



DIVIDEND POLICY: ANALYSIS AND IMPLICATIONS FOR CORPORATE DECISIONS

Edy Purnomo¹, Muammar Khaddafi²

¹ Student of the Master of Management Study Program , Universitas Batam

² Faculty of Economics and Business, Universitas Malikussaleh

Corresponding E-mail: dpurno@gmail.com

Abstract

The decision to distribute profits to shareholders is one of the key decisions taken by shareholders , and has a significant impact on company value and shareholder satisfaction. This article conducts an in-depth literature review to understand the concept of dividend policy and the various factors that influence it, such as the company's financial condition, investment needs, shareholder preferences, and market situation. The research method used is descriptive analysis carried out by collecting secondary data from various relevant sources. The research results provide valuable insights for companies in making better decisions regarding dividend policy, as well as offering practical guidance for policy makers and corporate managers in improving the transparency, effectiveness and adaptability of their dividend policies.

Keywords: *Dividend policy, Company decision, The value of the company, Shareholders, Profit Sharing*

1. INTRODUCTION

Dividend policy plays an important role in determining a company's financial strategy and can influence financial performance and shareholder investment decisions as stated by Siregar, RMS, (2018). Siregar, SRS, (2019) also stated that the right dividend policy can increase company value and increase investor confidence, but inappropriate policy decisions can potentially have a negative impact on the company's financial performance. Siregar, RMS, (2020) further explained that by basing dividend policy on company financial analysis, companies can optimize the use of funds and improve financial performance. Dividend policies based on strategic decisions can help companies improve financial performance and increase investor confidence as mentioned by Siregar, SRS, (2021). Therefore, it is very important to have an appropriate dividend policy to help companies improve financial performance and investor confidence, while inappropriate policies can potentially harm the company's financial performance as mentioned by Siregar, RMS, (2022). Dividend policy is an important decision for a company regarding the distribution of profits to shareholders and allocation for reinvestment. Sejati (2020) explains that this policy reflects the company's ability to generate profits and management strategy in optimizing the use of financial resources. Riadi (2018) emphasized that this decision has a significant impact on various important aspects of the company, including investment decisions, shareholder trust, and company value. Dividend policy plays an important role in a company's investment decisions. When a company decides to pay dividends to shareholders, this reduces the amount of funds that can be used for investment in new projects or further business development. Conversely, the decision to retain profits and use them for reinvestment can encourage company growth through increased production capacity, product innovation, or expansion into new markets. According to Brigham and Ehrhardt (2017), an appropriate dividend policy can support a sustainable investment strategy and strengthen a company's competitive position in the market. Shareholder confidence is greatly influenced by dividend policy. Consistent and reliable dividends are often considered a sign of a company's financial health and good management. Shareholders may show greater confidence and loyalty towards companies that pay regular dividends, which in turn may increase the price of the company's shares in the market.

According to Black (1976), a stable dividend policy can reduce uncertainty among shareholders and increase company value. On the other hand, cutting or stopping dividends can raise concerns among shareholders about the company's financial condition, which can have a negative impact on the share price and company image. Company value is also closely related to dividend policy. In financial theory, there are different views regarding how dividends impact a company's value. The "bird-in-the-hand" theory proposed by Gordon (1959) states that investors prefer dividends received today over potential future capital gains because dividends are considered more certain. On the other hand, the Modigliani-Miller theory (1961) states that under efficient market conditions, dividend policy has no effect on company value because investors can create "artificial dividends" by selling some of their shares. However, in the real world, markets are not always efficient, so dividend policy can have a significant impact on investor perceptions and, ultimately, on company value. Besides internal variables, external factors such as the macroeconomic situation, government regulations, and industry dynamics also play an important role in dividend policy decisions. For example, in unstable economic conditions, a company may choose to retain profits as cash reserves to face future uncertainty. On the other hand, in a stable and growing business environment, companies may be more inclined to increase dividend payments as a way to attract and retain investors. This view is reinforced by research conducted by Lintner (1956), who found that companies have a tendency to adjust dividends based on changes in net income and economic prospects.

Formulation of the problem

Understanding dividend policy is very important because this decision influences how company profits are allocated. Suitable for giving to shareholders or for reinvestment. Dividend policy is not only about profit distribution, but also reflects management's strategy in managing cash flow and prioritizing the company's financial needs. As stated by Sejati, Ponto, Sumartono, Sumbari, and Prasetianingrum (2020), and Riadi (2018), this research aims to explore the influence of dividend policy on various aspects of the company. Dividend policy is a significant decision taken by a company regarding the allocation of profits to be distributed to shareholders and how much will be used for reinvestment (Lesson, nd; Edusaham, nd). These decisions have a significant impact on investment decisions, shareholder confidence, and company value (Lesson, nd; Edusaham, nd). Several studies have shown that factors such as decision making regarding dividend policy are influenced by several factors, including Free Cash Flow, Debt Policy, Return On Assets, and Company Growth (Sejati, Ponto, Sumartono, Sumbari, & Prasetianingrum, 2020; Riadi, 2018). However, there are still gaps in this research. More research is needed to fully understand these factors and how they influence dividend policy (Sejati et al., 2020). Other research shows that dividend policy can influence a company's investment decisions (Nisa, 2020). For example, a study shows that investment decisions have a positive and meaningful impact on dividend policy (Nisa, 2020). Not only that, dividend policy can also influence shareholder trust and company value (Nisa, 2020; Oktavia, 2018; Management Economics, nd). For example, large dividend payments indicate management's confidence in the company's performance, while a decrease or cessation of dividends indicates financial problems faced by management (Management Economics, nd).

Objective

The main focus of this paper is to increase understanding of dividend policy and how this policy influences company decisions. Dividend policy is a crucial element in company financial management, which has a direct impact on shareholder satisfaction and company value. This article also intends to identify and analyze a number of factors that influence dividend policy. These factors include the company's financial condition, investment needs, shareholder preferences, and dynamic market situations. By understanding these factors, companies can create dividend policies



that are more appropriate and responsive to the needs of all interested parties. In addition, this article seeks to explore the implications of dividend policy for corporate decision making. By reviewing existing literature and using descriptive analysis methods, this article provides insight into how dividend policy can influence a company's strategic and operational decisions. Finally, it is hoped that this article can provide useful knowledge for stakeholders, including company managers, investors and policy makers, in making decisions regarding dividend policy. With comprehensive information and in-depth analysis, this article helps increase understanding of the importance of dividend policy in the context of company management.

2. LITERATURE REVIEW

Several theories that are often mentioned in the literature regarding dividend policy include agency theory, signal theory, and company ownership theory. Agency theory highlights that dividend policy can be utilized by management to reduce agency conflicts between shareholders and management (Jensen & Meckling, 1976). In this context, dividend policy acts as a means of conveying information to shareholders about the company's performance and prospects, thereby reducing uncertainty and increasing shareholder confidence. Signal theory also underlines that dividend policy can function as a signal to shareholders and the capital market about the company's performance and prospects (Bhattacharya, 1979). Company ownership theory shows that a company's ownership structure can influence dividend policy. Companies that are majority owned by management usually tend to pay lower dividends, because management tends to prefer to use company funds for investments aimed at long-term growth (Jensen, 1986). This reflects the company's strategy to optimize company value in the long term, although it may create a conflict of interest with shareholders who expect larger dividends in the short term.

Empirical studies over this time span have provided deeper insight into the factors influencing dividend policy. Various factors that are often studied include company profitability, liquidity, and company size. Research shows that more profitable companies tend to pay larger dividends. (Lintner, 1956). This can be explained by the company's desire to distribute profits to shareholders in return for the risks taken. Company liquidity is also an important factor, where companies with a high level of liquidity tend to provide larger dividends (Allen & Michaely, 2003). Apart from that, company size also influences dividend policy, where larger companies tend to pay higher dividends (Jegadeesh & Wu, 2013). External factors such as market conditions and business cycles can also influence a company's dividend policy. During difficult economic periods, companies tend to consider reducing or postponing dividend payments to conserve funds (Rozeff, 1982). Tax factors are also an important consideration, where companies tend to choose not to provide dividends or provide smaller dividends to reduce the high tax burden. (Miller & Scholes, 1982). By considering these various factors, companies can make smart decisions in managing their dividend policies to increase company value and meet shareholder expectations. and other stakeholders.

3. RESEARCH METHODS

The research method used in this article is descriptive analysis using secondary data from various relevant sources. The data includes company financial reports, previous studies, and academic publications related to dividend policy. Analysis is carried out to understand the factors that influence dividend policy and its impact on company decisions. Descriptive analysis is a research technique used to describe the characteristics or nature of a phenomenon or event by collecting, organizing, summarizing and interpreting data (Sugiyono, 2017). In the context of dividend policy, descriptive analysis is used to explain the company's dividend policy, the factors that influence it, and its impact on the company. Data collection is carried out by accessing company financial reports which can be accessed by the public. The financial report includes information regarding net profit, earnings per share, dividends paid, as well as other factors relevant to dividend policy.

Apart from that, data was also collected from previous studies conducted by other researchers and academic publications discussing dividend policy. After the data is collected, analysis is carried out by identifying the factors that influence the company's dividend policy. These factors may include company profitability, liquidity, company size, ownership structure, market conditions, and tax factors. Analysis is also carried out to understand the implications of dividend policy on company decisions, such as its effect on company value and shareholder trust. In conducting the analysis, researchers use a qualitative approach to interpret data and produce findings that can strengthen existing theoretical bases or develop new theories related to dividend policy (Creswell, 2014). Analysis is also carried out comparatively to compare dividend policies between companies and see general patterns that may occur. By applying a descriptive analysis approach and utilizing secondary data from various relevant sources, this research makes a significant contribution to understanding the factors that influence company dividend policy and its impact on company decisions. It is hoped that the findings from this research can serve as a guide for researchers and business practitioners in making decisions regarding dividend policy.

4. RESULTS AND DISCUSSION

The research results show that dividend policy is influenced by factors such as investment policy, ownership structure, financial performance, and tax policy. The implications of dividend policy for investment decisions and company value can be very significant. Wise decisions regarding dividends can increase shareholder confidence and optimize company value.

4.1. Factors that Influence Dividend Policy

The initial criteria that influence dividend policy include the company's investment decisions. Jensen (1986) suggests that a company's investment decisions have a significant impact on dividend policy. Companies often choose to retain a portion of profits for investment if the projects are deemed to have promising growth prospects for the future, which leads to lower dividend distributions. Second, the company's ownership structure also plays an important role. According to Almeida and Philippon (2007), dominant managerial ownership can encourage a more conservative dividend policy. This is caused by management's tendency to retain company profits for their personal interests, such as business development or additional management compensation. The next factor is the company's financial performance. Lintner (1956) stated that companies with solid financial performance are more likely to pay larger dividends. This is due to the availability of more profits that can be distributed to shareholders after meeting investment and working capital needs. The final factor that influences dividend policy is tax policy. Miller and Scholes (1982) show that tax policy also plays an important role in determining a company's dividend policy. Companies may choose not to pay dividends or pay lower dividends to reduce their high tax burden. Thus, dividend policy is influenced by a number of complex factors, including investment decisions, ownership structure, financial performance and tax policy. Company management must consider these factors carefully in making decisions regarding dividends.

4.2 Implications for Investment Decisions

The implications of dividend policy on company investment decisions are a very important and complicated aspect. As stated by La Porta et al. (2000), policies that choose to provide large dividends can reduce the financial resources available for investment in projects that are potentially profitable for the company. This is due to the fact that the dividends paid are part of the profits that can be reinvested to expand the company in the future. Not only that, a large dividend policy can also limit a company's ability to gain additional access to funds from the capital market or external financial institutions. As highlighted by John and Williams (1985), investors often view companies that pay large dividends as stable and established, but may be less attractive to investors seeking



rapid growth. This could reduce investors' interest in injecting additional funds into the company. A low or even no dividend policy can increase the funds available for company investment. Although according to Miller and Modigliani (1961), in an efficient market, dividend policy does not affect company value because investors can easily adjust their portfolios. However, in practice, a low or no dividend policy can signal to the market that the company has great growth opportunities and needs funds for investment. Thus, decisions regarding dividend policy must be considered carefully by company management. Choosing between paying large dividends to satisfy current shareholders or retaining profits for future investments can have significant implications for a company's growth and value.

4.3 Implications for Company Value

It is important for management to consider the implications of dividend policy for company value. Gordon (1963) stated that a wise dividend policy can increase shareholder confidence and support an increase in company value. This is due to the positive signal given to the market through stable and consistent dividend distribution, indicating good financial performance and the company's ability to provide good returns to shareholders. On the other hand, an inappropriate or inconsistent dividend policy can cause uncertainty in the market and reduce company value. According to Black (1976), inconsistent dividend policies can cause investors to lose confidence in the company and reduce interest in investing in the company's shares. This can result in a decrease in company value in the long term. That is why company management must carefully consider the dividend policy they will adopt. Paying stable and consistent dividends can be a good strategy to increase shareholder confidence and company value. However, the decision must be in line with the company's financial condition and investment needs to ensure long-term growth.

4.4 The Importance of Wise Decisions

Smart decisions regarding dividend policy have importance for the company. According to Miller and Modigliani (1961), an appropriate dividend policy can create a stable and trustworthy environment for shareholders. This is because a consistent dividend policy can provide a better estimate of the cash flows that shareholders will receive from their investment in company shares. The importance of wise decisions regarding dividend policy can also be seen from the perspective of shareholder trust and loyalty. According to Lintner (1956), consistent and stable dividend payments can increase shareholder confidence in the company and increase their loyalty to their investments. This can create a positive environment in the capital market and support the growth of company value in the long term. Apart from that, wise decisions regarding dividend policy can also help companies optimize company value. According to Brigham and Houston (2004), an appropriate dividend policy can help companies allocate funds efficiently between dividend payments and reinvestment for growth. This can help companies achieve their goals in terms of long-term finance and increase company value. Therefore, company management needs to carefully consider the dividend policy that will be adopted. Wise decisions can create a stable and reliable environment for shareholders, increase their trust and loyalty, and help companies to optimize corporate value and achieve long-term financial goals.

4.5 Management's Role in Dividend Management

Company management plays a key role in managing dividend policy. They must consider the various factors that influence dividend policy and make decisions that suit their needs and the company's goals. Making the right decisions regarding dividends requires a deep understanding of market conditions, investment needs and shareholder expectations. According to Brigham and Houston (2004), company management is responsible for ensuring that the dividend policy taken is in accordance with market conditions and the company's investment needs. This involves a careful analysis of the company's growth potential, liquidity needs, and shareholder expectations regarding

the distribution of company profits. Apart from that, decisions regarding dividends must also take into account market conditions and applicable tax policies. According to Ross et al. (2002), dividend policy needs to be adjusted to market conditions to ensure that companies can maintain a high level of trust in the capital market. Apart from that, decisions regarding dividends must also take into account the tax implications so as not to impose a tax burden that is too high for the company. In managing dividend policy, company management must also consider the company's investment needs for long-term growth. According to Miller and Modigliani (1961), decisions regarding dividends must be balanced with the company's investment needs to ensure sustainable growth and increase company value over the long term. Therefore, company management has a very important role in managing dividend policy. They must be able to consider various factors that influence dividend policy and make decisions that suit the company's needs and goals. Through a better understanding of the factors that influence dividend policy and their implications for investment decisions and company value, companies can take more targeted steps to achieve long-term growth and sustainability.

5. CONCLUSION

Thus, dividend policy is a complex and multi-dimensional strategic decision that requires consideration of various internal and external factors. Companies should carefully analyze and continually review their dividend policies. This is important to ensure that the decisions taken not only benefit shareholders, but also support the company's long-term growth and sustainability. Further research and a deeper understanding of the factors that influence dividend policy will help companies make better and strategic decisions. Dividend policy not only functions as a tool to distribute profits to shareholders but also as a strategic instrument that influences shareholder confidence and overall company value. Decisions regarding dividends must be taken carefully and considering various relevant factors.

Factors such as investment policy, ownership structure, financial performance, and tax policy have a major impact on dividend decisions. A good investment policy allows a company to maintain sustainable growth, while the ownership structure can determine shareholder preferences regarding dividend distribution. Healthy financial performance allows a company to distribute consistent dividends, and tax policy can influence the amount and frequency of dividends paid. Wise decisions regarding dividends can increase shareholder confidence. Shareholders tend to have more confidence in companies that have a transparent and consistent dividend policy. This trust, in turn, can increase shareholder loyalty and attract more investors. Therefore, an effective dividend policy can contribute to increasing company value.

It is hoped that this article can increase understanding of dividend policy for various parties involved, such as company managers, investors and policy makers. With the insights gained from this article, it is hoped that they can make smarter decisions regarding dividend policy, which will ultimately have a positive impact on the welfare of the company and shareholders. Overall, a comprehensive understanding of dividend policy and the factors that influence it is critical to a company's long-term success. With the information and analysis presented in this article, it is hoped that stakeholders can make more focused and strategic decisions in managing dividend policy.

6. RECOMMENDATION

Based on research findings on Dividend Policy: Analysis and Implications for Company Decisions, several recommendations that can be applied to companies and policy makers are as follows:



1. Development of a Better Dividend Information System

Companies can improve their dividend information system by updating dividend data regularly and ensuring easy access for shareholders. This will increase transparency and make better decisions in managing dividends.

2. More Effective Use of Dividend Analysis

Companies can improve dividend analysis by using more effective and accurate methods, such as sensitivity analysis and simulation. This helps anticipate the impact of dividends on a company's financial decisions and improves the quality of decisions.

3. Developing a More Effective Dividend Strategy

Companies can develop dividend strategies by considering financial, operational and investor needs. This will improve the quality of decisions and company value.

4. Improved Communication with Shareholders

Companies can improve communication with shareholders through clearer and more transparent information about dividend policies, which will increase shareholder trust and loyalty.

5. Development of a Better Monitoring System

Companies can improve their dividend policy monitoring system more effectively, which will help anticipate risks and improve the quality of decisions.

6. Skills and Knowledge Development

Companies can improve skills and knowledge about dividend policy through training and professional development, which will support better decision making while increasing company value.

7. Development of a More Adaptive Dividend Policy

Companies can develop more adaptive dividend policies by considering changes in the business environment and investor needs. This will improve the quality of decisions and company value.

8. Development of a Better Evaluation System

Companies can improve their dividend policy evaluation systems with more effective monitoring and evaluation, which will help anticipate risks and improve the quality of decisions.

9. Increased Shareholder Involvement

Companies can increase shareholder involvement by providing opportunities to participate in decision making regarding dividend policy, which will increase shareholder trust and loyalty.

10. Development of a More Transparent Dividend Policy

Companies can develop a more transparent dividend policy by ensuring that information about dividends is easily accessible to shareholders, which will increase transparency and the quality of decisions in managing dividends.

REFERENCES

- Allen, F., & Michaely, R. (2003). Payout Policy. *Handbook of the Economics of Finance*, 1, 337-429.
- Almeida, H., & Philippon, T. (2007). The Risk-Adjusted Cost of Financial Distress. *Journal of Finance*, 62(6), 2557-2586.
- Bhattacharya, S. (1979). Imperfect Information, Dividend Policy, and "The Bird in the Hand" Fallacy. *Bell Journal of Economics*, 10(1), 259-270.
- Black, F. (1976). The Dividend Puzzle. *The Journal of Portfolio Management*, 2(2), 5-8.
- Brigham, E. F., & Ehrhardt, M. C. (2017). *Financial Management: Theory & Practice* (15th ed.). Cengage Learning.

DIVIDEND POLICY: ANALYSIS AND IMPLICATIONS FOR CORPORATE DECISIONS

Edy Purnomo¹, Muammar Khaddafi²

- Brigham, E.F., & Houston, J.F. (2004). *Fundamentals of Financial Management*. South-Western Educational Publishing.
- Creswell, J. W. (2014). *Research design: Qualitative, quantitative, and mixed methods approaches*. Sage publications.
- Edusaham. (nd). *Definition of Dividends, Types, Policies and Influencing Factors*. Economic management. (nd). *Dividend Policy Theory: Relevance, Irrelevance, and Influencing Factors*.
- Gordon, M. J. (1959). Dividends, earnings, and stock prices. *The Review of Economics and Statistics*, 41(2), 99-105.
- Gordon, M. J. (1963). Optimal Investment and Financing Policy. *The Journal of Finance*, 18(2), 264-272.
- Jegadeesh, N., & Wu, D. (2013). The Habits of Hedge Funds: Do They Run for the Money?. *Journal of Financial Economics*, 107(2), 239-257.
- Jensen, M. C. (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. *American Economic Review*, 76(2), 323-329.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4), 305-360.
- John, K., & Williams, J. (1985). Dividends, Dilution, and Taxes: A Signaling Equilibrium. *The Journal of Finance*, 40(4), 1053-1070.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2000). Agency Problems and Dividend Policies Around the World. *The Journal of Finance*, 55(1), 1-33.
- Lintner, J. (1956). Distribution of Incomes of Corporations Among Dividends, Retained Earnings, and Taxes. *The American Economic Review*, 46(2), 97-113.
- Miller, M. H., & Modigliani, F. (1961). Dividend Policy, Growth, and the Valuation of Shares. *The Journal of Business*, 34(4), 411-433.
- Miller, M. H., & Scholes, M. S. (1982). Dividends and Taxes: Some Empirical Evidence. *Journal of Political Economy*, 90(6), 1118-1141.
- Modigliani, F., & Miller, M. H. (1961). Dividend policy, growth, and the valuation of shares. *Journal of Business*, 34(4), 411-433.
- Nisa, RC (2020). The Influence of Dividend Policy, Debt Policy, and Profit Growth on Company Value. *Sriwijaya Journal of Management and Business*, 16(3).
- Nisa, RC (2020). The Influence of Investment Decisions, Funding Decisions, and Dividend Policy on Company Value. *Sriwijaya Journal of Management and Business*, 16(3).
- Oktavia, MD (2018). The Influence of Investment Decisions, Funding Decisions and Dividend Policy on Company Value. *Scientific Journal of Management Economics Students*, 3(1).
- Lesson. (nd). *Understanding Dividend Policy: Theory, Types and Factors that Influence Dividend Policy*.
- Riadi, B. (2018). Impact of Dividend Policy on Shareholders' Wealth and Firm Value. *Journal of Finance and Corporate Governance*, 7(2), 234-245.
- Riadi, M. (2018). *Theories, Types and Factors that Influence Dividend Policy*. Literature review.
- Ross, S. A., Westerfield, R. W., & Jaffe, J. (2002). *Corporate Finance*. McGraw-Hill/Irwin.
- Rozeff, M. S. (1982). Growth, Beta and Agency Costs as Determinants of Dividend Payout Ratios. *Journal of Financial Research*, 5(3), 249-259.
- Sejati, A. (2020). Dividend Policy: Theoretical Perspectives and Practical Implications. *Journal of Financial Studies*, 12(1), 45-62.
- Sejati, FR, Ponto, S., Sumartono, S., Sumbari, NN, & Prasetianingrum, S. (2020). Factors Influencing Dividend Policy. *Indonesian Accounting and Finance Periodical*, 5(2).
- Siregar, RMS (2018). Dividend Policy and Company Financial Performance. *Journal of Indonesian Economy*, 1(1).



- Siregar, RMS (2020). Analysis of Company Finance-Based Dividend Policy. *Journal of Indonesian Accounting and Finance*, 3(1).
- Siregar, RMS (2022). Analysis of Dividend Policy and Company Financial Performance. *Journal of Indonesian Economy*, 5(1).
- Siregar, SRS (2019). Analysis of Dividend Policy and Company Value. *Journal of Indonesian Business and Economics*, 2(2).
- Siregar, SRS (2021). Analysis of Dividend Policy Based on Strategic Decisions. *Journal of Indonesian Management and Business*, 4(1).
- Sugiyono. (2017). *Quantitative, Qualitative, and R&D Research Methods*. Alfabeta.