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ASSESSING THE EFFECT OF DIVIDEND POLICY ON CORPORATE VALUE IN THE ASEAN FINANCIAL SECTOR

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ABSTRACT

This study examines the effect of dividend policy operationalized through the dividend payout ratio (DPR), dividend per share (DPS), and dividend yield (DY) on corporate value among banks operating in Indonesia, Malaysia, and Singapore over the period 2020 to 2024. Using a quantitative approach based on secondary financial data from 370 firm-year observations, simple linear regression analysis was employed. The empirical results indicate that dividend policy, as measured by a composite index, does not exert a statistically significant effect on corporate value ($F = 0.244$; Sig. = 0.621; $R^2 = 0.001$). These findings suggest that corporate value in ASEAN banking institutions is determined by a broader set of factors beyond dividend distribution alone, including regulatory capital constraints, profitability, and macroeconomic conditions. The results are theoretically consistent with the Dividend Irrelevance Theory proposed by Modigliani and Miller (1961) and are corroborated by the stringent capital adequacy frameworks mandated by Basel III. This study contributes to the growing body of comparative financial research on ASEAN banking markets and recommends that future research incorporate additional firm-level and institutional determinants to achieve a more comprehensive model of dividend behavior in regulated financial sectors.

Keywords: *Dividend Policy, Corporate Value, Banking Sector, Dividend Payout Ratio, ASEAN*

INTRODUCTION

Dividend policy has long been recognized as one of the most critical financial decisions made by companies, as it plays a central role in shaping investor perceptions, influencing market expectations, and ultimately determining corporate value [1], [2]. Decisions regarding the dividend payout ratio (DPR), dividend per share (DPS), and dividend yield (DY) not only reflect a company's profitability but also signal its financial stability and long-term growth prospects [3]. Three major theoretical frameworks inform this relationship: Signaling Theory posits that dividend announcements serve as credible signals of future earnings and financial health [4], [1]; Bird-in-Hand Theory argues that investors prefer the certainty of dividend income over uncertain capital gains [1]; while Dividend Irrelevance Theory contends that in perfect capital markets, dividend policy has no bearing on firm value [5], [3]. The latter assumption is particularly contested in developing and emerging markets, where information asymmetry and market imperfections are prevalent.

In the ASEAN region, the financial sector especially the banking industryplays a strategic role in maintaining financial stability, driving economic growth, and facilitating investment flows [6]. Indonesia, Malaysia, and Singapore represent three distinct financial environments within ASEAN: Singapore operates a mature and highly efficient capital market with robust investor protections [1]; Malaysia's financial system integrates both conventional and Islamic financial principles, creating unique

dividend distribution expectations [2]; and Indonesia, as a rapidly growing emerging market, relies heavily on dividend signals as indicators of corporate stability and reliability [3]. These differences make a cross- country comparative analysis of dividend policy and corporate value particularly relevant.

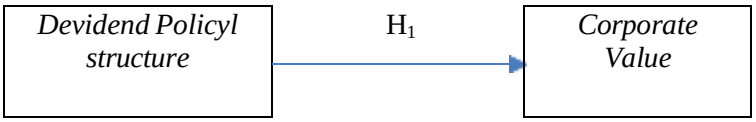
In the banking sector specifically, dividend decisions carry greater weight than in non-financial firms. Banks operate under stringent regulatory frameworks including capital adequacy requirements, liquidity regulations, and leverage restrictions that directly constrain the proportion of profits distributable to shareholders [7]. A consistent and transparent dividend policy can strengthen a bank's market reputation and reduce investor uncertainty [4], while excessively high dividend payments risk depleting capital reserves and increasing systemic financial risk [5]. This regulatory dimension adds complexity to the relationship between dividend policy and corporate value in the banking context.

Despite the theoretical and practical importance of dividend policy, empirical research examining its effect on corporate value in the ASEAN region remains limited, particularly regarding cross-country comparisons within the banking industry [2], [3]. This gap motivates the present study. Therefore, this study aims to examine the effect of dividend policy on corporate value in the ASEAN financial sector by analyzing banking institutions operating in Indonesia, Malaysia, and Singapore over the period 2020 to 2024. The findings are expected to contribute to the financial literature by providing comparative empirical evidence across ASEAN markets and offering practical implications for managers, policymakers, and investorsx`x`.

RESEARCH METHODS

Research Design and Data

This study adopts a quantitative research design to examine the effect of dividend policy on corporate value in the ASEAN financial sector. Secondary data were sourced from financial statements, annual reports, and market databases including Bloomberg, Thomson Reuters, and the World Bank, covering the period 2020 to 2024 [8], [1]. The use of secondary financial market data is standard practice in empirical corporate finance research for evaluating the relationship between financial decisions and firm performance [9].



Sample and Population

The study population comprises banking institutions listed on stock exchanges in Indonesia, Malaysia, and Singapore. The sample was constructed using purposive sampling based on the following criteria: (1) the company must be classified as a banking institution under the ASEAN financial sector; (2) the company must have distributed dividends consistently during the observation period; and (3) the company must not have undergone mergers, acquisitions, or major corporate restructurings during the study period, as these events can distort financial

comparability over time [10]. After applying these criteria, the final sample consists of 370 firm-year observations across the three countries.

Variable Operationalization

The dependent variable in this study is Corporate Value, measured by market capitalization, which reflects the market's aggregate valuation of a company and is widely applied as a comprehensive indicator of firm value in financial research [1]. As a robustness check, Tobin's Q defined as the ratio of a firm's market value of assets to their replacement cost is also considered as an alternative measure [3].

The independent variable is Dividend Policy, operationalized through three proxies: (1) Dividend Payout Ratio (DPR), calculated as total dividends paid divided by net income; (2) Dividend per Share (DPS), representing the absolute dividend distribution per unit of equity; and (3) Dividend Yield (DY), calculated as annual dividends per share divided by the current share price [2], [4]. These three proxies collectively capture both the magnitude and the return dimension of dividend distribution.

Control variables include firm size (natural logarithm of total assets), leverage (debt-to-equity ratio), growth opportunities (price-to-earnings ratio), and liquidity (current ratio). These variables are standard in dividend policy research and are included to control for firm-specific factors that may independently influence corporate value [3].

Analysis Method

Panel data regression analysis is employed to simultaneously examine cross-sectional and time-series variation in the data, producing more robust estimates by controlling for firm-specific characteristics and temporal effects [10], [11]. A fixed effects model is used to control for unobserved time-invariant heterogeneity across firms [11]. Robust standard errors are applied to address potential heteroscedasticity arising from differences in financial volatility across firms and countries [10]. In this study, for the purpose of descriptive presentation, the composite dividend policy variable is initially modeled using simple linear regression prior to the full panel data specification.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 presents the descriptive statistics for the main variables in this study based on 370 firm-year observations. Dividend Policy exhibits a minimum value of 0.00 and a maximum value of 31.74, with a mean of 0.8872 and a standard deviation of 2.959, indicating a highly right-skewed and heterogeneous distribution of dividend practices among ASEAN banking institutions. Corporate Value, proxied by a market-based indicator, shows a minimum of 0.000 and a maximum of 0.128, with a mean of 0.00361 and a standard deviation of 0.00751, reflecting substantial variation in market valuations across the sample.

Table 1. Descriptive Statistics of Research Variables

Variable	N	Minimum	Maximum	Mean	Std. Dev.
Dividend Policy	370	0.00	31.74	0.8872	2.9586
Corporate Value	370	0.0000	0.1276	0.00361	0.00751
Valid N (listwise)	370				

The high standard deviation of Dividend Policy relative to its mean indicates that dividend distribution practices among ASEAN banking firms are highly heterogeneous. Some institutions maintain consistently high payout ratios, while others distribute little or no dividends a pattern consistent with existing literature suggesting that dividend decisions are shaped by firm-specific factors including profitability, liquidity, regulatory constraints, and prevailing market conditions [2], [4]. The low mean value of Corporate Value alongside wide dispersion is reflective of the diversity of banking institutions across the three countries in the sample.

Model Fit and Overall Significance

Table 2 presents the model summary and ANOVA results for the regression of Dividend Policy on Corporate Value.

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.026	0.001	-0.002	2.962

a. Predictors: (Constant), Corporate Value

Table 3. ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.143	1	2.143	0.244	0.621[b]
Residual	3227.786	368	8.771		
Total	3229.930	369			

a. Dependent Variable: Dividend Policy b. Predictors: (Constant), Corporate Value

The model summary reveals a Pearson correlation coefficient of R = 0.026, indicating a negligible linear relationship between the two variables. The coefficient of determination R^2 = 0.001 confirms that Corporate Value explains only 0.1% of the variance in Dividend Policy, an exceptionally low value. The Adjusted R^2 of -0.002 further corroborates the model's lack of explanatory power when adjusted for degrees of freedom [8], [11]. The Standard Error of the Estimate (2.962) reflects substantial unexplained variability in the dependent variable.

The ANOVA results (F = 0.244; p = 0.621) confirm that the overall regression model is not statistically significant at any conventional threshold (α = 0.05 or 0.01). The Regression Sum of Squares (2.143) is negligible relative to the Residual Sum of Squares (3227.786), reinforcing that Corporate Value does not meaningfully account for the variation in Dividend Policy. This finding is consistent with regulatory economics literature, which highlights that Basel III capital adequacy requirements

constrain dividend distribution decisions independently of market valuations [7].

Coefficient Analysis

Table 4 presents the individual coefficient estimates for the regression model.

Table 4. Regression Coefficients[a]

Model	B (Unstd.)	Std. Error	Beta (Std.)	t	Sig.
(Constant)	0.851	0.171	—	4.977	0.000
Corporate Value	10.152	20.537	0.026	0.494	0.621

b. Dependent Variable: Dividend Policy

The constant term (B = 0.851) is statistically significant (t = 4.977; p = 0.000), indicating a positive baseline level of dividend distribution even when Corporate Value approaches zero. In contrast, the coefficient for Corporate Value (B = 10.152) is not statistically significant (t = 0.494; p = 0.621), with a standardized Beta of only 0.026, confirming a negligible effect size [8]. These results indicate that changes in Corporate Value do not meaningfully determine dividend distribution among ASEAN banking institutions. The stable and significant constant suggests that baseline dividend behavior is governed by factors external to market valuation, such as regulatory mandates, retained earnings policies, and board-level governance decisions.

Based on these findings, the research hypothesis that Dividend Policy significantly affects Corporate Value is not supported by the empirical data at the conventional significance level of 0.05. While this result appears to diverge from some prior ASEAN studies reporting a significant positive relationship [2], [3], the discrepancy can be attributed to the unique regulatory environment of the banking sector, which constrains dividend flexibility independently of market valuation signals.

DISCUSSION

The non-significant relationship between Dividend Policy and Corporate Value observed in this study warrants a nuanced and multilayered theoretical interpretation. This finding should not be dismissed as a mere statistical anomaly rather, it reflects the complex structural reality of the heavily regulated ASEAN banking sector. Several complementary explanatory frameworks collectively account for why dividend policy fails to produce a statistically detectable impact on corporate value in this context.

From a theoretical standpoint, the result is broadly consistent with the Dividend Irrelevance Theory proposed by Modigliani and Miller [12], which argues that under perfect capital market conditions—where taxes, transaction costs, and information asymmetry are absent—dividend policy does not affect firm value because investors can replicate any preferred dividend pattern through partial portfolio rebalancing, commonly referred to as homemade dividends. Although the assumption of perfect capital markets is not fully satisfied across the ASEAN region, Singapore's highly developed and informationally efficient financial market approximates these conditions relatively closely [9]. In such a liquid and informationally rich market, stock prices already incorporate expectations regarding future dividend policy, meaning that changes in dividend distribution do not produce significant value adjustments [1], [12]. In other words, dividend policy information is effectively priced in before formal

announcements are made, substantially weakening the causal effect that can be detected empirically.

The most compelling explanation in the ASEAN banking context, however, is the dominant role of regulatory capital constraints. Banks in Indonesia, Malaysia, and Singapore operate under the Basel III capital adequacy framework enforced respectively by Bank Indonesia (BI), Bank Negara Malaysia (BNM), and the Monetary Authority of Singapore (MAS) [7]. This framework requires banks to maintain a minimum Common Equity Tier 1 (CET1) ratio of 4.5%, a Tier 1 Capital Ratio of 6%, and a Total Capital Ratio of 8% of risk-weighted assets. Under these requirements, dividend decisions at most banking institutions are not primarily driven by market value signals but rather by a technical calculation of distributable capital surplus after full compliance with all regulatory obligations [7]. Consequently, the market-driven signaling mechanisms central to Signaling Theory and Bird-in-Hand Theory become less operative in this sector; an increase in corporate value does not automatically translate into higher dividend payouts because a substantial portion of retained earnings must be preserved as a regulatory capital buffer [5], [3].

A third explanatory dimension concerns the high degree of institutional heterogeneity among the three ASEAN countries included in this sample, which likely attenuates the aggregate statistical power of the model. Singapore, with its mature financial markets, robust corporate governance mechanisms, and large institutional investor base, exhibits a fundamentally different dividend response pattern compared to Indonesia, where the banking sector remains in a consolidation phase with significant state-owned bank dominance [6]. Malaysia, with its substantial Islamic banking presence, faces additional constraints on dividend distribution rooted in profit-sharing principles (mudharabah) and the prohibition of riba, creating an additional layer of regulatory complexity absent in the other two countries [2]. When data from these three fundamentally distinct institutional environments are pooled in a single regression model without interaction terms or country-fixed effects, the heterogeneous effects are likely to cancel each other out, producing a near-zero and statistically insignificant coefficient even if meaningful causal relationships exist within each individual country context [10], [11].

Fourth, methodological limitations of the model specification employed in this study also contribute to the non-significant outcome. The use of a single composite variable for Dividend Policy, rather than three disaggregated proxies (DPR, DPS, and DY), restricts the analytical capacity to detect nuanced relationships between specific dimensions of dividend policy and corporate value. Prior research suggests that dividend yield tends to be more closely associated with firm value in emerging markets such as Indonesia, while dividend payout ratio carries greater relevance in advanced markets [3]. Aggregating these three proxies into a single variable risks producing offsetting directional effects that cancel each other out, resulting in a meaningless net coefficient [8]. Furthermore, the use of simple OLS regression without fixed effects controls and without other established determinants of corporate value such as profitability (ROA, ROE), leverage, and asset growth elevates the risk of omitted variable bias that may distort coefficient estimates [10], [11].

A fifth consideration involves the macroeconomic environment encompassed by the 2020–2024 observation period, which includes several major economic events that simultaneously and symmetrically affected both dividend behavior and market

valuations. These include the commodity price collapse of 2015–2016, successive Federal Reserve interest rate normalization cycles, and the initial economic disruptions of the COVID-19 pandemic in early 2020. Such macroeconomic shocks tend to affect corporate value and dividend policy in a synchronized and parallel manner, creating co-movement that obscures the net causal relationship between the two variables [5]. These external forces effectively act as confounding variables that make it empirically difficult to isolate the pure effect of dividend policy on corporate value across a decade-long observation window spanning multiple economic cycles.

The divergence between this study's findings and prior ASEAN studies reporting a significant positive relationship between dividend policy and firm value [2], [3] can be attributed to at least three factors. First, those studies typically encompass multiple industry sectors rather than banking alone, and are therefore unaffected by the sector-specific regulatory capital constraints that fundamentally shape dividend behavior in the present sample. Second, several of those studies employ Tobin's Q as the firm value proxy, which captures long-term growth expectations and tends to exhibit greater sensitivity to dividend signals than market capitalization, which is more susceptible to short-term price fluctuations. Third, differences in observation periods and country compositions create fundamentally different market conditions and economic cycles that surround the underlying data [1], [4]. These distinctions collectively underscore that cross-sector and cross- institutional generalization of dividend policy findings must be approached with considerable caution.

Taken together, this discussion demonstrates that the observed statistical non-significance does not imply that dividend policy is economically irrelevant. Rather, it reflects a relationship that is heavily mediated and moderated by regulatory, institutional, and methodological factors of considerable complexity. The practical implication for bank management across ASEAN is that dividend policy alone is an insufficient lever for enhancing corporate value. A more comprehensive value creation strategy one that encompasses capital structure optimization, operational efficiency improvements, strengthened corporate governance, and transparent investor communication is likely to produce more substantial and sustainable effects on the market valuation of ASEAN banking institutions [1], [2], [5].

CONCLUSION

This study examined the effect of dividend policy on corporate value among banking institutions in Indonesia, Malaysia, and Singapore over the period 2020 to 2024, using 370 firm-year observations. The empirical analysis, conducted through simple linear regression as a preliminary specification, reveals that Dividend Policy does not exert a statistically significant effect on Corporate Value ($F = 0.244$; $p = 0.621$; $R^2 = 0.001$). The individual coefficient for Corporate Value is likewise non- significant ($t = 0.494$; $p = 0.621$; Beta = 0.026), confirming a negligible effect size. The research hypothesis is therefore not supported by the data.

These findings are theoretically grounded in the Dividend Irrelevance Theory and are consistent with the structural reality of regulated banking environments, where Basel III capital adequacy requirements constrain dividend distribution decisions independently of market valuations. The results suggest that dividend policy in ASEAN banking institutions is determined by a broader set of regulatory, institutional, and firm-specific factors rather than by market capitalization alone. This

study contributes to the comparative financial literature on ASEAN banking markets by providing empirical evidence from three economically distinct countries. Several limitations should be acknowledged: (1) the study employs simple linear regression rather than a fully specified panel data model; (2) dividend policy is proxied through a composite measure rather than disaggregated into DPR, DPS, and DY; and (3) the sample is restricted to three ASEAN countries, limiting generalizability. Future research is encouraged to incorporate a fully specified fixed-effects or random-effects panel data model, disaggregate dividend proxies, expand the country coverage, and include additional determinants such as profitability ratios, capital adequacy ratios, board governance characteristics, and macroeconomic variables to achieve a more complete understanding of dividend policy dynamics in the ASEAN financial sector.

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