The Influence of Company Performance on Dividend Policy Investment as a Moderating Variable

Mohammad Syafik [1]

[1] Faculty of Economics, Lamongan Islamic University, Lamongan, Indonesia

Faculty Economy And Business, Sebelas Maret University, Surakarta, Indonesia

Abstract

This research aims to determine the role of investment in influencing the relationship between company performance and dividend policy. Using panel data from manufacturing companies registered in Indonesia. This research uses OLS, fixed effect and random effect moderation regression analysis tests. Next, the Chow test, Lagrange multiplier (LM) test and Hausman test were carried out to determine the best model for drawing conclusions. The results show that company performance has a positive influence on dividend policy. This influence is weakened when the company carries out investment activities which result in lower dividend distributions.

Key words: company performance; dividend policy; investment

*Corresponding authore

Email: mohammadsyafik1293@gmaail.com

1. Introduction

Today's business world is developing very rapidly, many companies are making efforts to attract consumer attention because consumers are one of the keys to determining the level of industrial development. Not only consumers, investors or shareholders are also influential parties in determining the level of company development. Investors are people or organizations who spend their money on the stock exchange. The capital market will not be able to carry out its activities without investors (Rivandi & Indriati, 2022) .

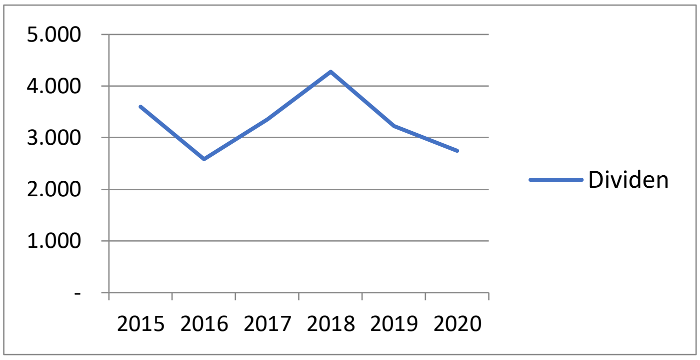
Investors investing their capital will best consider which company they will invest their capital in. For this reason, investors need financial reports of companies in which they invest their capital in order to see the prospects for future profits and further company development, to find out the working conditions or short-term financial conditions of the company (Rahmawati et al., 2014) . The main goal of investors investing their funds into a company is to get a profit (return) in the form of dividend income (dividend yield) or income from the difference between the selling price of shares and the buying price (capital gain) (Ramadhani, 2018).

Dividends are the distribution of profits to shareholders based on the number of shares owned. This distribution will reduce retained earnings and cash available to the company, but distribution of profits to owners is the main goal of a business. Dividend policy is a decision whether profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings to finance future investments. If the company chooses to distribute profits as dividends, it will reduce retained profits and further reduce the total sources of internal funds or internal finance (Rowena & Hendra, 2018) .

Optimal dividend policy is a dividend policy that is able to produce a balance between current dividends and future growth which can maximize the company's share price, so dividend policy is very important for companies because it will provide information to investors to handle the risks faced by the company (Umar et al., 2022).

Figure 1

Manufacturing Company Dividends 2015-2020



Source: company annual report

Based on the information in Table 1, it can be seen that manufacturing company dividends from 2015-2020 fluctuated. Inconsistency in dividend distribution may be due to unstable company performance. Dividend policy is very influential for company management, especially for financial managers who will be faced with the decision to use the profits obtained to be distributed in the form of dividends or retained for additional investment purposes or a combination of both (Hidayati & Retnani, 2015) . In order to be able to distribute dividends, a company must have good financial performance (Ningtyas, 2020) .

Company performance can be seen from free cash flow, asset growth, profitability and company debt (Claudia & Darsono, 2014). Good financial performance has an impact on the company's profit level when carrying out its operations. Profits distributed to shareholders are profits earned after interest and taxes. The greater the profits obtained by the company, the greater the company's ability to pay dividends (Mayanti et al., 2021) .

Previous research regarding the performance of dividend policy has been carried out, but found inconsistent results. Research conducted by (Ramadhani, 2018) ; (Rowena & Hendra, 2018) ; (Suambara et al., 2019) proves that performance has a positive effect on dividend policy. However (Rivandi & Indriati, 2022) found evidence that performance has a negative effect on dividend policy and (Rahmawati et al., 2014) shows that performance has no effect on dividend policy.

These inconsistent results may be due to missing variables. To increase the consistency of research results, the author feels that there is a need for a moderating variable. According to the author, investment activities carried out by companies are able to influence dividend policy because investments made by companies are able to influence company finances. Based on the information above, the author is interested in conducting research on the influence of company performance on dividend policy with investment as a moderating variable. Therefore, the research problem can be formulated as follows: 1). Does company performance have a positive effect on dividend policy? 2). Is investment able to soften the influence of company performance on dividend policy?

Literature Review

Company Performance and Dividend Policy

Performance is a measurement of achievements that can be achieved by a company which reflects the health condition of a company over a certain period of time. Company performance is the result of all decisions made continuously. (Rahmawati et al., 2014) . The company's performance has an attraction for interested parties. Good company performance shows the company's excellence in its operational activities. Companies that have profit stability can set dividend payment levels with confidence and signal the quality of their profits. Therefore, the better the company's performance, the greater the dividends that will be distributed to investors (Yurinawati & Andayani, 2017) .

Dividend policy cannot be separated from profitability because dividend distribution is very dependent on the company's profit generation. Dividend distribution comes from profits obtained by the company after fulfilling its obligations in the form of interest and taxes (Mayanti et al., 2021) . The higher the company's profit, the higher it shows also managing the company's resources. When the company has a profit high, then managers tend to distribute high dividends as well. This is due to The higher a company's profit, the higher the cash flow or availability cash within the company, so managers can use the profits to distribute to shareholders (Claudia & Darsono, 2014) .

Research conducted by (Suambara et al., 2019) ; (Yurinawati & Andayani, 2017) shows that performance has a positive effect on dividend policy. Companies that have profit stability can set dividend payment levels with confidence and signal the quality of their profits. Based on the discussion above, the following hypothesis is formulated:

H1 : Company performance has a positive effect on dividend policy

Company Performance, Dividend and Investment Policy

Good company performance shows the company's excellence in its operational activities. Companies that have profit stability can set dividend payment levels with confidence and signal the quality of their profits. Therefore, the better the company's performance, the greater the dividends that will be distributed to investors (Yurinawati & Andayani, 2017) .

Investment decisions made by a company on a project that can generate profits and generate incoming income, so that this is used as a source of internal funds that can be allocated to pay dividends (Damayanti & Anwar, 2022) . Funds that should be paid as cash dividends to shareholders will be used to purchase profitable investments, even to overcome the problem of underinvestment (Michell Suharli, 2007) .

Investment activities carried out by companies are expected to provide optimal profits which are reused for investment activities or distributed to shareholders in the form of dividends (Roos & Manalu, 2019) . However, companies that have good company conditions tend to want to reinvest rather than distribute to shareholders (Purnamasari & Waspada, 2019) . Based on the discussion above, the following hypothesis is formulated:

H2 : Investment weakens company performance regarding dividend policy

Research methods

This research uses a quantitative approach where the aim of this research is to test company performance variables on dividend policy and test the role of investment variables in moderating company performance on dividend policy. This research uses manufacturing companies listed on the Indonesian stock exchange during the 2015-2020 period. This research uses company *annual report* data obtained from *the idx.co.id website* as well as the websites of each listed company.

The dependent variable in this research is dividend policy which is known as the total general dividend paid divided by total assets (Karim & Ilyas, 2021) . The independent variables in this research include ROA and Tobins'Q. ROA is calculated to measure company performance which is calculated by dividing profit after interest and tax by total assets (Le & Phan, 2017) . Tobins'Q is known from the market value to the book value of equity (Mishra & Dasgupta, 2019) . The moderating variable in this research is investment which can be identified by investment which can be identified by the ratio of capital expenditure to total assets (Le & Phan, 2017) .

There are three approaches that can be used to estimate the model regression using panel data, including: *Common Effect Model, Fixed Effect Model* & *Random Effect Model*. Hypothesis testing uses moderated regression analysis using *the* STATA 14.2 test tool with the following equation for the hypothesis:

$$\textbf{Div}_{1.t} = \boldsymbol{\beta}_0 + \boldsymbol{\beta}_1\,\textbf{Perfom}_{1.t} + \boldsymbol{\beta}_2\,\textbf{Perfom*Inv}_{1.t} + + \boldsymbol{\varepsilon}_{1.t} \ldots\ldots\ldots\ldots\ldots$$

Information
Div = Dividend
Performance= ROA and Tobins'Q
INV = Investment

Data Analysis and Results

Table 1
Descriptive statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
Dividend	952	0.021	0.062	0	1,002
ROA	952	0.035	0.155	-2,641	1,247
TobinsQ	952	99,404	790,390	-96,170	12570.37
Investment	952	0.049	0.066	0	0.758
ROA*Inv	952	0.003	0.011	-0.134	0.211
Tobins*Inv	952	5,249	47,727	-4,629	1091.808

Table 2
Test Panel Data Regression

Dividend	Coef.	Std. Err.	t	P>|t|
ROA	0.061	0.014	4.48	0,000
TobinsQ	0,000	8,181	2.68	0.007
Investment	0.017	0.024	0.73	0.468
ROA*Inv	-0.251	0.263	-0.95	0.341
Tobins*Inv	-0.000	0,000	-4.41	0,000
_cons	0.019	0.002	10.43	0,000
sigma_u	0.057			
sigma_e	0.037			
rho	0.703			
F test that all u_i=0: F(193, 753) = 6.30				

Table 2 describes the selected models After carrying out the Chow test, LM test and Hausman test, it is known that *the fixed effect model* is the best model, so this model will be used in discussing this research. Results the be delivered on table 2. The results from table 3 show that company performance as measured by ROA (0.000) and Tobins'q (0.007) has a significance level of 1%. These results show that ROA and Tobins'q have a significant positive relationship with dividend policy. So it can be seen that financial performance and market value can influence dividend distribution. The better the company's performance , the more dividends it will distribute to shareholders. Fluctuations in a company's profits also influence its dividend policy. Ramadhani (2018) believes that the higher the company's performance, the more dividend distribution the company will increase. So H1 is accepted.

Based on Table 2, it can be seen that investment is not able to moderate company performance as measured by ROA (0.341). These results show that the investment activities carried out by the company are not able to weaken or strengthen the influence of financial performance in distributing dividends to the company. This may be due to the lack of precision in the investment activities carried out by the company so that the impact on the company's performance is still low and unable to influence the company's activities in distributing dividends. Roos & Manalu (2019) argue that there are no problems with the use of the company's profit function.

Meanwhile, investment can weaken the relationship between company performance as measured by Tobins'q and dividend policy. This shows that the more investment activities a company carries out, the more impact it will have on the company's market value in the eyes of the public, so there is a possibility that the company will prefer to make the best investment possible rather than paying out high dividends. (Widyawati, 2018) Company profits are used to pay dividends to shareholders and the remainder is retained as retained earnings which will be used for company investment for future growth, so that companies that have high investment opportunities also have high growth opportunities. Therefore, when the company has more investment opportunities, dividend distribution will decrease. So H2 is not rejected when company performance is measured using the ROA proxy. However, it is accepted when company performance is measured using the Tobins'q proxy.

Conclusion

Based on the results of research that has been done done about The influence of company performance on dividend policy with investment as a moderating variable is concluded that. Company performance has a positive influence on dividend policy. Therefore, a good level of performance will make the company pay higher dividends. Furthermore, investment activities carried out by companies tend to reduce dividend distribution even though at that time the company had good performance. The company seems to be prioritizing future investment activities rather than distributing its profits as dividends.

Bibliography

Claudia, M., & Darsono, K. (2014). The Influence of Ownership Structure and Company

Performance on Dividend Policy. *Diponegoro Journal of Accounting* , *3* (3), 1–10.

Damayanti, TF, & Anwar, M. (2022). The Influence of Profitability, Investment Decisions, and Company Growth on Dividend Policy in Bank Sub-Sector Companies Listed on the Indonesian Stock Exchange. *MEA Scientific Journal (Management, Economics, and Accounting)* , *6* (1), 494–512.

Hidayati, F., & Retnani, ED (2015). The Influence of Financial Performance on Dividend Distribution Policy in Consumer Goods Companies. *Estuary Journal of Economics and Business* , *4* (2), 1–18.

Karim, S., & Ilyas, M. (2021). Foreign institutional investors and the contribution of cash and dividends to firm's value. *Managerial Finance* , *47* (3), 310–325. https://doi.org/10.1108/MF-11-2019-0568

Le, TPV, & Phan, TBN (2017). Capital structure and firm performance: Empirical evidence from a small transition country. *Research in International Business and Finance* , *42* , 710–726. https://doi.org/10.1016/j.ribaf.2017.07.012

Mayanti, NMD, Endiana, IDM, Pramesti, IGAA, & Rahmadani, DA (2021). The Influence of Financial Performance, Company Size, and Debt Policy on Dividend Policy in Food and Beverage Sub-Sector Companies Listed on the Indonesia Stock Exchange (BEI) for the 2016-2019 Period. *KARMA (Accounting Student Research Work)* , *1* (1), 297–308.

Michell Suharli. (2007). The Influence of Profitability and Investment Opportunity Set on Cash Dividend Policy with Liquidity as a Reinforcing Variable. *Journal of Accounting and Finance* , *9* (1), 9–17.

Mishra, S., & Dasgupta, R. (2019). Cross-impact of leverage and firm performance: developed vs frontier bank-based economies. *Managerial Finance* , *45* (8), 982–1000. https://doi.org/10.1108/MF-09-2018-0435

Ningtyas, DA (2020). The Influence of Financial Performance on Dividend Policy in Companies Listed in the Jakarta Islamic Index (JII) for the 2012-2018 Period. *BISCEBER (Business Economic Entrepreneurship)* , *III* (02), 116–135.

Purnamasari, I., & Waspada, I. (2019). The Influence of Investment Opportunities and Debt Policy on Dividend Policy. *Journal of Accounting and Finance Research* , *7* (1), 187–194.

Rahmawati, ND, Saerang, IS, & Rate, P. Van. (2014). Financial Performance Influences on Dividend Policy in State-Owned Companies on the Indonesian Stock Exchange. *EMBA Journal* , *2* (2), 1306–1317.

Ramadhani, IH (2018). Financial Performance Analysis of Dividend Policy in LQ 45 Index Companies. *Perbanas Review* , *3* (1), 23–34.

Rivandi, M., & Indriati, P. (2022). Financial Performance and Company Growth on Dividend Policy by Measuring the Dividend Payout Ratio. *Pundi Journal* , *06* (01), 59–74. https://doi.org/10.31575/jp.v6i1.383

Roos, N.M., & Manalu, E. Stefany. (2019). The Influence of Managerial Ownership, Institutional Ownership, and Investment Opportunities on Dividend Policy with Liquidity as a Moderating Variable (Study of Mining Companies Listed on the Indonesian Stock Exchange for the 2011-201 Period. Journal of Accounting and Business Studies, 4 (*1*) , 24–39 .

Rowena, J., & Hendra. (2018). Company Performance and Its Influence on Dividend Policy in Manufacturing Companies Listed on the Indonesian Stock Exchange in the 2014-2016 Period. *Journal of Management Development* , *7* (1), 1–15.

Suambara, IPA, Suryandari, NNA, & Putra, GBB (2019). The Influence of Investment Opportunity Set, Financial Performance and Growth on Dividend Policy in Manufacturing Companies Listed on the Indonesian Stock Exchange in 2016-2018. *National Seminar on Innovation in Science, Technology and Humanities Research-InoBali* , 651–661.

Umar, TPP, B. Maramis, J., & Sumarauw, JSB (2022). The Influence of Financial Performance on Dividend Policy in Logistics Companies Listed on the Indonesian Stock Exchange for the 2017-2021 Period. *EMBA Journal* , *10* (4), 1780–1794.

Widyawati, RD (2018). The Influence of Investment Opportunities, Profitability, and Liquidity on Dividend Policy. *Indonesian Journal of Business Management* , *1* , 93–105. http://journal.student.uny.ac.id/ojs/index.php/jmbi/article/view/12894/pdf

Yurinawati, W., & Andayani. (2017). The Influence of Financial Performance, Company Size and Asset Collateral on Dividend Policy. *Journal of Accounting Science and Research (JIRA)* , *6* (9), 1–20.