The Effect of Dividend Policy and Sales Growth on Firm Value in the Fast Moving Consumer Goods Sector Listed on the Indonesia Stock Exchange, 2020 - 2025

Giovanny Anggasta[1], and *Rendra Arief* Hidayat[2]

[1]Accounting Study Program, Faculty of Economics and Business, Universitas Negeri Surabaya, Surabaya, Indonesia
[2]Accounting Study Program, Faculty of Economics and Business, Universitas Negeri Surabaya, Surabaya, Indonesia

Abstract. Fast moving consumer goods (FMCG) companies are known for stable cash flows and consistent dividends, yet the 2020–2025 period brought a pandemic shock, high interest rates, and a weakening of middle-class purchasing power in Indonesia. This study examines whether dividend policy and sales growth affect the firm value of FMCG companies listed on the Indonesia Stock Exchange (IDX), based on the dividend signaling hypothesis and growth opportunity theory. The sample consists of 20 dividend-paying companies and 111 firm-year observations in an unbalanced panel. Dividend policy is measured by the dividend payout ratio (DPR), sales growth by the annual change in net sales, and firm value by the natural logarithm of price to book value (LnPBV), with return on assets, leverage, and firm size as control variables. The main model was estimated with fixed effects and cluster-robust standard errors. The coefficient of DPR is negative and insignificant, and the coefficient of sales growth is positive but insignificant, so neither hypothesis is supported; the two variables are also jointly insignificant (Wald test, Prob. 0.3855). The conclusions hold across several robustness tests, although the sign of DPR turns positive when firm value is measured by the price earnings ratio. Dividend payments and sales growth alone do not appear to drive the market valuation of Indonesian FMCG companies.

Keywords: Dividend policy; Fast moving consumer goods; Firm value; Price to book value; Sales growth

1 Introduction

Maximizing firm value is the main objective of corporate management. Firm value reflects investors views on a company's future cash flows, management quality, and

[1]Corresponding author: giovanny.23042@mhs.unesa.ac.id

competitiveness, and it is seen in the share price. Market volatility after the 2020 pandemic and the interest rate increases of 2022–2024 pushed investors toward defensive sectors such as fast moving consumer goods (FMCG), which are known for stable cash flows, demand that is relatively insensitive to the business cycle, and consistent dividend policies [1].

The 2020–2025 period, however, was marked by a weakening of purchasing power in Indonesia and by volatile sales among individual FMCG companies. This makes the period a useful setting to test whether dividends and sales growth still shape the value of companies in a defensive sector. Dividend policy, measured by the dividend payout ratio (DPR), reflects how management splits net income between cash dividends and reinvestment. The dividend signaling hypothesis states that dividends carry information about management's confidence in future cash flows [2]. Sales growth reflects a company's ability to expand and compete, and growth opportunity theory states that firm value consists of assets in place plus the value of future growth opportunities [3]. Earlier studies found positive effects of dividend policy [4, 5] and of sales growth [6, 7] on firm value, but others found no significant effect of dividends [8, 9] and even a negative effect of sales growth [10]. This study adds evidence from the 2020–2025 period, which includes the pandemic and the high interest rates that followed.

This study therefore tests the effect of dividend policy and sales growth on the firm value of FMCG companies listed on the Indonesia Stock Exchange (IDX) in 2020–2025, controlling for profitability, leverage, and firm size, and checks the results with several robustness tests

2 Literature review and hypotheses

Signaling theory starts from information asymmetry: managers know more about the company's prospects than investors and use observable actions to send signals [11]. A signal is credible when it is costly for weaker companies to imitate [12]. Bhattacharya [2] applied this idea to dividends: only companies that expect stable cash flows can keep paying dividends without facing liquidity risk, so a cut in dividends would later be punished by the market. Growth opportunity theory, developed by Myers [3], divides firm value into assets in place and growth options. In a discounted cash flow framework, higher sustainable growth raises the terminal value and thus the intrinsic value of the company [1].

In the FMCG sector, stable cash flows and limited reinvestment opportunities make dividends an important tool for maintaining investor confidence. Simanjuntak et al. [5] found a positive effect of dividend policy on the value of consumer goods companies and argued that a large dividend is rational only if management expects future cash flows to cover it. Irawan et al. [4] also found that consistent dividends are a more convincing indicator of future earnings than reported profit alone. The first hypothesis is:

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

Competition in the FMCG industry is intense and switching costs are low, so the ability to keep increasing sales indicates competitiveness and brand strength. Fajriah et al. [6] explained that higher sales growth raises expected cash flows and attracts investors, and Susetyowati and Handayani [7] also found a positive effect. The second hypothesis is:

H2: Sales growth has a positive effect on firm value.

When a company sustains both dividend payments and sales growth, the two signals confirm each other, because a company with weak fundamentals would find it hard to maintain both. The third hypothesis is as follows (see Fig. 1):

H3: Dividend policy and sales growth simultaneously have a positive and significant effect on firm value.

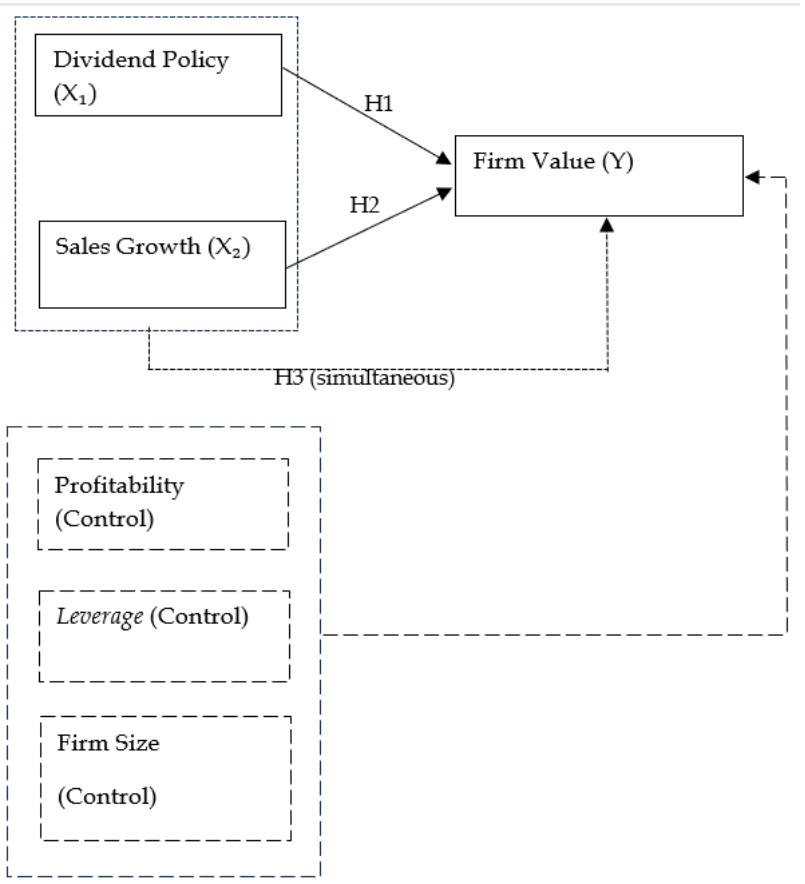


Fig. 1. Conceptual Framework

3 Research method

This quantitative study uses annual reports of FMCG companies (food and beverage, household and personal products, and tobacco) listed on the IDX in 2020 – 2025. Dividend data were taken from dividend announcements by the Indonesian Central Securities Depository (KSEI), the financial statements, and minutes of the general meetings of shareholders. Of 30 companies listed throughout the period, 10 that paid dividends in fewer than four of six years were excluded, leaving 20 companies (120 potential observations). Seven observations in years without dividends and two with negative earnings per share were dropped, because DPR cannot be read as a payout share when earnings are negative, which gives an unbalanced panel of 111 observations.

Firm value is measured by the price to book value ratio:

$$PBV = \frac{Market\ price\ per\ share}{Book\ value\ per\ share} \quad (1)$$

Because the residuals of the model with PBV were far from normal, PBV was transformed into its natural logarithm (LnPBV). DPR is dividends per share divided by earnings per share, and sales growth (SG) is the change in net sales from the previous year divided by the previous year's net sales. The control variables are return on assets (ROA), the debt to equity ratio (DER), and firm size (SIZE, natural logarithm of total assets).

The data were analysed with panel data regression in EViews 12. Model 1 contains only the independent variables, and Model 2, used to test the hypotheses, adds the control variables:

$$LnPBV_{it} = \alpha + \beta_1 DPR_{it} + \beta_2 SG_{it} + \varepsilon_{it} \quad (2)$$

$$LnPBV_{it} = \alpha + \beta_1 DPR_{it} + \beta_2 SG_{it} + \beta_3 ROA_{it} + \beta_4 DER_{it} + \beta_5 SIZE_{it} + \varepsilon_{it} \quad (3)$$

where *i* is the company and *t* is the year. The estimator for each model was chosen with the Chow and Hausman tests. The assumption tests were the Jarque–Bera test, a correlation matrix, the Glejser test, and the Wooldridge test for serial correlation in panel data [13]. H1 and H2 were tested with one-tailed *t*-tests, so a hypothesis is supported only if the coefficient is positive and half of the two-tailed probability is below 0.05. H3 was tested with the *F*-test, together with the requirement that both coefficients be positive, and a Wald test of the joint significance of DPR and SG. Robustness was checked by replacing LnPBV with the natural logarithm of the price earnings ratio (LnPER), by winsorizing all variables at the 1st and 99th percentiles, and by re-estimating Model 2 with the two negative-earnings observations (113 observations).

Table 1. Descriptive statistics (N=111)

Variable	Min.	Max.	Mean	Std. dev.
PBV	0.3646	56.7919	4.8852	9.0306
LnPBV	–1.0089	4.0394	0.8530	1.0808
DPR	0.1031	5.2632	0.7120	0.6476
SG	–0.4652	0.4747	0.0725	0.1563
ROA	0.0001	0.3817	0.1081	0.0798
DER	0.1085	6.4659	0.9488	0.9572
SIZE	27.3747	33.0154	29.6124	1.6813

Source: EViews 12 output, processed

The Chow test favours the fixed effect model (FEM) over the common effect model in both models (cross-section F = 82.6818 and 25.1476; Prob. 0.0000). The Hausman test selects the random effect model (REM) for Model 1 (Prob. 0.1883) and FEM for Model 2 (χ^2 = 29.7306; Prob. 0.0000). With PBV as the dependent variable, the residuals of Model 2 were not normal (Jarque–Bera = 4,372.345; kurtosis 33.75); after the log transformation they became normal (Jarque–Bera = 0.4728; Prob. 0.7895). The residuals of Model 1 remained non-normal (Prob. 0.0028). The largest correlation between regressors is –0.3682, between DPR and SG. The Glejser test detected heteroskedasticity in Model 2 (DPR 0.0455, SG 0.0174, ROA 0.0046), so all hypothesis tests use White period (cross-section

cluster) standard errors. The Wooldridge test found no evidence of serial correlation (Prob. 0.3563 and 0.4192).

4.2 Regression results and hypothesis tests

Table 2 presents the estimates. In Model 2, DPR has a coefficient of –0.1012 (Prob. 0.2304) and SG a coefficient of 0.1679 (Prob. 0.4542, or 0.2271 one-tailed). Because the DPR coefficient is negative, H1 is not supported, and because the one-tailed probability of SG exceeds 0.05, H2 is not supported either. Model 1 gives the same result. The *F*-statistic of Model 2 is 68.8631 (Prob. 0.0000), but this tests all coefficients, including the controls and firm fixed effects. The Wald test shows that DPR and SG are jointly insignificant (F = 0.9638; Prob. 0.3855), and DPR is negative, so H3 is not supported. The adjusted R^2 of Model 2 (0.9367) mainly reflects the firm fixed effects; in Model 1, DPR and SG explain only 2.51% of the variation.

Table 2. Panel regression results (dependent variable LnPBV)

	Model 2: main model (FEM)			**Model 1: baseline model (REM)**		
Variable	**Coef.**	***t*-stat.**	**Prob.**	**Coef.**	***t*-stat.**	**Prob.**
Constant	5.7215	0.8898	0.3847	0.9077	3.5390	0.0022
DPR	–0.1012	–1.2392	0.2304	–0.1031	–1.4123	0.1740
SG	0.1679	0.7641	0.4542	0.1984	0.9645	0.3469
ROA	0.8084	0.2868	0.7774	–	–	–
DER	–0.0227	–0.2206	0.8277	–	–	–
SIZE	–0.1646	–0.7666	0.4528	–	–	–
R^2	0.9505			0.0428		
Adjusted R^2	0.9367			0.0251		
F-statistic	68.8631		(0.0000)	2.4132		(0.0943)
Durbin–Watson	1.3615			1.1431		

The conclusions do not depend on the choice of standard errors: with ordinary and White diagonal standard errors, DPR stays negative and SG stays insignificant in both models. Table 3 shows that the winsorized and 113-observation estimates are consistent with Model 2. In the LnPER model, DPR and SG are still insignificant, but the DPR coefficient becomes positive (0.1499), and ROA and DER become significant. The results are therefore not fully robust in terms of the sign of DPR, although no test supports H1 or H2.

Table 3. Robustness tests of Model 2 (FEM, White period standard errors).

Specification	**N**	**DPR coef.**	**Prob.**	**SG coef.**	**Prob.**
Main model (LnPBV)	111	–0.1012	0.2304	0.1679	0.4542
LnPER (winsorized)	111	0.1499	0.2331	0.1547	0.5372
Winsorized LnPBV	111	–0.1007	0.4080	0.1641	0.4812
Including negative EPS	113	–0.0170	0.4533	0.1044	0.7067

Note: Probabilities are two-tailed.

4.3 Discussion

The results do not support the dividend signaling hypothesis [2] for FMCG companies in this period. One explanation lies in what the dividend amount actually means. Wirama et al. [14] found that capital expenditure and working capital reduce the payout ratio, which supports the residual dividend theory; in that case a dividend may reflect the cash left over after investment rather than management's optimism. Payouts far above earnings, as seen in the sample, are unlikely to be read by the market as a positive signal. The result agrees with Zamroni et al. [8] and Khoiriyah et al. [9], and with the dividend irrelevance view of Miller and Modigliani [15], but differs from Simanjuntak et al. [5] and Irawan et al. [4].

Sales growth has the expected positive sign but is not significant, so the results do not support growth opportunity theory [3]. FMCG companies have stable cash flows and limited reinvestment opportunities, so growth in sales may not be seen as a sign of valuable growth options. The weakening of purchasing power during 2020–2025 may also have made sales growth less informative about future cash flows. Rahmawati et al. [10] noted that aggressive growth often comes with higher operating costs that reduce free cash flow, so growth does not always translate into higher value. The result differs from Fajriah et al. [6] and Susetyowati and Handayani [7].

These findings should be read with the sample size in mind. With only 20 companies, the cluster-robust standard errors are only indicative, and an insignificant result does not prove that the effects are absent.

5 Conclusion

Using 111 observations from 20 FMCG companies listed on the IDX in 2020–2025, this study finds no evidence that dividend policy or sales growth has a positive effect on firm value, either partially or jointly. The DPR coefficient is negative and insignificant, the sales growth coefficient is positive but insignificant, and the two variables are jointly insignificant. These results hold in most robustness tests. For managers, raising dividends or sales alone may not increase firm value; dividend decisions should take investment needs and cash flow quality into account, and sales growth should be accompanied by better cash flow. Investors should not rely only on dividends and sales growth when valuing FMCG companies. The study is limited by the small number of companies, the non-normal residuals of Model 1, and the exclusion of non-dividend-paying companies. Future research could use more companies or a longer period, include non-payers with dividend yield as an alternative proxy, and add ownership structure, governance, investment policy, or macroeconomic variables.

References

1. A. Damodaran, *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset*, 3rd edn. (John Wiley & Sons, Hoboken, 2012)
2. S. Bhattacharya, Imperfect information, dividend policy, and "the bird in the hand" fallacy. Bell J. Econ. **10**, 259–270 (1979) https://doi.org/10.2307/3003330
3. S.C. Myers, Determinants of corporate borrowing. J. Financ. Econ. **5**, 147–175 (1977) https://doi.org/10.1016/0304-405X(77)90015-0
4. A. Irawan, Setiawan, R.D. Andini, Pengaruh profitabilitas, leverage, dan kebijakan dividen terhadap nilai perusahaan pada perusahaan LQ45. JPEKA J. Pendidik. Ekon. Manaj. Keuang. **6**, 1–14 (2022) https://doi.org/10.26740/jpeka.v6n1.p1-14

5. E. Simanjuntak, A. Solikhin, D. Elliyana, Pengaruh kebijakan dividen terhadap nilai perusahaan dengan profitabilitas sebagai variabel moderasi. Jurnalku **5**, 233–242 (2025) https://doi.org/10.54957/jurnalku.v5i3.1934
6. A.L. Fajriah, A. Idris, U. Nadhiroh, Pengaruh pertumbuhan penjualan, pertumbuhan perusahaan, dan ukuran perusahaan terhadap nilai perusahaan. J. Ilm. Manaj. Bisnis **7**(1) (2022) https://doi.org/10.38043/jimb.v7i1.3218
7. I. Susetyowati, N. Handayani, Pengaruh good corporate governance, pertumbuhan penjualan, ukuran perusahaan dan leverage terhadap nilai perusahaan. J. Ilmu Riset Akunt. **9**, 1–20 (2020) https://jurnalmahasiswa.stiesia.ac.id/index.php/jira/article/download/2828/2838/
8. Zamroni, N. Tubastuvi, I. Yustina, The impact of firm characteristics on firm value: evidence from Indonesia Stock Exchange. Asian J. Econ. Bus. Account. **24**, 336–348 (2024) https://doi.org/10.9734/ajeba/2024/v24i81460
9. A. Khoiriyah, D.A. Arifah, M. Indriastuti, Winarsih, The influence of dividend policy, investment policy, and profitability on firm value. Proc. Int. Conf. Account. Finance **3**, 655–665 (2025) https://journal.uii.ac.id/inCAF/article/view/39040
10. D.V. Rahmawati, A. Darmawan, F. Setyarini, F. Bagis, Profitability, capital structure, and dividend policy effect on firm value using company size as a moderating variable. Int. J. Econ. Bus. Account. Res. **5**, 282–292 (2021) https://jurnal.stie-aas.ac.id/index.php/IJEBAR/article/download/2032/1090
11. M. Spence, Job market signaling. Q. J. Econ. **87**, 355–374 (1973) https://doi.org/10.2307/1882010
12. B.L. Connelly, S.T. Certo, R.D. Ireland, C.R. Reutzel, Signaling theory: a review and assessment. J. Manage. **37**, 39–67 (2011) https://doi.org/10.1177/0149206310388419
13. D.M. Drukker, Testing for serial correlation in linear panel-data models. Stata J. **3**, 168–177 (2003) https://doi.org/10.1177/1536867X0300300206
14. D.G. Wirama, K.A. Krisnadewi, L.G.S. Artini, P.A. Ardiana, Dividend policy and residual dividend theory: evidence from Indonesia. Asian J. Account. Res. **9**, 201–216 (2024) https://doi.org/10.1108/AJAR-10-2023-0347
15. M.H. Miller, F. Modigliani, Dividend policy, growth, and the valuation of shares. J. Bus. **34**, 411–433 (1961) https://doi.org/10.1086/294442