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The Effect of Dividend Policy on Corporate Financial Performance

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Abstract. Companies have many different objectives in running their operations. However, the main objective of the company is to maximise shareholder value. Firm value is the result of the company's performance in generating profits and minimising risks. For shareholders, the main benefit of share ownership is the dividends provided by the company. Research on the effect of dividend policy on the financial performance of companies in Indonesia is still relevant to be carried out in order to provide deeper insights for practitioners and academics in the field of finance. In this study, the author will describe the effect of dividend policy, as well as its relation to the company's financial performance, using a descriptive qualitative approach method. Based on the results of the research and discussion above, it can be concluded that dividend policy has a significant influence on the company's financial performance. However, this influence can be positive or negative depending on the conditions and factors that influence dividend policy.

Keywords: Dividend, Finance, Performance, Company

1. Introduction

Companies have many different objectives in running their operations. However, the main objective of the company is to maximise shareholder value. Firm value is the result of the company's performance in generating profits and minimising risks. For shareholders, the main benefit of share ownership is the dividends provided by the company. Therefore, the company's dividend policy has a significant influence on shareholders and the company's financial performance [1]. Dividend policy is one of the most important factors in making investment decisions for shareholders. Dividend policy also greatly affects company value and stock prices. The right dividend policy can increase investor confidence in the company and increase the company's share price. On the other hand, an inappropriate dividend policy can cause shareholders to lose confidence in the company and reduce the company's share price. In an increasingly complex and competitive business environment, dividend policy is one of the important things in improving the company's financial performance. The right dividend policy can help companies estimate and allocate resources effectively, manage risks, and make the right decisions in utilising business opportunities.

Many studies have been conducted to determine the effect of dividend policy on corporate financial performance. The results of these studies show mixed and controversial results. Some studies show that dividend policy has a positive effect on corporate financial performance, while other studies show that dividend policy has a negative effect on corporate financial performance [2]. One study that shows that dividend policy has a positive influence on corporate financial performance is a study conducted by [2], which shows the fact that a sustainable and consistent dividend policy can increase firm value and corporate financial performance. However, there are also studies that show that dividend policy has a negative influence on the company's financial performance. For example, research conducted by the Financial Services Authority (2018) shows that companies that generate low profits and pay out high dividends have worse financial performance than companies that generate high profits and pay out low dividends. Based on the debate that occurs among these studies, there is still a need to examine the effect of dividend policy on corporate financial performance in more depth and focus on the context of Indonesian companies. In addition, there are still many other factors that need to be considered in making dividend policy, such as firm growth rate, ownership structure, firm size, and economic conditions.

In the Indonesian context, dividend policy is also influenced by government regulations. The reason is that the Indonesian government requires public companies to pay a minimum dividend of 30% of net income each year. Therefore, companies must carefully consider dividend policy in order to fulfil government regulations and gain investor confidence [3]. In addition, internal company factors such as capital structure, debt level, and investment policy can also affect dividend policy. If the company has a high level of debt or is in the process of business expansion that requires massive investment, then the company may choose to delay dividend payments or even not pay them at all [4]. In the context of the Indonesian capital market, dividend policy can also affect investors' perceptions of the company. Investors tend to look for companies that are consistent in paying dividends and have a clear and measurable dividend policy. Therefore, companies need to consider dividend policy as one of the factors that can affect stock prices and investor confidence.

Overall, the company's dividend policy has a significant influence on shareholders and the company's financial performance. Therefore, companies must carefully consider dividend policy and pay attention to various factors that influence it in making investment decisions and corporate financial management. Research on the effect of dividend policy on the financial performance of companies in Indonesia is still relevant to be carried out in order to provide deeper insights for practitioners and academics in the financial sector [5].

2. Method

In this study, the authors used a descriptive qualitative approach. Descriptive qualitative research is research that accurately interprets data and facts obtained from previous research about the current situation, attitudes, and views of the community, as well as the relationship between variables that arise. Secondary data is obtained through literature studies, in the form of journals, books, websites, and various other literature media, with the hope that the research will be able to dig deeper into the various factors under study. Where the author hopes to find or search for "The Effect of Dividend Policy on Company Financial Performance".

3. Result and Discussion

The effect of dividend policy on corporate financial performance has been a research topic that has attracted the attention of researchers and business practitioners over the past few decades. Although there are mixed research results, it can be concluded that the company's dividend policy affects the company's financial performance and investment decisions by shareholders [6]. In conducting dividend policy, companies must consider several factors, such as company growth, the ability to obtain capital from internal and external sources, and the stability of profits generated. The right dividend policy can increase investor confidence in the company, thereby increasing the company's share price. On the other hand, an inappropriate dividend policy can cause shareholders to lose confidence in the company and reduce the company's share price.

Several studies have shown that dividend policy has a positive influence on the company's financial performance. Research conducted by [2] shows that a sustainable and consistent dividend policy can increase firm value as well as firm financial performance. In their research, they found that companies that issue high dividends have better growth rates, higher profits, and better financial ratios [7] [8]. However, there are also studies that show that dividend policy has a negative influence on the company's financial performance. Research conducted by the Financial Services Authority (2018) shows that companies that generate low profits and distribute high dividends have worse financial performance than companies that generate high profits and distribute low dividends. Other studies also show that dividend policy does not significantly affect the company's financial performance. Research conducted by [1] shows that dividend policy does not affect the financial performance of companies listed on the Indonesia Stock Exchange (IDX).

In the Indonesian context, the dividend policy adopted by companies in Indonesia tends to be lower than that of companies in developed countries. This is due to several factors, such as the need for companies to strengthen their capital structure and the difficulty to obtain capital from internal and external sources. However, there are also companies in Indonesia that implement a high dividend policy. One example is PT Unilever Indonesia Tbk. For the past five years, PT Unilever Indonesia Tbk. has distributed dividends of 50% - 60% of their net income each year. The high dividend policy implemented by this company helps to strengthen investor confidence in the company and increase their share price [9].

In addition, there are several factors that can influence corporate dividend policy in Indonesia. One of the factors is the demand of shareholders for higher dividends. This is related to shareholders' perception that higher dividends can provide better returns for them. However, companies must also consider their ability to pay out high dividends without compromising the growth and stability of the company. Another factor affecting

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corporate dividend policy in Indonesia is tax regulations that limit tax deductions on dividends paid. This makes companies more cautious in determining the amount of dividends to be paid to shareholders [10]. In this case, companies in Indonesia can take several steps to improve their dividend policy. First, companies can conduct better analyses to determine the optimal amount of dividends based on the needs and capabilities of the company. Second, companies can improve communication with shareholders to clarify the company's strategy and dividend policy. Third, companies can diversify their funding sources to reduce dependence on limited funding sources.

In addition, companies can also consider several alternative dividend policies, such as a flexible dividend policy, where the company provides dividends that are adjusted to the company's financial condition and performance. In addition, companies can also implement an equity dividend policy, where companies pay dividends in the form of shares instead of cash. This can help companies to save cash and strengthen their capital structure.

In conclusion, the company's dividend policy has a significant influence on the company's financial performance and investment decisions by shareholders. Although there are mixed research results, it can be concluded that an appropriate dividend policy can increase investor confidence in the company, thereby increasing the company's share price. Therefore, companies should carefully consider the factors that influence their dividend policy to ensure an optimal dividend policy that is in line with the needs and capabilities of the company.

4. Conclusion

Based on the research results and discussion above, it can be concluded that dividend policy has a significant influence on the company's financial performance. However, this influence can be positive or negative depending on the conditions and factors that influence dividend policy. In deciding dividend policy, companies must consider several factors such as company growth, ability to obtain capital from internal and external sources, stability of profits generated, and investor confidence in the company. The right dividend policy can increase investor confidence in the company, thereby increasing the company's share price. On the other hand, an inappropriate dividend policy can cause shareholders to lose confidence in the company and reduce the company's share price.

Research shows that a sustainable and consistent dividend policy can increase firm value as well as the financial performance of the firm. Companies that pay out high dividends have better growth rates, higher profits, and better financial ratios. However, companies that generate low profits and pay out high dividends have worse financial performance than companies that generate high profits and pay out low dividends.

In the Indonesian context, the dividend policy adopted by companies tends to be lower compared to companies in developed countries. This is due to several factors, such as the need for companies to strengthen their capital structure and the difficulty to obtain capital from internal and external sources. However, there are also companies in Indonesia that implement a high dividend policy. One example is PT Unilever Indonesia. This high dividend policy can provide benefits for companies such as increasing investor confidence in the company and increasing the company's share price. However, companies must also consider other factors such as the company's ability to obtain capital from internal and external sources and company growth.

In conclusion, dividend policy plays an important role in the company's financial performance and investment decisions by shareholders. Therefore, companies should carefully consider setting the right dividend policy, in order to increase investor confidence in the company and achieve good financial performance.

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