

**DETERMINANTS OF DIVIDEND POLICY AND THEIR IMPLICATIONS ON
FIRM VALUE MODERATED BY BI RATE**
(Case Study on Companies Listed in the High Dividend 20 Index on the Indonesia
Stock Exchange, 2017–2022)

Mohamad Duddy Dinantara^{1*}, Azhar Affandi²; Dedi Mulyadi³.

Universitas Pamulang, Tangerang Selatan, Banten, Indonesia,
Pasundan University,

Buana Perjuangan University

dosen00818@unpam.ac.id; azhar.affandi.dim@unpas.ac.id;

dedi.mulyadi@ubpkarawang.ac.id

Abstract

This study examines the effects of institutional ownership, public ownership, liquidity, debt policy, and exchange rate on dividend policy, and their implications for firm value, with the Bank Indonesia Rate (BI Rate) as a moderating variable. The research focuses on companies in the High Dividend 20 Index listed on the Indonesia Stock Exchange (IDX) for the period 2017–2022. A quantitative approach using explanatory research was employed, with secondary data obtained from annual financial statements, official IDX publications, and Bank Indonesia. Panel data regression and Moderated Regression Analysis (MRA) were used for analysis. Results indicate that institutional ownership, public ownership, liquidity, debt policy, and exchange rate simultaneously have a significant effect on dividend policy. Partially, institutional ownership, public ownership, and liquidity show a significant positive effect, while debt policy and exchange rate show significant negative effects. Dividend policy significantly influences firm value, and the BI Rate acts as a moderating variable that strengthens this relationship.

Keywords: Institutional Ownership; Public Ownership; Liquidity; Debt Policy; Rupiah Exchange Rate; Dividend Policy; Firm Value; BI Rate

INTRODUCTION

Dividend policy is one of the most fundamental financial decisions in corporate management, alongside investment and financing decisions. Dividends are regarded as a reward for capital owners for the continuity of business maintained by management. Academic debate on the relevance of dividends has persisted since Miller and Modigliani (1961) argued that dividend policy has no impact on firm value (Irrelevance Dividend Theory). On the other hand, the Dividend Signalling Theory developed by Lintner (1956) affirms that dividends serve as important signals about the company's performance and prospects to the market.

In the context of Indonesia, companies in the High Dividend 20 Index (HDI-20) on the Indonesia Stock Exchange (IDX) represent firms that consistently distribute dividends to shareholders. Empirical evidence shows a significant decline in stock prices in the HDI-20 Index during 2019–2022, particularly during the early COVID-19 pandemic period (Q1 2020), where the average Price to Book Value (PBV) dropped to

190.50%. This indicates a dynamic relationship between dividend policy, its determinants, and firm value as influenced by macroeconomic conditions.

Various prior studies have examined the determinants of dividend policy, including institutional ownership (Crane et al., 2016; Abedin et al., 2022), financial liquidity (Kadioglu & Yilmaz, 2017), and debt policy (Iqbal et al., 2020; Jaara et al., 2018). Macroeconomic factors such as exchange rates have also been shown to affect dividend policy (Jannah et al., 2023). However, research that comprehensively analyzes the influence of public ownership, debt policy, and the rupiah exchange rate on dividend policy—along with implications for firm value with the BI Rate as a moderating variable—remains limited, particularly for companies in dividend-based indices in Indonesia.

This study aims to fill that gap by comprehensively analyzing: (1) the simultaneous and partial effects of institutional ownership, public ownership, liquidity, debt policy, and the rupiah exchange rate on dividend policy; (2) the effect of dividend policy on firm value; and (3) the role of the BI Rate as a moderating variable in the relationship between dividend policy and firm value among High Dividend 20 Index companies on the IDX for the period 2017–2022.

LITERATURE REVIEW

Signalling Theory and Agency Theory

Signalling Theory serves as the primary theoretical foundation of this study. This theory posits that information asymmetry between management and investors can be reduced through informational signals provided by the company to the market (Morris, 2019). Dividend policy is considered a positive signal reflecting strong corporate performance. Meanwhile, Agency Theory (Jensen & Meckling, 1976) explains that dividend payments serve as a mechanism to reduce free cash flow that could be misused by managers, thereby mitigating principal-agent conflicts.

Dividend Policy and Firm Value

Dividend policy, measured by the Dividend Payout Ratio (DPR), represents the proportion of net income distributed as dividends. Firm value, proxied by Price to Book Value (PBV), reflects the market's perception of the company's fundamental worth. Research by Lubis, Khaddafi, and Satriawan (2024) confirms that dividend policy remains a crucial instrument for minimizing agency conflicts and sending positive signals to the market to enhance firm value. Studies by Budagaga (2017) and Zainudin et al. (2018) further demonstrate the impact of dividend policy on firm value.

Institutional Ownership and Public Ownership

Institutional ownership influences dividend policy (Crane et al., 2016). Dominant institutional investors tend to push companies to distribute dividends consistently to maintain market confidence (Abedin et al., 2022; Doğan, 2020). Greater public ownership reflects broader ownership dispersion, promoting transparency and higher dividend payouts (Sairin, 2018).

Liquidity, Debt Policy, and Rupiah Exchange Rate

High liquidity indicates a company's ability to meet short-term obligations and implies greater capacity for dividend payments (Kadioglu & Yilmaz, 2017). High debt policy may reduce the company's ability to pay dividends because interest and principal repayment obligations take priority (Iqbal et al., 2020; Jaara et al., 2018). A weakening rupiah can suppress profitability of companies with foreign currency exposure, thereby potentially reducing dividend payments (Jannah et al., 2023; Kuchin et al., 2019).

BI Rate as a Moderating Variable

The Bank Indonesia Rate (BI Rate) as a benchmark interest rate influences the cost of capital, investment attractiveness, and investor behavior. An increase in the BI Rate tends to raise the attractiveness of banking instruments relative to equities, putting pressure on stock prices. This can moderate the relationship between dividend policy and firm value, as investors consider alternative interest rates when assessing the worthiness of dividends (Hamidah et al., 2015; Azizah et al., 2023).

RESEARCH METHOD

This study employs a quantitative approach using explanatory research to examine causal relationships between variables. The research focuses on companies in the High Dividend 20 Index listed on the IDX during the period 2017–2022. The research population consists of 20 companies, selected using non-probability sampling with a purposive sampling technique. Secondary quarterly data were obtained from annual financial statements, the official IDX website, and Bank Indonesia publications, yielding 240 observations (20 companies × 24 quarterly periods).

Independent variables include: Institutional Ownership (KEPI) measured as the percentage of shares held by institutions; Public Ownership (KEPB) as the percentage of publicly held shares; Liquidity (CR) measured by the Current Ratio; Debt Policy (DER) measured by the Debt to Equity Ratio; and Rupiah Exchange Rate (KURS) measured as the BI middle rate per US Dollar. The dependent variable is Dividend Policy (DPR) measured by the Dividend Payout Ratio, and Firm Value (PBV) measured by Price to Book Value. The BI Rate serves as the moderating variable.

The analysis consists of three sub-structures: (1) Panel data regression for the effect of KEPI, KEPB, CR, DER, and KURS on DPR; (2) Panel data regression for the effect of DPR on PBV; and (3) Moderated Regression Analysis (MRA) to test the role of the BI Rate in moderating the DPR–PBV relationship. Model selection (CEM, FEM, or REM) was carried out through the Chow Test, Hausman Test, and Lagrange Multiplier Test using Eviews 12.

Table 1. Research Variable Operationalization

Variable	Indicator	Scale
Institutional Ownership (X1)	Percentage of shares held by institutions	Ratio
Public Ownership (X2)	Percentage of shares held by the public	Ratio

Liquidity (X3)	Current Ratio (CR)	Ratio
Debt Policy (X4)	Debt to Equity Ratio (DER)	Ratio
Rupiah Exchange Rate (X5)	BI Middle Rate (IDR/USD)	Ratio
Dividend Policy (Y)	Dividend Payout Ratio (DPR)	Ratio
Firm Value (Z)	Price to Book Value (PBV)	Ratio
BI Rate (Moderating)	Bank Indonesia Reference Interest Rate	Ratio

Source: Primary Data, processed 2025

RESEARCH RESULTS

Descriptive Analysis

During the study period Q1 2017 to Q4 2022, institutional ownership (KEPI) moved within a range of 63.89%–65.19% with a mean of 64.60% and a gradual downward trend. Public ownership (KEPB) ranged from 34.81% to 36.11% with a mean of 35.40% and a gradual upward trend, reflecting a consistent ownership shift throughout the period. Liquidity (CR) ranged from 111.50% to 130.90% with a mean of 120.20%, consistently exceeding 100%, indicating that short-term payment capacity was maintained throughout the period.

Debt policy (DER) increased from 67.60% in Q1 2017 to 96.20% in Q4 2022, reflecting a tendency toward increased debt-based financing. The rupiah exchange rate depreciated from IDR 13,310 per USD in Q1 2017 to IDR 15,580 per USD in Q4 2022, with a mean of IDR 14,257. Dividend policy (DPR) showed a strong seasonal pattern, with values of 0.00% in Q1 and Q2 of each year, rising in Q3 and peaking in Q4, with the highest value of 67.50% in Q4 2022. Firm value (PBV) dropped sharply to 190.50% in Q1 2020 due to the pandemic but recovered, reaching 303.00% in Q4 2022.

Table 2. Descriptive Statistics of Research Variables

Variable	Mean	Std. Dev.	Minimum	Maximum
Institutional Ownership (%)	64.60	0.41	63.89	65.19
Public Ownership (%)	35.40	0.41	34.81	36.11
Liquidity/CR (%)	120.20	6.53	111.50	130.90
Debt Policy/DER (%)	82.66	8.42	67.60	96.20
Rupiah Exchange Rate (IDR)	14,257	552	13,310	15,580
Dividend Policy/DPR (%)	15.72	23.84	0.00	67.50

Firm Value/PBV (%)	238.16	26.77	190.50	303.00
BI Rate (%)	4.53	0.88	3.50	6.00

Source: Processed Data, 2025

Sub-Structure 1 Regression Analysis: Effect on Dividend Policy

Based on the results of the Chow, Hausman, and Lagrange Multiplier tests, the most appropriate model for Sub-Structure 1 is the Common Effect Model (CEM)/Pooled OLS. Classical assumption tests confirm that data are normally distributed (Jarque-Bera = 1.343; $p = 0.121 > 0.05$), there is no multicollinearity (all inter-variable correlations < 0.80), and no heteroscedasticity (all significance values > 0.05).

The resulting regression equation is:

$$Y = 1.303 + 0.631(\ln X_1) + 0.593(\ln X_2) + 0.523(\ln X_3) - 0.473(\ln X_4) - 0.367(\ln X_5) + \varepsilon$$

Table 3. Partial Effects on Dividend Policy

Variable	Coefficient (β)	Standardized β	Partial Effect
Institutional Ownership (X1)	0.631	0.631	19.20%
Public Ownership (X2)	0.593	0.593	17.01%
Liquidity (X3)	0.523	0.523	14.80%
Debt Policy (X4)	-0.473	0.473	13.03%
Rupiah Exchange Rate (X5)	-0.367	0.367	9.59%
Total Effect			73.63%

Source: Processed Data, 2025

Sub-Structure 2 and 3 Regression Analysis: Dividend Policy and Firm Value

In Sub-Structure 2, the Fixed Effect Model (FEM) was selected to examine the effect of DPR on PBV. Results show that DPR has a significant positive effect on PBV with a coefficient of determination $R^2 = 82.78\%$, meaning 82.78% of the variation in firm value is explained by dividend policy. In Sub-Structure 3 (MRA) using the Random Effect Model, the following equation was obtained:

$$Z = 1.877 + 0.153(\hat{Y}_1) + 0.107(\hat{Y}_2) + 0.187(\hat{Y}_1\hat{Y}_2) + \varepsilon$$

Table 4. Hypothesis Test Results: Effect of Dividend Policy on Firm Value (with BI Rate Moderation)

Variable	β	t-statistic	p-Value	Conclusion
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Dividend Policy (Y ₁)	0.153	2.354	0.019	Significant Positive
BI Rate (Y ₂)	0.107	3.402	0.001	Significant Positive
Interaction Y ₁ ×Y ₂	0.187	3.980	0.000	Significant Positive

Source: Processed Data, 2025

The coefficient of determination of the moderation model shows Weighted R² = 85.31%, meaning 85.31% of the variation in firm value is explained by the model incorporating dividend policy, BI Rate, and their interaction.

DISCUSSION

Simultaneous Effect on Dividend Policy

Simultaneous test results confirm that all independent variables (KEPI, KEPB, CR, DER, and KURS) collectively have a significant effect on dividend policy (DPR) among High Dividend 20 Index companies (F-statistic = 130.677; p = 0.000). This finding is consistent with the theoretical framework that dividend policy is a function of ownership governance factors, internal liquidity conditions, leverage levels, and macroeconomic exchange rate pressures. Collectively, the five variables contribute 73.63% to variations in dividend policy.

Partial Effect of Institutional Ownership

Institutional ownership is proven to have a significant positive effect on dividend policy with the largest partial contribution (19.20%). This finding is consistent with studies by Crane et al. (2016) and Abedin et al. (2022), which demonstrate the role of institutional investors in promoting consistent dividend payments. Institutional investors as dominant shareholders in HDI-20 companies (mean KEPI = 64.60%) tend to use dividend mechanisms to monitor management and reduce agency problems (Jensen & Meckling, 1976).

Partial Effect of Public Ownership

Public ownership has a significant positive effect on dividend policy with a partial contribution of 17.01%. Companies with a broader public shareholder base tend to face greater pressure to distribute dividends as a form of transparency and accountability to the public. This finding supports research by Sairin (2018) and is consistent with Agency Theory, which holds that dispersed ownership promotes enhanced monitoring mechanisms through dividend policy.

Partial Effect of Liquidity

Liquidity has a significant positive effect on dividend policy (contribution of 14.80%). Companies with a Current Ratio above 100% have adequate capacity to meet short-term obligations while also distributing dividends. This supports research by Kadioglu and Yilmaz (2017), which proves a positive relationship between free cash flow/liquidity and dividend payments.

Partial Effects of Debt Policy and Exchange Rate

Debt policy has a significant negative effect on dividend policy (contribution of 13.03%). The higher the DER, the larger the proportion of earnings that must be allocated to interest and principal repayment obligations, thereby reducing the capacity to pay dividends. This is consistent with research by Iqbal et al. (2020) and Jaara et al. (2018). A weakening rupiah exchange rate also has a significant negative effect on dividend policy (9.59%), indicating that rupiah depreciation pressures the profitability of companies with dollar-denominated liabilities or operating costs, with implications for reduced dividend distributions.

Effect of Dividend Policy on Firm Value and the Moderating Role of the BI Rate

Dividend policy is proven to have a significant positive effect on firm value ($\beta = 0.153$; $t = 2.354$; $p = 0.019$), with $R^2 = 82.78\%$. This finding supports the Dividend Signalling Theory (Lintner, 1956), which holds that dividends represent positive signals that enhance investor confidence and the market value of the firm. The result is consistent with studies by Lubis et al. (2024), Budagaga (2017), and Zainudin et al. (2018).

The MRA confirms that the BI Rate acts as a pure moderator that strengthens the relationship between dividend policy and firm value (interaction $\beta = 0.187$; $t = 3.980$; $p = 0.000$). Under conditions of a higher BI Rate, the positive effect of dividend policy on firm value is even stronger. This phenomenon can be explained by investor preference for companies that are able to maintain and increase dividend payments in a high-interest rate environment, as this signals strong financial performance and disciplined management (Hamidah et al., 2015; Azizah et al., 2023).

CONCLUSION

Based on the research findings, it can be concluded that: (1) Institutional ownership, public ownership, liquidity, debt policy, and the rupiah exchange rate simultaneously have a significant effect on dividend policy among High Dividend 20 Index companies on the IDX for the period 2017–2022. (2) Partially, institutional ownership, public ownership, and liquidity have a significant positive effect, while debt policy and the rupiah exchange rate have a significant negative effect on dividend policy. (3) Dividend policy has a significant positive effect on firm value, confirming the Dividend Signalling Theory in the context of the Indonesian capital market. (4) The BI Rate is proven to act as a moderating variable that strengthens the positive relationship between dividend policy and firm value.

The implications of this study suggest that corporate management should consider ownership factors, liquidity conditions, leverage levels, and exchange rate dynamics when formulating optimal dividend policies. In addition, investors should consider the role of the BI Rate as a macroeconomic context that can strengthen or weaken the signals received from a company's dividend policy. Future research could expand the study to include all companies on the IDX and incorporate variables such as profitability, firm size, and operating cash flows, as well as employ a mixed-method approach to enrich the findings.

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