The Impact of COVID-19 Pandemic on Dividend Policy Relevance to Firm Value: the case of Indonesian Banking Industry

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Abstract

Banking industry is synonymous to larger dividend payment compared to other sectors. The complexity of dividend policy is further exacerbated by the occurrence of COVID-19 pandemic. This research is aimed to test the impact of COVID-19 pandemic on dividend policy relevance to firm value. Firm value is measured by firm market value and TOBINSQ. Meanwhile dividend policy is measured by dividend payout ratio and dividend yield ratio. This research used the available data for the 2018 to 2022 period. The research methodology employed for this research is multiple linear regression. This research does not find significant impact from dividend policy on firm value and supports Irrelevance Theory, both for pre-COVID-19 pandemic and during COVID-19 pandemic. However, this research finds differing significant impact on each common equity tier that reflects the dynamic expectation imposes by the market for each common equity tier. This research also finds a more profound negative and significant impact of dividend policy on firm value for state-owned banks compared to private banks. This finding is indicative of tunneling in state-owned banks. Furthermore, banking-specific components like non-performing loan (negative) and capital adequacy ratio (positive) consistently impacts the banks' firm value.

Keywords: Dividend Policy, Firm Value, COVID-19, Irrelevance Theory, Signalling Theory