FIRM SIZE MODERATING EFFECT ON FINANCIAL PERFORMANCE AND DIVIDEND POLICY FROM INDONESIA

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ABSTRACT

Introduction: The purpose of this study is to examine the effect of financial performance on dividend policy and investigate the moderating role of firm size on the relationship between financial performance and dividend policy.

Literature Review: The influence of financial performance on dividend policy signaling theory Bhattacharya (1979) is about how companies should signal to report users, in the form of information about what the manager has done in realizing the owner’s desires.

Methods: This study was an explanatory study. The unit of analysis was the company’s property and real estate listed in Indonesian Stock Exchange and the sources of data were, annual report and financial reports of the companies. Indonesian Stock Exchange was selected as the setting of the study since Indonesian Stock Exchange is one of trading places for various types of companies in Indonesia, and it provides complete information on company’s financial data and stock price. The population was 84 companies’ property and real estate listed in Indonesian Stock Exchange between 2017 to 2022.

Result and Discussion: First, Financial performance has a significant and positive relationship to dividend policy; second firm size has a moderating effect on the relationship between financial performance and dividend policy.

Conclusion: The novelty in this study is the moderation of firm size on the relationship between financial performance and dividend policy.

Keywords: Financial Performance, Dividend Policy, Firm Size, Indonesian Context, Moderation Effect.

RESUMO

Introdução: O objetivo deste estudo é examinar o efeito do desempenho financeiro na política de dividendos e investigar o papel moderador do tamanho da empresa na relação entre o desempenho financeiro e a política de dividendos.

Revisão da Literatura: A influência do desempenho financeiro na teoria de sinalização da política de dividendos Bhattacharya (1979) trata de como as empresas devem sinalizar aos usuários do relatório, na forma de informações sobre o que o gestor fez para realizar os desejos do proprietário.

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Métodos: Este estudio fue del tipo explicativo. La unidad de análisis fueron los bienes inmuebles de la empresa y los inmuebles listados en la Bolsa de Valores de Indonesia y las fuentes de datos fueron el relatório anual y los relatórios financieros de las empresas. La Bolsa de Valores de Indonesia fue seleccionada como escenario del estudio, una vez que la Bolsa de Valores de Indonesia es uno de los locais de negociación de varios tipos de empresas en Indonesia y ofrece información completa sobre los datos financieros de las empresas y los precios de las acciones. La población era compuesta por 84 propiedades e inmuebles de empresas listadas en la Bolsa de Valores de Indonesia entre 2017 y 2022.

Resultado y Discusión: Primero, el desempeño financiero tiene una relación significativa y positiva con la política de dividendos; el tamaño de la segunda empresa tiene un efecto moderador en la relación entre el desempeño financiero y la política de dividendos.

Conclusión: La novedad de este estudio es la moderación del tamaño de la empresa en la relación entre el desempeño financiero y la política de dividendos.

Palabras clave: Desempeño Financiero, Política de Dividends, Dimensão da Empresa, Contexto Indonésio, Efeito de Moderação.

EFFECTO MODERADOR DEL TAMANO DE LA EMPRESA SOBRE EL DESEMPEÑO FINANCIERO Y LA POLÍTICA DE DIVIDENDOS DE INDONESIA

RESUMEN

Introducción: El propósito de este estudio es examinar el efecto del desempeño financiero en la política de dividendos e investigar el papel moderador del tamaño de la empresa en la relación entre el desempeño financiero y la política de dividendos.

Revisión de la literatura: La influencia del desempeño financiero en la teoría de señalización de la política de dividendos Bhattacharya (1979) trata sobre cómo las empresas deben enviar señales a los usuarios de informes, en forma de información sobre lo que el gerente ha hecho para cumplir los deseos del propietario.

Métodos: Este estudio fue un estudio explicativo. La unidad de análisis fueron las propiedades e inmuebles de la empresa que cotizan en la Bolsa de Valores de Indonesia y las fuentes de datos fueron los informes anuales y los informes financieros de las empresas. Se seleccionó la Bolsa de Valores de Indonesia como escenario del estudio, ya que la Bolsa de Valores de Indonesia es uno de los lugares de negociación para varios tipos de empresas en Indonesia y proporciona información completa sobre los datos financieros y el precio de las acciones de las empresas. La población era de 84 empresas de propiedades e inmuebles que cotizaban en la Bolsa de Valores de Indonesia entre 2017 y 2022.

Resultado y Discusión: Primero, el desempeño financiero tiene una relación significativa y positiva con la política de dividendos; En segundo lugar, el tamaño de la empresa tiene un efecto moderador sobre la relación entre el desempeño financiero y la política de dividendos.

Conclusión: La novedad de este estudio es la moderación del tamaño de las empresas en la relación entre el desempeño financiero y la política de dividendos.

Palabras clave: Desempeño Financiero, Política de Dividends, Tamaño de la Empresa, Contexto Indonésio, Efecto Moderación.
1 INTRODUCTION

Financial performance and dividend policy are two important aspects of corporate financial management. Previous research has shown a relationship between good financial performance and sustainable dividend policy. Dividend policy continues to attract attention due to its linkage with corporate financing and investing decisions and its impact on shareholder wealth (Baker & Jabbouri, 2016). Dividend policy refers to the payout policy that a firm follows in determining the size and pattern of cash distributions to shareholders over time (Al-Najjar & Kilincarslan, 2016 and Mehdi et al., 2017). Dividend policy is also a decision whether the profit earned by the company at the end of the year will be distributed to shareholders in the form of dividends or will be retained to increase capital for future investment financing ((Elmagrhi et al., 2017; Baker et al., 2019 and Dewasiri et al., 2019). Dividends can also be a tool to reduce agency problems, through the distribution of free cash flow to shareholders (Jabbouri, 2016 and Lin et al., 2017).

Firm performance indicates how effectively an organization runs its business. It is a key measure used to evaluate the success, or the mere possibility of survival, of an organization (Chan et al., 2017). The firm’s performance is considered a source of sustainable growth of the economies, being one of the most important factors analysed by the investors in their decision-making process (Vieira et al., 2019). According to Ullah et al. (2020) Financial performance is a particular measure of how effectively a firm uses its resources and assets to maximize its profitability. Rahayu (2019) stated that the financial performance is the result of continuous attempts made by a company in utilizing and managing its resources in the most effective and efficient way to achieve certain goals.

Corvino et al. (2019) revealed that larger companies will have greater resources, knowledge, and capabilities, so large companies may have a competitive advantage compared to their competitors. Zeitun & Saleh (2015) argue that larger firms have the ability to diversify their investments, lower their default risk, have more access to capital markets, lower their financing costs, and have higher profits. This is in line with the statement of Chan et al. (2017) which shows that company size is often correlated with company performance, because large companies can obtain greater synergistic effects from supply chain agility. Moradi and Paulet (2019) note that large companies have greater market power. So that the size of the company will reflect the company's ability to generate profits, because large companies will be able to generate greater profits from these sales results, therefore dividend policy is influenced by profit increase activities. This statement is also supported by the results of Kilincarslan & Demiralay's
research (2021) which shows that larger companies tend to pay dividends and are able to distribute higher cash dividends than smaller companies. Likewise, the statement of Setiawan and Phua (2013) which reveals that large companies tend to pay back their income to investors in the form of dividends. Similarly, the statement from Thakur and Kannadhasan (2018) reveal that large, well-diversified companies with stable cash flow tend to issue high dividends. The bigger the company, the higher the dividend payments to shareholders. This is because a larger company has the potential to generate greater income, allowing higher dividend payments to shareholders (Kilincarslan & Demiralay, 2020). In addition, large companies tend to have easier access to capital markets to fund their companies (Misra and Kapil, 2018).

The researchers above have provided evidence that company size is a positive driving factor of the dividend payment setting process. Similar research was also conducted by Yusof & Ismail (2016); Thakur & Kannadhasan (2018); Baker et al. (2019); Sharma & Bakshi (2019) found evidence that corporate dividend decisions can be influenced by a number of variables, namely profitability, firm size, debt, risk, and growth.

Although dividend policy literature contains many explanations, some of them have been widely discussed and empirically tested in the hope of solving dividend puzzle. Thus, we will discuss major dividend policy theories in this section. Essentially, three main contradictory concepts can be observed in the literature. The first one is Miller and Modigliani’s (1961) “dividend irrelevance theory”, which posits that a managed dividend policy is irrelevant under the assumptions of a perfect capital market (i.e. dividend payments have no effect on firm value and no dividend policy is superior to another in a frictionless world). This is because shareholder wealth is determined by the income generated by the investment decisions that managers make, not by how they distribute that income.

The second approach suggests that dividend payments can increase firm value and shareholder wealth. For instance, the “bird-in-the-hand hypothesis “is a frequently heard argument that favours dividends. This hypothesis contends that since dividend payments are less risky than capital gains, dividend paying firms bring forward cash inflows to shareholders and reduce the uncertainty associated with future cash flows. Considering two identical firms, where one pays dividends while the other does not, the shares of the dividend paying firm will be safer than the shares of the non-dividend-paying firm, which in turn will increase the share price of the dividend paying firm, as compared to the non-dividend-paying firm. Accordingly, firms should offer higher dividend payouts in order to maximize their share prices and thus enhance their firm values (Gordon, 1959, 1963; Gordon and Shapiro, 1956).
“Signaling theory” is one of the most widely studied explanations, arguing that an information asymmetry exists in where a firm’s management has a better understanding of the firm’s true value as compared to outside investors, who only have access to public information. Therefore, managers use dividends to convey their superior information about the current situation and future prospects of their firms. According to Bhattacharya (1979), John and Williams (1985) and Miller and Rock (1985), if managers are confident about the future performance of their firms, they distribute more cash dividends to shareholders as a credible signal, whereas other firms, whose future prospects are not as good, cannot mimic the dividend payment levels of their firms.

Hence, investors prefer to buy the shares of firms distributing larger dividends at higher share prices. Contrarily, firms with no or less favourable inside information (in other words, non-dividend-paying firms) should experience negative price reactions. In his pioneering study, Lintner (1956) finds that managers are concerned about dividend signalling over time and suggests that managers are reluctant to cut dividends unless adverse circumstances are likely to persist, since they think dividend cuts are bad signals to the market. Lintner (1956) further detects that managers tend to make “partial adjustment” toward a target payout ratio to “smooth” dividend payment streams in the short run, and to avoid the volatility of dividends because, managers perceive that the volatile (unstable) dividend payment streams reflect the volatility in earnings that are not good indicators about their firms’ financial performance to the market.

Furthermore, Jensen and Meckling (1976), Rozeff (1982), Easterbrook (1984) and Jensen (1986) developed “agency cost theory”, which derives from problems associated with the separation of management and ownership, and the differences in managerial and shareholder priorities. They argue that high dividend payments decrease the internal cash flow subject to management discretion and force companies to approach the capital market in order to meet the funding needs for new projects. Increase of costly outside capital subjects to companies to the scrutiny of the capital market for new funds and decreases the scope of overinvestment. The efficient monitoring of capital market (i.e. outside professionals such as investment banks, regulators, lawyers, public accountants and potential investors) also assists to ensure that managers perform in the best interests of shareholders. Consequently, agency cost theory implies that firms with high cash flows should pay larger dividends, because a generous dividend payment reduces the amount of free cash flow under management’s control and minimizes the agency problems, and thus enhances firm value.
Alternatively, there is the third position that claims dividend payments can have negative consequences on firm value and shareholders’ wealth. For example, in the presence of the uneven tax treatment between dividends and capital gains, the “tax preference theory”, developed by Brennan (1970), Elton and Gruber (1970) and Litzenberger and Ramaswamy (1979), asserts that investors who receive favourable tax treatment on capital gains may prefer shares with none or low dividend payouts. The reason is that if income tax is greater than the rate of capital gains tax, high dividend payments would increase shareholders’ tax burden. Therefore, other things being equal, firms should avoid or make minimal dividend payments if they want to maximize their share prices. On the other hand, Black and Scholes (1974) and Miller and Scholes (1978) proposed the “tax clientele effect hypothesis”, arguing that each investor has his/her own implied calculations of choosing between high or low cash dividends and selecting dividend policies according to their tax category circumstances.

Since there are enough companies to provide these different dividend policies, investors will invest in only companies with policies that best fit their tax positions. In equilibrium, therefore, no firm can increase its value by reducing taxes through its dividend policy. In fact, this may cause a change in clientele and could be costly because of trading costs. Consequently, the tax clientele effect hypothesis supports the dividend irrelevancy conclusion. Moreover, the “transaction cost theory” of dividends indicates that after using cheap and easily accessible internal funds to pay dividends instead of retaining for possible investment projects, firms may have to raise additional external funds to meet their investment requirements. This external financing might be costly, since there are costs associated with raising external funds, such as interest payments, underwriter fees, administration costs, management time and legal expenses. Hence, the transaction cost theory points out that, after paying dividends, firms may face heavy burden of transaction costs of external financing for possible investment projects (Bhattacharya, 1979; Rozeff, 1982; Miller and Rock, 1985).

Furthermore, a relatively new explanation, namely the “catering theory of dividends” offered by Baker and Wurgler (2004 a, b), postulates that investor preferences for dividends may change over time. Therefore, managers should recognize and cater to shifts in investors preferences for dividends—that is, managers cater to investors by distributing dividends when investors put a premium on such stocks and they will omit dividends when investors highly rate firms that do not pay dividends.

Grullon et al. (2002) purpose another explanation that attempts to link firm age with dividend policy, which is known as the “maturity hypothesis”. This explanation suggests that higher dividend increases are a sign of change in a firm’s life cycle. In particular, firms are
likely to pay higher dividends as they transit from growth to a more mature phase. This change occurs because their investment opportunities and growth rates become slower or even decline, and they start generating larger amounts of free cash flows. Finally, the “residual dividend policy” recommends that firms should pay dividends only when their internally generated earnings are not fully exhausted for investment projects. Thus, dividend payments should ideally be the residuals of cash produced by the firms’ operations after undertaking all positive net present value (NPV) investments. Following a residual dividend policy, the amount of residual dividend tends to be highly volatile and often zero (Lease et al., 2000).

2 LITERATURE REVIEW

This study has 2 hypotheses. The hypotheses and their underlying theories including previous empirical research are discussed in the following sections.

2.1 THE INFLUENCE OF FINANCIAL PERFORMANCE ON DIVIDEND POLICY

Signaling theory Bhattacharya (1979) is about how companies should signal to report users, in the form of information about what the manager has done in realizing the owner’s desires. Signals can be in the form of financial performance which is important for some parties. For shareholders, profit is one of the factors that determine dividend policy, the greater the profit earned, the higher the dividends will earn, and usually will be well responded by the market so that the share price will go up. For investors, profit is an attraction to invest funds in the company.

Previous dividend policy studies show that a key determinant of corporate dividend decisions is profitability and generally report that there is a positive relationship between profitability and dividend payments (Fama and French, 2001; Jabbouri, 2016; Baker et al., 2019). Sirait and Siregar (2014) detect that dividend-paying status, dividend increase and persistence in dividend payments have a positive correlation with earnings quality. This positive relationship is in line with the “signaling theory,” developed by Bhattacharya (1979), Miller and Rock (1985) and John and Williams (1985).

The signaling theory argues that profitable firms will be more inclined to pay dividends, to signal their better financial performance. They are also more likely to distribute greater cash dividends to shareholders as a good (credible) signal to the market. Conversely, their less profitable counterparts, in a weaker financial position, cannot match such dividend payments.
In this respect, Kim and Gu (2009), looking at US hospitality firms, Bahreini and Adaoglu (2018), looking at travel and leisure companies from five West European countries, Dewasiri et al. (2019), looking at Sri Lankan firms, Singla and Samanta (2019), looking at India construction firms, Kilincarslan and Demiralay (2020) looking at UK T&L firms. report that financial performance has a positive impact on dividend payout. Suhadak et al. (2019) report that financial performance (consisting of free cash flow, ROA, and ROE) has a positive impact on stock returns (consisting of abnormal returns, and dividend yields). Companies that have high financial performance will attract investors to invest in hopes of getting high returns, both in the form of dividends and capital gains.

Therefore, we propose that highly profitable Indonesian property and real estate firms are more likely to pay cash dividends to demonstrate their better financial positions. Therefore:

H1. Financial Performance has a significant influence on dividend policy.

2.2 THE MODERATING EFFECT OF FIRM SIZE ON THE RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND DIVIDEND POLICY

Firm size is a description of the size of a company which is shown in total assets (Viviani, 2008; Alipour et al., 2015; Vithessonthi & Tongurai, 2015; Moradi & Paulet, 2019, Neves et al., 2020), and total company sales (Viviani, 2008; Gomes et al., 2014; Balios et al., 2016; Feng et al., 2020). Larger companies are generally more diversified, less risky and face fewer financial problems and difficulties (Dasilas & Papasyriopoulos, 2015; Köksal & Orman, 2015). This translates into easier access to external financing. In turn, smaller companies are riskier and face higher costs and information asymmetry problems, so the access to the financing market is more difficult (Feng et al., 2020).

Previous studies, similarly show that large firms tend to be mature organizations with a steady earnings pattern, who can maintain a reasonable level of funds, whereas small firms usually are exposed to more volatile cash flows (Fama and French, 2001; Grullon et al., 2002). Larger firms also have easier access to capital markets allowing them to raise external financing at lower costs than smaller firms, reducing their dependence on internally generated earnings (Vo, 2016; Panda & Nanda, 2020). Given their less reliance on internal funds and lower transaction costs, larger firms are more likely to pay dividends and can afford to distribute higher cash dividends than their smaller counterparts (Kilincarslan and Demiralay, 2020).

Indeed, Kim and Gu (2009), Moon et al. (2015); Jabbouri (2016); Yusof & Ismail (2016);
Bahreini & Adaoglu (2018); Dewasiri et al. (2019); Kilincarslan & Demiralay, (2020) have all provided evidence that firm size is a positive driver of the dividend payout setting process.

Vithessonthi & Tongurai (2015) showed that firm size acts as a moderator in the relationship between leverage and performance. The research findings of Vithessonthi & Tongurai (2015) indicate the fact that internationally oriented firms tend to have a larger pool of resources, knowledge, and capabilities than domestically oriented firms. The same thing was also shown in the research of Corvino et al. (2019) which states that company size has a moderating effect on the relationship between relational capital (RC) and firm performance (FP). Therefore, the second hypothesis proposed in this study states:

H2. Firm size is moderating variable in the influence of financial performance on dividend policy.

3 METHODS

Research is a planned and systematic process to solve particular issues or answer a set of research questions. This study was an explanatory study. The unit of analysis was the company’s property and real estate listed in Indonesian Stock Exchange and the sources of data were, annual report and financial reports of the companies.

The population was 84 companies’ property and real estate listed in Indonesian Stock Exchange between 2017 and 2022. “Non probability random sampling” was the approach used to select the samples while the sampling method was “purposive sampling,” in which criteria were used to select the samples (Solimun et al., 2017). The criteria were: property and real estate companies listed on the Indonesia Stock Exchange in 2017-2022; property and real estate companies that have published financial reports consecutively during the study period, namely 2017-2022; and property and real estate companies that have distributed dividends during the study period, namely 2017-2022. From the calculation results, it is obtained that 26 companies meet the criteria. The total samples were 26 companies x 6 years = 154 observation.

In this study, the independent variable of financial performance is measured using three indicators, namely in return on assets (Detthamrong et al., 2017; Elmaghr et al., 2018 and Ciftci et al., 2019), return on equity (Detthamrong et al., 2017; Suhadak et al., 2019; Ullah et al., 2020), and net profit margin (Arora & Sharma, 2016; Rahayu et al., 2019). The dependent variable is dividend policy measured using three indicators, namely dividend per share (Arko et al., 2014; Zagonel et al., 2018; Briano-Turrent et al., 2020; and Kilincarslan & Demiralay, 2020), dividend payout ratio (Baros et al., 2019 and Yılmaz et al., 2022), dividend yield (Mehdi
et al., 2017; Atanassov & Mandell, 2018; Ngo et al., 2020). Moderating variable firm size which is measured using two indicators, namely the natural logarithm of the total asset (Moradi & Paulet, 2019; Feng et al., 2020; Neves et al., 2020) and natural logarithm of total sales. (Viviani, 2008; Gomez et al., 2014; Sharma & Bakshi, 2019). The analysis instrument was WarpPLS involving structural model and moderating variable (Solimun et al., 2017 and Suhadak et al., 2019).

**Figure 1**

_Hypothesis model_

![Diagram of the hypothesis model showing the relationships between financial performance, firm size, and dividend policy.]

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**4 RESULTS AND DISCUSSION**

4.1 THE EFFECT OF FINANCIAL PERFORMANCE ON DIVIDEND POLICY

The results obtained in hypothesis testing show that the effect of financial performance on dividend policy has a path coefficient value of 0.249 and a p-value of <0.001. These results indicate that the financial performance variable has a positive and significant effect on the dividend policy variable, thus supporting the first hypothesis (H1), namely "financial performance affects dividend policy". The positive path coefficient value (0.245) indicates that the influence between the two variables is unidirectional. This condition shows that the increasing financial performance proxied by return on assets (ROA), return on equity (ROE), and net profit margin (NPM) will affect the increase in the company's dividend policy. This effect also applies vice versa, namely if the financial performance variable decreases, it will have an impact on decreasing dividends. the bases for the hypothesis (Figure 2).
The results of this study are in accordance with the logic in Signaling Theory proposed by Bhattacharyya (1979), which states that financial performance has a positive effect on dividend policy. According to this theory, companies with good financial performance can send signals to the market through dividends. The model in signaling theory is based on the existence of asymmetric information problems, where the company's management has inside information about the company's prospects and conditions, so it tends to provide positive signals to investors or parties outside the company about the company's excellence, one form of positive signal is by distributing dividends to shareholders.

The positive effect between financial performance and dividend policy also strengthens the Free cash flow theory proposed by Jensen (1986). In this theory, Jensen (1986) explains that even though the company has a lot of cash supply, it will still choose to use debt as a corporate funding decision, and use the excess cash it has to pay dividends and compensate company management, which provides this incentive as an alternative to reducing agency costs.

The results of this study are in accordance with research conducted by Abor and Bokpin (2010); Baker et al., (2019); and Dewasiri et al., 2019 which states that profitability has an important influence on dividend policy. Companies that have high profitability can also provide high dividends to shareholders. Consistent with the notion that profitability positively affects dividend payments, this finding reveals that more profitable UK T&L firms tend to distribute larger cash dividends to show their good performance, whereas less profitable ones cannot mimic such payout levels (Kilincarslan & Demiralay, 2020).
4.2 MODERATING EFFECT OF FIRM SIZE IN THE INFLUENCE OF FINANCIAL PERFORMANCE TOWARD DIVIDEND POLICY

Firm size is a moderating variable in the influence of financial performance on dividend policy, was accepted with coefficient line of 0.143 and P-value of 0.034. The finding that firm size strengthens the effect of financial performance on dividend policy shows evidence that according to the Resources Based View (Penrose, 2009) firm size is an indicator that shows the strength of company resources. This is reflected in the results of the study which reveal that company resources in the form of total assets and total sales of property and real estate companies tend to increase, this finding indicates that larger companies have resource advantages in the form of large assets as well.

Larger companies tend to have greater economies of scale, which can result in operational efficiency and reduced production costs. This can enable the company to achieve higher profit margins and better financial performance overall. Larger companies tend to have more product lines or different businesses, which can reduce the risk of dependence on a single market or industry. Diversification can help cushion fluctuations in financial performance and result in greater earnings stability. Large companies may have easier access to financial resources, either through debt or equity. This can allow the company to undertake larger investments and projects that can improve long-term performance.

Larger companies tend to have larger and more stable cash flows, which can provide the financial ability to pay dividends to shareholders. Larger company size may provide greater financial flexibility in determining dividend amounts. Large companies may be better able to maintain stable dividends or even increase dividends over time. This can provide confidence to shareholders and help create long-term investor loyalty. Firm size can affect dividend policy by influencing the firm's decisions regarding investment and growth. Large companies may be more inclined to allocate a larger amount of funds for investment and growth, which may affect the amount of dividends paid. Larger companies may have more diverse and complex stakeholders, including institutional investors and boards of directors. This may influence decisions regarding dividend policy, with wider consideration of the interests of various parties. So that the larger the size of a company, the greater its total assets and will have a good impact on the company's financial performance as reflected in the average ROA, ROE, and NPM which ultimately affects the company's dividend payment policy.

The results of this study are new findings because there has been no research on moderation of firm size on the effect of financial performance on dividend policy. The novelty
of this research lies in the novelty of the model, namely the moderation path of firm size on the effect of financial performance on dividend policy.

5 CONCLUSION

5.1 CONCLUSION

Financial performance has a significant effect on dividend policy with a positive direction of influence. The results of this study are in accordance with supporting Signalling Theory proposed by Bhattacharyya (1979), which states that financial performance has a positive effect on dividend policy. According to this theory, companies with good financial performance can send signals to the market through dividends. The model in this signaling theory is based on the existence of asymmetric information problems, where company management has inside information about the prospects and conditions of the company, so it tends to provide positive signals to investors or parties outside the company about the company's superiority, one form of positive signal is by distributing dividends to shareholders.

Firm size significantly moderates the effect of financial performance on dividend policy. Larger firms tend to have greater economies of scale, which can result in operational efficiency and reduced production costs. This can enable companies to achieve higher profit margins and better overall financial performance and influence dividend policy payout decisions.

REFERENCES


