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The Effect Of Financial Distress And Dividend Policy On Firm Value

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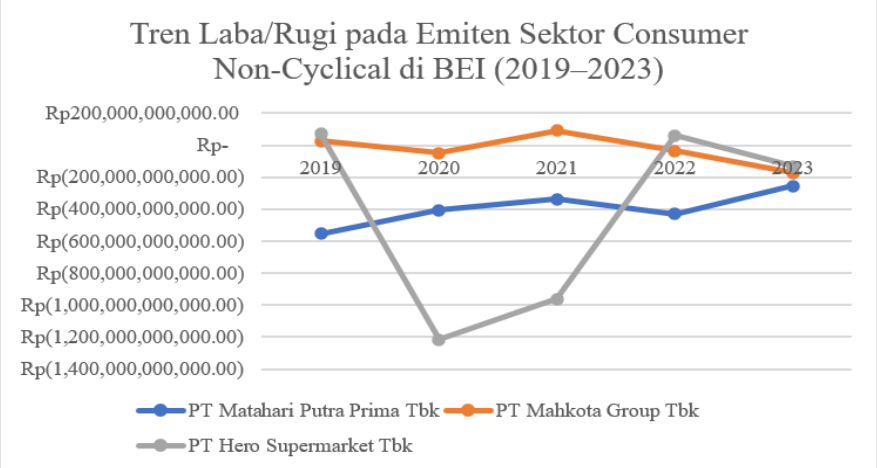
ABSTRACK

The purpose of this study is to determine the effect of Financial Distress and Dividend Policy on Firm Value. This study uses a sample of Primary Consumer Goods Sector Companies Listed on the Indonesia Stock Exchange in 2021–2025. The data used in this study are financial statements and annual reports. The sampling technique used is purposive sampling, where from 130 Primary Consumer Goods Sector Companies, a sample of 25 companies was obtained over five years, resulting in 125 observations. The analysis uses panel data regression with a fixed effect regression model. The data were processed using EViews 12. The results show that Financial Distress and Dividend Policy simultaneously have a significant effect on Firm Value. Partially, financial distress has a significant effect on firm value, whereas dividend policy has no significant effect on firm value.

INTRODUCTION

Firm value reflects investors' perceptions of a company's performance and prospects, as reflected in its share price and market value of equity. The objective of a company is not only to generate profits but also to increase shareholder wealth through the maximization of firm value (Janah & Munandar, 2022). Firm value also reflects a company's past success and its future growth opportunities; therefore, the better the company's performance and corporate image, the higher its firm value (Putri & Gantino, 2023; Yulianti & Yanuar, 2022).



Based on the figure, the profit/loss performance of companies in the consumer non-cyclicals sector during 2019–2023 tended to fluctuate and remained unstable. PT Matahari Putra Prima Tbk experienced losses for five consecutive years, while PT Mahkota Group Tbk and PT Hero Supermarket Tbk showed considerable changes between profits and losses. This condition indicates pressure on companies' financial performance, which may affect market perceptions and ultimately have an impact on firm value.

One factor affecting firm value in this study is financial distress. This condition occurs when a company experiences significant financial pressure and, if it cannot be resolved, may increase the risk of bankruptcy. Financial distress analysis is important as an early warning mechanism so that companies can take action to prevent bankruptcy (Sovita & Sari, 2022). Financial distress may also reduce investor confidence and affect firm value. Several studies have shown that financial distress affects firm value (Sovita & Sari, 2022; Kusumawati & Haryanto, 2022; Saputra et al., 2018). From the perspective of Agency Theory, financial distress may be associated with conflicts of interest between management and shareholders, potentially worsening the company's financial condition (Kusumawati & Haryanto, 2022).

Another factor that may affect firm value is dividend policy, namely the company's decision to distribute profits to shareholders or retain them for investment needs. Dividend distribution may increase investor confidence because it provides certainty of returns and reflects the company's ability to generate profits (Listya Sugiyarti & Putri Ramadhani, 2019). A stable dividend policy may also serve as a positive signal regarding the company's financial condition and prospects, potentially increasing share prices and firm value. However, previous research has produced different findings: dividend policy affects firm value (Dewi & Rahyuda, 2020; Romadhina & Andhitiyara, 2021), whereas other studies found no effect (Anisa et al., 2022). From the perspective of Signaling Theory, dividend policy serves as a signal to investors regarding the company's financial condition and prospects (Karlinda et al., 2021).

This study uses Agency Theory and Signaling Theory as its theoretical foundations. Agency Theory explains the relationship between shareholders as principals and management as agents, which may create conflicts of interest and affect company performance and firm value, including under conditions of financial distress (Jensen & Meckling, 1976; Prastiwi & Walidah, 2020; Ginting et al., 2023). Meanwhile, Signaling Theory explains that corporate information and policies can serve as signals for investors in assessing a company's condition and prospects. In this study, dividend policy is viewed as one of the signals that may influence investors' perceptions and firm value (Spence, 1973; Romadhina & Andhitiyara, 2021; Brigham & Houston, 2019).

In this study, firm value reflects market perceptions of a company's performance and prospects and is measured using Price to Book Value (PBV) (Arfiansyah, 2021; Adelyya & Putri, 2022). Financial distress refers to a condition in which a company experiences a decline in its financial condition and difficulties in meeting its obligations before reaching bankruptcy, and is measured using the Zmijewski model (X-Score) (Kusumawati & Haryanto, 2022; Saputra et al., 2018). Meanwhile, dividend policy refers to the company's decision regarding

the portion of earnings distributed to shareholders or retained for investment needs, and is measured using the Dividend Payout Ratio (DPR) (Listya Sugiyarti & Putri Ramadhani, 2019; Dewi & Rahyuda, 2020).

Based on the discussion above, there is a phenomenon of unstable financial performance among consumer non-cyclicals companies, as well as differences in previous research findings regarding the effects of financial distress and dividend policy on firm value. This condition provides a basis for re-examining the effects of financial distress and dividend policy on firm value among consumer non-cyclicals companies listed on the Indonesia Stock Exchange.

RESEARCH METHODS

This study uses a quantitative approach with secondary data in the form of financial statements and annual reports of consumer non-cyclicals companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2025 period. The data were obtained from the official IDX website and the respective company websites. The research population consisted of 130 consumer non-cyclicals companies. The sample was determined using purposive sampling based on the criteria that the companies were listed throughout the research period, published complete annual reports, reported profits during 2021–2025, used the Indonesian rupiah as their reporting currency, and had the data required for all research variables.

The independent variables are financial distress, measured using the Zmijewski model (X-Score), and dividend policy, measured using the Dividend Payout Ratio (DPR). Data collection was conducted through documentation and literature studies. Data analysis was performed using EViews 12 with panel data regression, including model selection among the Common Effect Model, Fixed Effect Model, and Random Effect Model through the Chow, Hausman, and Lagrange Multiplier tests. Subsequently, assumption tests, the coefficient of determination (R^2), and the F-test and t-test were conducted to examine the effects of the independent variables on firm value.

RESULTS AND DISCUSSION

This study uses consumer non-cyclicals companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2025 period. The sample was determined using purposive sampling based on the established criteria. The sample selection process is presented in Table 1.

No.	Criteria	Excluded	Total
1.	Number of consumer non-cyclicals (Primary Consumer Goods) companies listed on the Indonesia Stock Exchange (IDX).		130
2.	Consumer non-cyclicals (Primary Consumer Goods) companies that were active and listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period.	(52)	78

3.	Consumer non-cyclicals (Primary Consumer Goods) companies listed on the Indonesia Stock Exchange (IDX) that reported complete financial statements during the 2019–2023 period.	(2)	76
4.	Consumer non-cyclicals (Primary Consumer Goods) companies listed on the Indonesia Stock Exchange (IDX) that did not experience losses, based on positive profit values.	(39)	37
5.	Consumer non-cyclicals (Primary Consumer Goods) companies listed on the Indonesia Stock Exchange (IDX) that used Indonesian rupiah as the reporting currency.	(1)	36
6.	Consumer non-cyclicals (Primary Consumer Goods) companies listed on the Indonesia Stock Exchange (IDX) that had the measurement scales used in the study available in their financial statements.	(11)	25
7.	Total sample		25
8.	Number of observations excluded as outliers		0
Total companies included in the sample			**25**
Total Observations (25 Companies × 5 Research Years)			**125**

Based on the sample selection process in Table 1, out of 130 consumer non-cyclicals companies listed on the Indonesia Stock Exchange, 25 companies met all sample criteria. With an observation period of five years, a total of 125 observations were obtained for the analysis.

Variable	Mean	Minimum	Maximum	Std. Dev.
Firm Value (PBV)	4,749,399	0,238436	60,671,790	9,753,793
Financial Distress (Z-Score)	-2,157,064	-4,421,637	0,348300	1,174,629
Dividend Policy (DPR)	0,516897	0,001751	2,529,098	0,419679

The descriptive statistics show that firm value, measured by PBV, has a mean of 4.749399, a minimum value of 0.238436, and a maximum value of 60.671790. Financial distress, measured using the Zmijewski X-Score, has a mean of -2.157064, with a minimum value of -4.421637 and a maximum value of 0.348300. Meanwhile, dividend policy, measured by DPR, has a mean of 0.516897, a minimum value of 0.001751, and a maximum value of 2.529098. These results indicate considerable variation in the values of the research variables.

The panel data regression model selection was then conducted. The Chow test resulted in a cross-section F probability value of 0.0000, indicating that the Fixed Effect Model was selected. The Hausman test was subsequently conducted and produced a probability value of 0.0102, which is lower than 0.05. Therefore, the regression model used in this study is the Fixed Effect Model (FEM).

Variable/Statistic	Coefficient/Value	t-Statistic	Prob.	Description
Konstanta	3,596,553	0,237762	0,8126	Not significant
Financial Distress	-2,263,132	-3,204,224	0,0018	Significant
Dividend Policy	1,110,431	1,189,300	0,2373	Not significant
R^2	0,946515	—	—	94,65%
Adjusted R^2	0,930915	—	—	93.09%
F-statistic	6,067,469	—	0,000000	Model significant
Durbin-Watson	1,619,714	—	—	1,619,714

Based on Table 3, the regression equation obtained is:

PBV = 3,596553 − 2,263132 FD + 1,110431 DPR + ε

The Adjusted R-squared value of 0.930915 indicates that 93.09% of the variation in firm value can be explained by financial distress and dividend policy in the model, while the remaining 6.91% is explained by other factors outside the model. The F-statistic value of 60.67469 with a probability of 0.000000 indicates that financial distress and dividend policy simultaneously have a significant effect on firm value.

Discussion

Effect of Financial Distress on Firm Value

The test results show that financial distress has a significant effect on firm value, with a coefficient of -2.263132 and a probability of 0.0018. The negative coefficient indicates that the higher the level of financial distress, the lower the firm value. Financial difficulties provide information regarding increased company risk, which may affect investors' perceptions and reduce the market's valuation of the company. This result is consistent with the studies by Sovita & Sari (2022), Kusumawati & Haryanto (2022), and Saputra et al. (2018), which found an effect of financial distress on firm value. This finding also supports Agency Theory, in which financial pressure may intensify conflicts of interest between management and shareholders and affect managerial decisions that have implications for firm value.

Effect of Dividend Policy on Firm Value

Dividend policy has a coefficient of 1.110431 with a probability of 0.2373; therefore, it does not have a significant effect on firm value. This result indicates that changes in the level of dividend distribution are not yet a sufficiently strong factor in explaining changes in firm

value among the sampled companies. Investors may consider other information, such as fundamental performance, profitability, financial risk, and growth prospects, when assessing a company. This result is consistent with Anisa et al. (2022), but differs from Dewi & Rahyuda (2020) and Romadhina & Andhitiyara (2021), which found an effect of dividend policy on firm value. From the perspective of Signaling Theory, dividend policy may serve as a signal regarding the company's condition and prospects, but in this study the signal was not sufficiently strong to significantly influence firm value.

Effect of Financial Distress and Dividend Policy on Firm Value

Simultaneously, financial distress and dividend policy have a significant effect on firm value, with an F-statistic of 60.67469 and a probability of 0.000000. This result indicates that financial conditions and the company's decision to distribute earnings are jointly associated with changes in firm value. The Adjusted R-squared of 93.09% also indicates that the model has a high ability to explain variations in firm value. Thus, although dividend policy does not have a significant partial effect, the two variables jointly make a significant contribution to explaining firm value.

CONCLUSION AND RECOMMENDATIONS

Based on the results of the study on the effects of financial distress and dividend policy on firm value among consumer non-cyclicals companies listed on the Indonesia Stock Exchange for the 2021–2025 period, it can be concluded that financial distress and dividend policy simultaneously have a significant effect on firm value. Partially, financial distress has a negative and significant effect on firm value, indicating that the higher the level of financial distress, the lower the firm value. Meanwhile, dividend policy does not have a significant effect on firm value, indicating that changes in the level of dividends distributed are not a significant determinant of firm value among the sampled companies.

Future research is recommended to expand the research objects and periods by including companies from other sectors and extending the observation period so that the findings have broader generalizability. In addition, future studies may consider other independent variables that could affect firm value, such as profitability, capital structure, company size, corporate governance, and external factors. Future researchers may also use alternative measurement proxies or models for financial distress, dividend policy, and firm value as comparisons to obtain more comprehensive results.

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