
14. Irawati, A.E., Komariyah, E.F. (2019), *The Role of Capital Structure on the Effect of Dividend Policy and Business Risk on Firm Value (Evidence from Indonesian Manufacturing Company)*, The Indonesian Journal of Accounting Research, Vol. 22, No. 2, pp. 207-228, <https://doi.org/10.33312/ijar.463>.
15. Jensen, M.C. (1986), *Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers*, American Economic Review, Vol. 76, No. 2, pp. 323-329, <https://doi.org/10.2139/ssrn.99580>.
16. Jensen, M.C., Meckling, W.H. (1976), *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*, Journal of Financial Economics, Vol. 3, No. 4, pp. 305-360, [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X).
17. Kewal, S.S. (2019), *Optimum Capital Structure Adjustment Speed on Companies Listed in Indonesia Stock Exchange*, Journal Economica, Vol. 15, No. 1, pp. 60-68, <https://doi.org/10.21831/economia.v15i1.23226>.
18. Kim, J.M., Yang, I., Yang, T., Koveos, P. (2020), *The Impact of R&D Intensity, Financial Constraints, and Dividend Payout Policy on Firm Value*, Finance Research Letters, Vol. 40, <https://doi.org/10.1016/j.frl.2020.101802>.
19. Kim, S., Park, S.H., Suh, J. (2018), *A J-Shaped Cross-Sectional Relation Between Dividends and Firm Value*, Journal of Corporate Finance, Vol. 48, pp. 857-877, <https://doi.org/10.1016/j.jcorpfin.2016.09.010>.
20. Kumar, S. (2017), *New Evidence on Stock Market Reaction to Dividend Announcements in India*, Research in International Business and Finance, Vol. 39, pp. 327-337, <https://doi.org/10.1016/j.ribaf.2016.09.009>.
21. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R.W. (2000), *Agency Problems and Dividend Policies Around the World*, Journal of Finance, Vol. 55, No. 1, pp. 1-33, <https://doi.org/10.1111/0022-1082.00199>.
22. Liu, H., Chiang, Y.-M., Tsai, H.-J. (2020), *The Impact of Loan Rollover Restrictions on Capital Structure Adjustments, Leverage Deviations, and Firm Values*, Pacific-Basin Finance Journal, Vol. 62, <https://doi.org/10.1016/j.pacfin.2020.101384>.

23. Livoreka, B., Hetemi, A., Shala, A., Hoti, A., Asllanaj, R. (2014), *Theories on Dividend Policy Empirical Research in Joint Stock Companies in Kosovo*, *Procedia Economics and Finance*, Vol. 14, pp. 387-396, [https://doi.org/10.1016/s2212-5671\(14\)00727-8](https://doi.org/10.1016/s2212-5671(14)00727-8).
24. López-Iturriaga, F.J., Lima Crisóstomo, V. (2010), *Do Leverage, Dividend Payout, and Ownership Concentration Influence Firms' Value Creation? An Analysis of Brazilian Firms*, *Emerging Markets Finance and Trade*, Vol. 46, No. 3, pp. 80-94, <https://doi.org/10.2753/REE1540-496X460306>.
25. Lumapow, L.S., Tumiwa, R.A.F. (2017), *The Effect of Dividend Policy, Firm Size, and Productivity to the Firm Value*, *Research Journal of Finance and Accounting*, Vol. 8, No. 22, pp. 20-24, <https://www.iiste.org/Journals/index.php/RJFA/article/view/39880/40994>.
26. Miceli da Silveira, A.D., Pereira Câmara Leal, R., Carvalhal-da-Silva, A.L., Barreira de Campos Barros, L.A. (2007), *Determinants of Corporate Governance Quality in Brazil: Endogeneity Problems and Robust Estimation*, in *XXXI Encontro da ANPAD 2007*.
27. Miller, M.H., Modigliani, F. (1961), *Dividend Policy, Growth, and the Valuation of Shares*, *The Journal of Business*, Vol. 34, No. 4, pp. 411-433, <https://doi.org/10.1086/294442>.
28. Modigliani, F., Miller, M.H. (1958), *The Cost of Capital, Corporation Finance and the Theory of Investment*, *The American Economic Review*, Vol. 48, No. 3, pp. 261-297.
29. Modigliani, F., Miller, M.H. (1963), *Corporate Income Taxes and the Cost of Capital: A Correction*, *The American Economic Review*, Vol. 53, No. 3, pp. 433-443, <https://doi.org/10.2307/1809167>.
30. Myers, S.C. (1984), *The Capital Structure Puzzle*, *The Journal of Finance*, Vol. 39, No. 3, pp. 575-592.
31. Myers, S., Majluf, N. (1984), *Stock Issues and Investment Policy when Firms Have Information that Investors Do Not Have*, *Journal of Financial Economics*, Vol. 13, No. 2, pp. 187-221.
32. Odum, A.N., Odum, C.G., Omeziri, R.I., Egbunike, C.F. (2019), *Impact of Dividend Payout Ratio on the Value of Firm: A Study of Companies Listed on the Nigerian Stock Exchange*, *Indonesian Journal of Contemporary Management Research*, Vol. 1, No. 1, <https://doi.org/10.33455/ijcmr.v1i1.84>.
33. Rehman, O.U. (2016), *Impact of Capital Structure and Dividend Policy on Firm Value*, *Journal of Poverty, Investment and Development*, Vol. 21, pp. 40-57, <https://iiste.org/Journals/index.php/JPID/article/view/28887>.
34. Ria, N.M., Husnah, N. (2006), *Pengaruh Dividen Tunai dan Ukuran Perusahaan Pada Industri Manufaktur Terhadap Perilaku Investor*, *Jurnal Akuntansi dan Keuangan Indonesia (JAKI)*, Vol. 3, No. 2, pp. 261-279, <https://doi.org/10.21002/jaki.2006.12>.
35. Setiyawati, L., Wahyudi, S., Mawardi, W. (2018), *The Influence of Dividend Policy, Debt Policy, Independent Commissioner, and Institutional Ownership on the Firm Value with Growth Opportunities as Moderator Variables (Study on Non-Financial Companies Listed on IDX in the Period of Years of 2012-2015)*, *Jurnal Bisnis Strategi*, Vol. 26, No. 2, pp. 146-162, <https://doi.org/10.14710/jbs.26.2.146-162>.
36. Sheikh, A., Banafa, A. (2014), *Relationship Between Dividend Payouts and Firm's Value in Kenya*, *International Journal of Scientific & Engineering Research*, Vol. 5, No. 7, pp. 476-492, <http://www.ijser.org>.
37. Shoaib, A., Siddiqui, M.A. (2021), *Earnings Management and Theoretical Adjustment in Capital Structure Performance Pattern: Evidence from APTA Economies*, *Borsa Istanbul Review*, Vol. 22, No. 1, pp. 20-36, <https://doi.org/10.1016/j.bir.2020.12.001>.
38. Vo, X.V., Ellis, C. (2017), *An Empirical Investigation of Capital Structure and Firm Value in Vietnam*, *Finance Research Letters*, Vol. 22, pp. 90-94, <https://doi.org/10.1016/j.frl.2016.10.014>.
39. Wati, T.K., Sriyanto, S., Khaerunnisa, E. (2018), *Pengaruh Kebijakan Dividen Terhadap Nilai Perusahaan dengan Kebijakan Hutang sebagai Variabel Intervening Pada Perusahaan Sub Sektor Industri Barang Konsumsi Periode 2011-2016*, *Jurnal Manajemen dan Bisnis*, Vol. 11, No. 1, <https://doi.org/10.35448/jmb.v11i1.4319>.
40. Wicaksono, R., Mispiyanti, M. (2020), *Analisis Pengaruh Profitabilitas dan Kebijakan Dividen Terhadap Nilai Perusahaan dengan Struktur Modal sebagai Variabel Mediasi, Owner (Riset dan Jurnal Akuntansi)*, Vol. 4, No. 2, <https://doi.org/10.33395/owner.v4i2.237>.