

## **THE INFLUENCE OF DIVIDEND POLICY, FIRM SIZE, CAPITAL STRUCTURE, AND CSR ON BANKING COMPANIES' VALUE**

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### **ABSTRACT**

*The research examined the effect of dividend policy, firm size, capital structure, and Corporate Social Responsibility (CSR) on firm value in Indonesian banking companies listed on the Indonesian Stock Exchange (IDX). Purposive sampling was used to select the sample, and the population for this study was from 2017 to 2020, with 48 data points representing 12 samples of banking companies. According to the findings of this study, firm size and corporate social responsibility (CSR) both have a positive and significant effect on firm value. The dividend policies and capital structure have a small but positive impact on firm value. The descriptive research design was used in this study. This descriptive research aimed to ascertain the existence of one or more variables without comparing them directly and instead of looking for relationships with other variables. The data processing in this study was performed using the Microsoft Excel 2010 program, and the data analysis was performed using Eviews version 11. This study employed a technique known as purposive sampling to select random samples.*

**Keywords:** *Dividend Policy, Firm Size, Capital Structure, Corporate Social Responsibility (CSR), Firm Value*

## **1. INTRODUCTION**

Globalization and the current COVID-19 pandemic are exerting significant pressure on economic growth, resulting in ups and downs in business activity. Thus, the company seeks to maximize and optimize its profits to achieve high profits. This is said to be the primary objective of the company: to improve the company through increased profits or profits so that it can demonstrate prosperity and welfare for each shareholder, thereby increasing the company's corporate value.

In Indonesia, the Indonesian Stock Exchange (IDX) lists several sectors, one of which is the banking sector. Throughout this COVID-19 period, the banking industry remained intact or in a sound or stable state. According to the news quotes from [1], The Otoritas Jasa Keuangan (OJK) stated that banking remained stable despite the Covid-19 pandemic. According to Wimboh Santoso, Chairman of the OJK Board of Commissioners, the capacity of the bank remains adequate to expedite recovery from the pandemic.

Firm value is one factor that contributes to the company maximizing its profits. Firm value is critical for investors because it is a barometer of how the market views the company. Companies that have strong values outperform their competitors. Creditors examine the value of the company. Firm value is an investor's evaluation of a company's confidence level. In order to gain the trust of investors, businesses must maximize their value. Furthermore, the share price provides information about the value of the company. When the share price rises, so do the value of the company. Investors will be more interested in companies with a positive image, as the better the company, the greater the consumer loyalty to purchase its products.

Internal factors to be discussed in this study include dividend policy, company size, capital structure, and corporate social responsibility (CSR). These variables have a non-linear relationship and influence firm value. There are discrepancies in research findings that prompt researchers to re-examine the firm value of banking companies.

Dividend policy determines whether the company profits will be given to shareholders or retained. In general, the primary reason investors or shareholders invest in a business is to earn income or a return on their investment, specifically in the form of dividend income. Every business must carry out its operations with a reasonable degree of efficiency to maintain its advantages and competitiveness while generating the optimal net profit in those kinds of circumstances. Dividend policy refers to the practice of paying a portion of profit to investors in the form of cash dividends [2]. Research conducted by [3] and [4], dividend policies have a significant positive impact on firm value. In contrast, research by [5] stated that dividend policy has a negative and insignificant effect.

Company size is a comparison of the size and magnitude of an object contained in the company. According to [6], the larger a company is, the more likely it will use foreign capital. The total assets or total net sales of a company can calculate its size. The larger the company, the higher the total value of its assets. The more assets there are, the more capital there is to invest, and the more sales there are, the more money there is to flow into the business. Furthermore, the Total Assets of companies in the banking sector from 2016 to 2020 can be used to calculate a company's size. Between 2016 and 2020, the size of businesses continues to grow and shrink, indicating that it will be an interesting activity or event to study.

The capital structure of a business compares its financing and debt. Thus, debt is a component of the capital structure of the business. The capital structure of the business is critical in terms of increasing its productivity and performance. The capital structure theory states that a company's financial policy should aim to maximize firm value by determining the capital structure, which consists of debt and equity. The capital structure depicts the shape of a business's financial proportions, specifically the relationship between owned capital derived from long-term debt (long-term liabilities) and owned capital (shareholders equity), which serves as a source of financing for the business [7]. According to [8], capital structure policy is a trade-off between risk and return; increasing debt increases the risk that shareholders bear. The use of large amounts of debt, on the other hand, creates expectations of higher returns.

Corporate Social Responsibility (CSR) is a strategy for disclosing information, factors, and causes that contribute to the company's value. The company aims at maximizing profits, while the community desires that the company's operations do not harm the environment [9]. According to [10], social responsibility is a moral and ethical activity that a business engages in to meet its social obligations to both internal and external stakeholders. A rise in stock prices results in an increase in the company's value. According to [11], Through Corporate Social Responsibility (CSR), a business is believed to do the 'clean up' on its massive profits natural mechanism. In their pursuit of profit, businesses can occasionally cause harm to others, either intentionally or unintentionally. If CSR is the result of a company's decisions or activities, then the company must improve the situation of those affected. Thus, businesses that engage in CSR activities will consider the impact of their operations on social and environmental conditions and strive to achieve positive outcomes. Through CSR, it is hoped

that global environmental damage, ranging from deforestation to air and water pollution to climate change, can be mitigated.

## **2. THEORETICAL REVIEW**

### ***Agency Theory***

According to [12], The agency relationship is a division of benefits between investors and management. On the other hand, [13] stated that "gent theory forecasts and explains the behaviors of parties to a transaction." Thus, it can be concluded that this theory establishes a relationship between the owners and shareholders who have a say in management. As a result, profitability and firm value have a relationship.

### ***Signaling Theory***

[8] explained that signaling theory is a signal about a company's prospects that the company will send to investors for them to learn more valuable information about other companies and use that information to determine the future performance of their investment portfolios. On the other hand, quality is a critical factor in reducing information asymmetry in signaling theory, where quality is defined as the ability of the underlying unobservable signaler to satisfy the needs or demands of observers.

### ***Legitimacy Theory***

According to [14], legitimacy is a business management system that is oriented around the community's (society's) interests, as well as those of the government, individuals, and community groups. As a system that places a premium on community relations, the company's operations must meet community expectations. One of the efforts that businesses must make to effectively manage legitimacy is to implement a legitimacy and disclosure strategy for Corporate Social Responsibility (CSR). In line with the understanding of the theory, [15] a company will voluntarily report its activities to the community in which it operates.

### ***The Correlation between Dividend Policy and Firm Value***

Dividend policy benefits firm value because it is critical for businesses that interact with society. Dividends are a rate of return paid to shareholders or investors in the form of investment returns. This policy governs the use of the company's profits to pay dividends to shareholders or to retain profits for future investments. This will result in agency conflict, which is consistent with agency theory, in which there is a conflict of interest between investors who want the maximum profit sharing and management, who do not want to share as much profit as possible with investors because they want to invest in better projects. According to signaling theory, Increased dividend payments appear to be sending a signal that the company's financial condition is strong and healthy, allowing it to distribute higher dividends. According to research by [3] and [4], Dividend policy has a significant impact on firm value. In contrast, research by [5] stated that dividend policy has a negative and insignificant effect on the company.

### ***The Correlation between Firm Size and Firm Value***

The profitability of a business is determined by its size. The company's assets will indicate whether it is a large or a small business. A company's size is calculated using the natural logarithm of its total assets. In this study, the size of the business is expressed in terms of total assets. According to theory, the larger the total assets of the business, the larger the business. Thus, the total assets of a company can be used to determine its size. Furthermore, if the greater the capital invested, the greater the value of the firm, signaling theory dictates that the greater the capital invested, the greater the value of the firm. According to research by [16] and [17], firm value is positively and significantly affected by company size, which means that the larger the company, the easier it is to raise capital from the capital market, allowing it to spend capital funds on expanding the company's value.

### ***The Correlation between Capital Structure and Firm Value***

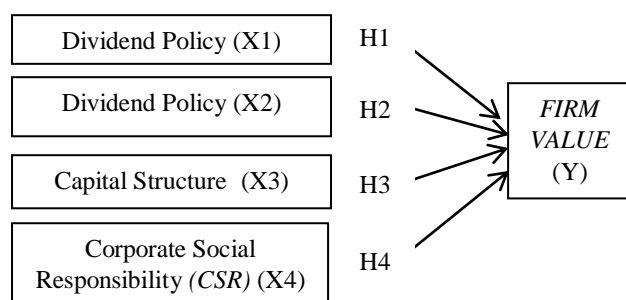
Capital structure plays a critical role in enhancing businesses' productivity and performance. According to capital structure theory, corporate finance policy should aim to maximize firm value by ensuring an optimal capital structure (a mix of debt and equity). A business's capital structure is also dependent on the amount of debt and equity used to finance its assets. According to signaling theory, a maximum capital structure reflects a firm's financial strength and stability. According to several other studies by [18] and [19], capital structure significantly affects firm value.

### ***The Correlation between Corporate Social Responsibility (CSR) and Company Value***

Shareholders can learn about a company's environmental and social performance through Corporate Social Responsibility (CSR). According to [14], CSR is the way a business manages its operations to have a net positive impact on the community. As a result, CSR activities become an integral part of the company's commitment to the community. Thus, consumers will be able to select a quality product that is judged not only on the basis of the goods but also based on corporate governance. CSR activities are also considered to be a component of sound corporate governance. When the community views the company positively as a customer, the community will be loyal to the resulting product. As a result, the company's image will improve, as evidenced by rising stock prices. This is consistent with the legitimacy theory, which states that businesses that prioritize the community's interests will earn public trust, thereby increasing the company's value. According to research, Corporate Social Responsibility (CSR) can boost a company's worth by strengthening public trust in its products, consequently improving the company's reputation in the community.

### ***Research Framework***

The framework that can be developed in this research, can be seen in Figure 1 as follow:



**Figure 1** Research Framework

**Research Hypothesis**

The hypotheses that can be developed in this research, are displayed as follows:

H1: Dividend policy has a positive and significant effect on firm value

H2: Firm size has a positive and significant effect on firm value

H3: Capital structure has a positive and significant effect on firm value

H4: Corporate Social Responsibility (CSR) has a positive and significant effect on firm value

**3. METHODS**

**Population and Sampling Techniques**

The population of the study consists of banking companies that were listed on the Indonesian Stock Exchange (IDX) between 2016 and 2020. This research is aimed at dividend policy, firm size, capital structure, and corporate social responsibility. This random sampling technique was chosen because it is less time-consuming and can be tailored to the researcher's criteria.

The sampling criteria are as follows: (1) banking companies that have been continuously listed on the IDX from 2016 to 2020; (2) banking companies that have not delisted during the 2016-2020 period; (3) banking companies that have not suffered consecutive losses during the 2016-2020 period; and (4) banking companies that have distributed dividends in a row during the 2016-2020 period.

**Variables and Measurement Methods**

There were independent and dependent variables identified in the research. This study considers dividend policy, firm size, capital structure, and corporate social responsibility as independent variables. Meanwhile, the dependent variable is the firm's value.

The following are tabular representations of operational variables:

**Table 1** Variable Operationalization

Variable	Measurement	Scale
Firm Value	$\text{Tobin's } Q = \frac{\text{EMV} + \text{D}}{\text{EBV} + \text{D}}$	Ratio
Dividend Policy	$\text{DPR} = \frac{\text{cash dividend per share}}{\text{net income per share}}$	Ratio
Firm Size	$\text{Size} = \text{Ln} (\text{Total Asset})$	Ratio
Capital Structure	$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$	Ratio
Corporate Social Responsibility	$\text{CSRI}_j = \frac{\sum X_{ij}}{n_j} \times 100\%$	Ratio

#### 4. RESULT AND DISCUSSION

**Table 2** Descriptive Statistics

	FV	DPR	FS	DER	CSR
Mean	0.999783	0.366299	32.65543	0.490495	0.497436
Median	0.999906	0.350000	32.68595	0.484950	0.467033
Maximum	0.999975	0.724200	34.95208	0.806800	0.780220
Minimum	0.998379	0.062963	29.57903	0.326100	0.241758
Std. Dev.	0.000319	0.154957	1.651092	0.107349	0.149033
Skewness	-2.739234	0.147469	-0.267130	0.733964	0.259652
Kurtosis	10.59949	1.996293	1.956840	3.214425	1.792591
Jarque-Bera	219.4148	2.736041	3.434040	5.501973	4.318782
Probability	0.000000	0.254610	0.179601	0.063865	0.115395
Sum	59.98698	21.97796	1959.326	29.42970	29.84615
Sum Sq. Dev.	6.00E-06	1.416682	160.8402	0.679908	1.310438
Observations	60	60	60	60	60

**Table 3** The Result of Multiple Regression Analysis (Fixed Effect Model)

The Dependent Variable: Firm Value (FV)				
Method: The Panel Least Squares				
Date: 12/06/21				
Time: 10:07				
Sample: 2016 2020				
Periods included: 5 (Five)				
Cross-sections included: 12 (Twelve)				
Total panel (balanced) observations: 60				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
DPR	-0.000374	0.000191	-1.958077	0.0566
FS	0.000507	7.88E-05	6.426516	0.0000
DER	-0.000636	0.000288	-2.210290	0.0323
CSR	-0.000182	0.000141	-1.292063	0.2031
C	0.983778	0.002453	401.0827	0.0000

From the test results above, the regression equation can be formulated as follows:

$$FV = 0.983778 - 0.000374 (DPR) + 0.000507 (FS) - 0.000636 (DER) - 0.000182 (CSR) + \varepsilon$$

Description:

FV = Firm Value

DPR = Dividend Policy

FS = Firm Size

DER = Capital Structure

CSR = Corporate Social Responsibility

$\varepsilon$  = Error term

**Table 4** Conclusions from the Hypotheses Testing

Code	Hypothesis	Coefficient	Probability Value	Conclusion
H <sub>1</sub>	Dividend Policy has a positive and significant effect on Company Value	-0.000374	0.0566 (> 0.05)	Rejected
H <sub>2</sub>	Firm size has a positive and significant effect on firm value	0.000507	0.0000 (< 0.05)	Accepted
H <sub>3</sub>	Capital Structure has a positive and significant impact on Company Value	-0.000636	0.0323 (< 0.05)	Accepted
H <sub>4</sub>	Corporate Social Responsibility (CSR) has a positive and significant effect on Company Value	-0.000182	0.2031 (> 0.05)	Rejected

## 5. CLOSING

### *Conclusions*

This study aims to find out what tests or evidence show how dividend policy, company size, capital structure, and profitability affect the value of banking companies on the Indonesian Stock Exchange (IDX) between 2016 and 2020. To meet the sample criteria, this research used non-probability sampling and a method to figure out the sample size through purposive sampling, which led to 12 companies with a five-year research period from 2016 to 2020 and a sample size of 60 for this study's sample. It can be managed for this research by using a data processing application such as Microsoft Excel 2013 and an analysis application such as Eviews (Econometric Views) Version 11.

Due to the testing of the panel data estimation model, the Chow or likelihood test, as well as the Hausman test, produce the results of the fixed effect model (FEM), showing that the fixed effect model (FEM) is the best and most appropriate model to apply in this study. Furthermore, the Simultaneous Significance Test (F-Test) or ANOVA findings show that each variable has a concurrent effect on firm value.

Moreover, the findings of this study on the dividend policy variable using the Dividend Payout Ratio (DPR) proxy demonstrate a negative and insignificant effect on company value. The research by [5] backed up the findings, suggesting that dividend policy had a negative and minimal effect on the firm's value. It follows that a dividend strategy that pays out significant payouts reduces the company's internal funding. This will have an effect on the investment in business development, which is decreasing, and as a result, the company may be unable to reach its full potential for performance. Additionally, the outcomes of the study on the variable of firm size using the SIZE proxy show a positive and significant effect on firm value. The research by [16] and [17] validated the findings of this study by indicating that the size of the firm has a significantly positive influence on the firm's value. It can be concluded that if a company receives a clear signal, its total assets will perform admirably, increasing in the firm size.

This survey also reveals that the Debt to Equity Ratio (DER) has a negative and significant effect on firm value. The research results by [18], [19] backed up the findings of this investigation, stating that capital structure has a big influence on a firm value. In conclusion,

a high capital structure creates risks for the firm, such as the default of debt and interest and cash flow problems owing to debt and interest payments. Moreover, employing a CSRI proxy, the variable Corporate Social Responsibility (CSR) has a negative and insignificant effect on firm value. In conclusion, the disclosure of Corporate Social Responsibility (CSR) is still an obligation and a formality required by law. This demonstrates that the company is still unwilling to take its social responsibility program seriously enough to benefit the surrounding community.

### ***Limitations***

This study has the following limitations: (1) A small sample of banking companies listed on the Indonesian Stock Exchange (IDX) means that the study cannot provide an overall picture of the performance of the company in Indonesia. (2) In this study, the dependent variable (firm value) is connected to only four independent variables (dividend policy, capital size, capital structure, and CSR), so each study uses only one proxy and has limitations. (3) The research has company data that makes it a sample with a period of five years with a period of 2016-2020, so this research can only focus on conditions during five years or from 2016-2020 only.

### ***Suggestions***

Numerous recommendations for additional research are made as a result of this study. (1) Additional research is expected to broaden the sample area by incorporating companies from various sectors that are listed on the Indonesian Stock Exchange, as well as years of observation. (2) Future research is expected to compare different proxies or measurements from this study to the measurements in this study for each variable. (3) Additional research is expected to add or expand on the variables used, such as company growth, liquidity, leverage, and a variety of other variables, in order to provide a more complete explanation of the company's value.

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