

Original Article

The Moderating Role of Firm Size on the Effect of Dividend Policy, Cost of Capital, and Dividend Growth on Stock Prices of Telecommunications Companies: An Empirical Study in Indonesia

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Abstract: This study aims to analyze the effect of dividend policy, cost of capital, and dividend growth on the stock prices of companies operating in the telecommunications sub-sector listed on the Indonesia Stock Exchange, moderated by firm size. In 2022, there were 18 companies in the telecommunications sub-sector, of which 6 met the sampling criteria. Using the Moderated Regression Analysis (MRA) approach, the results show that dividend policy and dividend growth have no significant effect on stock prices. The cost of capital has a big negative effect on the prices of stocks. The size of a company can change how dividend policy, cost of capital, and dividend growth affect the stock prices of communications businesses listed on the Indonesia Stock Exchange.

Keywords: Dividend Policy, Cost Of Capital, Dividend Growth, Firm Size, Stock Prices, Telecommunications Sub-Sector.

I. INTRODUCTION

The growth of information and communication technology has been rapid due to the increasing needs and demands of everyday life and business. The COVID-19 pandemic, which started in 2020, made this need even stronger. The government put in place policies for online schooling and Working From Home (WFH) to cut down on outdoor activities.

As the demand for information and communication technology grows, companies in the telecommunications sector are competing more fiercely to offer consumers the best products and services. The WFH policy has also helped the number of internet users in Indonesia grow. Figure 1 shows how many people in Indonesia used the internet from January 2012 to January 2023. It can be observed that there was a significant increase in internet users between January 2020 and January 2021.



Figure 1. Growth of Internet Users in Indonesia

Source: dataindonesia.id, 2023

The demand for internet access and digital communication continues to increase, which has encouraged the growth of companies operating in this sector. Several companies in the telecommunications industry are listed as issuers on the Indonesia Stock Exchange (IDX)



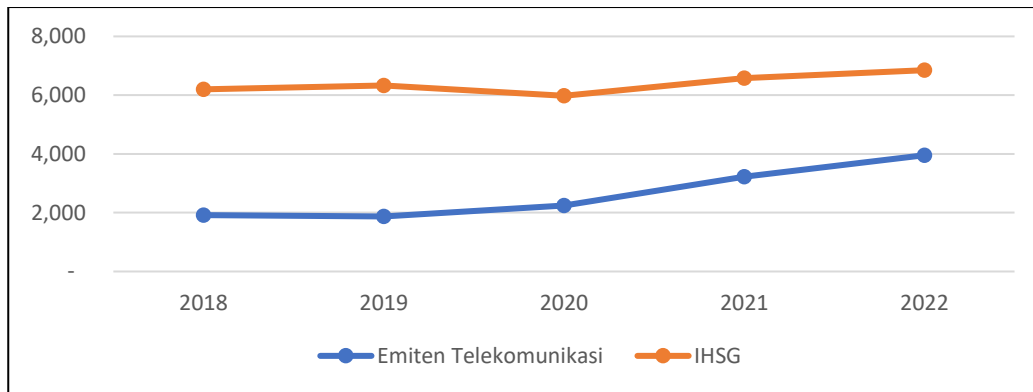


Figure 2. Development of IHSX and Telecommunication Stock Prices (2018–2022)

Figure 2 illustrates that the market movement (IHSX) differs from the movement of telecommunication company stock prices. From 2018 to 2019, the IHSX increased, while telecommunication stocks declined. In 2019–2020, the IHSX decreased, whereas telecommunication stock prices increased. From 2020 to 2022, telecommunication stock prices moved in line with the IHSX. However, during the 2018–2022 period, telecommunication stock prices consistently remained lower than the IHSX.

Amri and Praptoyo (2022) explained that stock prices are formed through supply and demand in the market. Thus, a company's stock price will always fluctuate in line with market conditions.

Gordon (1959) and Lintner (1956) stated that stock prices are influenced by several factors, such as dividend policy, cost of capital, and dividend growth. Gordon further argued that when a company distributes larger dividends, its stock price tends to increase.

Gordon (1959) dan Lintner (1956) menyatakan bahwa harga saham dipengaruhi oleh beberapa faktor seperti kebijakan dividen, biaya modal, dan pertumbuhan dividen. Gordon juga berpendapat bahwa ketika perusahaan membagikan dividen semakin besar, maka harga saham perusahaan tersebut akan semakin tinggi.

Musthafa (2017) identified three theories related to dividend policy, namely the Dividend Irrelevance Theory, the Bird-in-the-Hand Theory, and the Tax Preference Theory. According to the Dividend Irrelevance Theory, dividend policy does not affect a company's stock market price or firm value. The theory asserts that a company's value is exclusively influenced by its earnings and business risk, rather than the dividends it distributes.

The Bird-in-the-Hand Theory says that investors usually value dividends more than capital gains. When a company pays dividends, investors can be more sure that they will get a return than if they just expect the stock price to go up and get capital gains.

According to the Tax Preference Theory, investors may want different dividend policies based on the current tax rates. Investors usually prefer companies that keep their profits to reinvest them instead of giving them out as dividends if dividends are taxed at a higher rate than capital gains.

Prior research has analyzed the impact of dividend policy, capital costs, and dividend growth on stock prices. Febriana (2016), Bobsaid et al. (2019), Ainun (2019), Singh (2019), Usman et al. (2020), Husein et al. (2020), and Amri et al. (2022) established that dividend policy exerts a positive and significant influence on stock prices. Conversely, Hakami (2021), Sugianto et al. (2022), and Hariyanur et al. (2022) determined that dividend policy exerts a negative and significant influence on stock prices.

Febriana (2016), Herawan (2017), Udayakumari et al. (2019), and Anita (2022) discovered that the cost of capital exerts a positive and significant influence on stock prices. However, Hariyanur et al. (2022) and Sunaryo et al. (2024) reported that the cost of capital has a negative and significant effect on company stock prices.

Furthermore, Febriana (2016), Singh (2019), Usman et al. (2020), and Layn (2022) found that dividend growth has a positive and significant effect on stock prices, while Hariyanur et al. (2022) and Miranti (2022) found that dividend growth does not significantly affect stock prices.

Previous research has investigated the moderating effect of firm size on the relationship between dividend policy, cost of capital, and stock prices. Faluthy (2021), Hariyanur et al. (2022), Sari and Ardyanto (2022), and Sari and Suryanawa (2019) found that firm size can moderate the effect of dividend policy on stock prices. Meanwhile, Pamungkas et al. (2021) and Anita

(2022) found that firm size can moderate the effect of cost of capital on stock prices. To the best of the authors' knowledge, no prior studies have analyzed the moderating role of firm size in the relationship between dividend growth and stock prices.

Based on previous studies, the Dividend Growth Model theory (Gordon, 1956), and the phenomenon of telecommunication stock prices on the Indonesia Stock Exchange (IDX), this study aims to re-examine the effect of dividend policy, cost of capital, and dividend growth on stock prices. Furthermore, this research includes an examination of the moderating role of firm size. The study focuses on telecommunication subsector companies listed on the IDX.

II. RESEARCH METHODOLOGY

This study employs a quantitative research design with a causal approach. The research population consists of telecommunication subsector companies listed on the Indonesia Stock Exchange (IDX), totaling 18 companies in 2022. The sample was selected using purposive sampling with the following criteria: (1) companies listed on the IDX during 2018–2022, (2) companies that consistently published audited financial statements during 2018–2022, and (3) companies that consistently distributed dividends during 2017–2022. Based on these criteria, six issuers were obtained as the research sample.

The research variables and their measurements are presented in Table 1. The data required to construct the stock price variable (Price) consist of daily closing stock prices. The annual average of daily closing prices was used as the measurement of stock price for that year. Stock price data were obtained from <https://finance.yahoo.com/>.

Other research variables were measured using data derived from company financial statements, except for the cost of capital (WACC), which was calculated using financial data processing through the Capital IQ platform. The financial statements were retrieved from the official website www.idx.co.id

Table 1. Research Variables

No	Variables	Size
1	Stock Price	Price = Ln (Closing Stock Price)
2	Dividend Policy	$DPR = \frac{DPS}{EPS}$
3	Cost of Capital	$WACC = \left(\frac{E}{V}\right) \times R_E + \left(\frac{D}{V}\right) \times R_D \times (1 - T_c)$
4	Dividend Growth	$Growth = \frac{D_t - (D_t - 1)}{(D_t - 1)}$
5	Firm Size	Size = Ln (Total Asset)

The research data were analyzed using both descriptive and inferential approaches. Inferential analysis was carried out using a Moderated Regression Analysis (MRA) with panel data. The regression equation developed is as follows:

(Regression Model 1)

$$P_{it} = \alpha + \beta_1 x DPR_{it} + \beta_2 x WACC_{it} + \beta_3 x growth_{it} + e_{it} \dots\dots\dots (1)$$

(Regression Model 2)

$$P_{it} = \alpha + \beta_1 DPR_{it} + \beta_2 WACC_{it} + \beta_3 Growth_{it} + \beta_4 Size_{it} + \beta_5 (DPR * Size) + \beta_6 (WACC * Size) + \beta_7 (growth * Size) + e_{it} \dots\dots\dots (2)$$

Dimana :

- P_{it} = Stock Price
- α = Constant
- $\beta_1 - \beta_7$ = Regression Coefficients
- DPR = Dividend Payout Ratio
- $WACC$ = Cost of Capital
- $growth$ = Dividend Growth
- $Size$ = Firm Size
- $DPR * Size$ = Interaction between Dividend Payout Ratio and Firm Size
- $WACC * Size$ = Interaction between Cost of Capital and Firm Size
- $Growth * Size$ = Interaction between Dividend Growth and Firm Size
- i = Individual company
- t = Time period
- e = Error term

III. RESULTS AND DISCUSSION

Table 2 presents the descriptive statistics of the research variables. The stock price (Price) has an average value of IDR 2,053. The minimum stock price of IDR 299 occurred at PT LCK Global Kedaton Tbk (LCKM) in 2022. The maximum stock price of IDR 4,816 was recorded at PT Link Net Tbk (LINK) in 2018.

Table 2. Descriptive Statistics of Research Variables

Variables	Price	DPR	WACC	Growth	Firm Size
Mean	2.053	0,6470	0,0962	0,0631	55.688.965.150.525
Min	299	0,1038	0,0659	(0,7981)	143.302.215
Max	4.816	4,2537	0,1305	1,5000	277.184.000.000.000
Std. Dev	1.464	0,7234	0,0183	0,5271	89.092.075.474.663

The average value of the Dividend Payout Ratio (DPR) is 0.647, indicating that for every IDR 1,000 of net income, telecommunication companies on average distribute dividends of IDR 647. The minimum DPR value of 0.1038 was recorded by PT LCK Global Kedaton Tbk (LCKM) in 2020, while the maximum DPR value of 4.2537 was recorded by PT Tower Bersama Infrastructure Tbk (TBIG) in 2019.

The average cost of capital (WACC) is 0.0962 (9.62%). This figure is slightly higher than the average cost of capital of the Pulp & Paper industry during 2013–2020, which was 8.6% (Kurniasih et al., 2022). The minimum WACC value of 0.0659 was observed in PT Gihon Telekomunikasi Indonesia Tbk (GHON) in 2020, while the maximum WACC value of 0.1305 was recorded by PT Sarana Menara Nusantara Tbk (TOWR) in 2019.

Dividend growth has an average value of 0.0631, meaning that, on average, dividends distributed by telecommunication companies grew by 6.31% per year. The minimum value of –0.7981 was recorded by TBIG in 2020. A negative dividend growth value indicates that the company reduced its dividend payments. The maximum value of 1.5 was recorded by GHON in 2020.

The average firm size (Size) is IDR 55,688,965,150,525. The minimum firm size of IDR 143,302,215 was observed in LCKM in 2018, while the largest firm size of IDR 277,184,000,000,000 was held by PT Telkom Indonesia (Persero) Tbk (TLKM) in 2021.

Panel data regression provides three possible models: the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). The selection of the best panel model was conducted using the Chow Test, Hausman Test, and Lagrange Multiplier Test. The test results concluded that REM was the best model. However, the model suitability test indicated that REM was not appropriate since the probability of the F-test was 0.1198 (see Table 3).

Table 3. Model Selection

Indicators	CEM	FEM	REM
R ²	0.3752	0.9384	0.1978
Adjusted R ²	0.3032	0.9149	0.1052
F-statistic	5.2053	39.9592	2.1369
Prob(F-statistic)	0.0060	0.0000	0.1198

Panel data regression has three possible estimation models, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The selection of the best panel model was conducted through the Chow Test, Hausman Test, and Lagrange Multiplier Test. The test results indicate that the Random Effect Model (REM) is the most appropriate model. However, the model fit test shows that REM is not suitable because the F-test probability value is 0.1198 (see Table 4).

Table 4. Best Model for Equation 1

Indicators	CEM	FEM	REM
R ²	0.3752	0.9384	0.1978
Adjusted R ²	0.3032	0.9149	0.1052
F-statistic	5.2053	39.9592	2.1369
Prob(F-statistic)	0.0060	0.0000	0.1198

Considering the results of the F-test and the coefficient of determination presented in Table 3, it can be concluded that the appropriate model is FEM. The F-statistic is 39.9592 with a Prob(F-statistic) of 0.0000. The R² value of 0.9384 indicates that the model is able to explain changes in stock prices by 93.84%.

Table-5 presents the results of the Classical Regression Assumption Test for Equation 1. It can be concluded that Equation 1 meets all assumptions.

Table 5. Classical Regression Assumption Test for Equation 1

Test	Criteria	Test Result	Conclusion
Normality	Prob. Jarque-Bera >0.05	0,1009	Data are normally distributed
Multicollinearity	VIF < 10	DPR = 1,0640 WACC = 1,1725 Growth =1,1053	No multicollinearity symptoms
Heteroscedasticity	Prob. Chi Sq > 0,05	0.2176	No heteroscedasticity symptoms
Autocorrelation	dU < DW < 4-dU	dU = 1,6498 DW = 1,8498	No autocorrelation symptoms

Table-6 presents the regression test results of Equation 1. It can be seen that the only variable that has a significant effect on stock prices is dividend policy (DPR). The regression coefficient of DPR is -0,1693 with a probability value of 0,0438. This value indicates that if the dividends paid increase, the stock price will decrease.

Table 6. Equation 1 – Fixed Effect Model

Variables	Coefficient	t-Statistic	Prob
Constant	7.8345	15.6399	0.0000
DPR	-0.1693	-2.1455	0.0438
WACC	-4.5153	-0.8851	0.3861
Growth	0.2084	1.5661	0.1323
R ²	0.9384		
Adj. R ²	0.9149		
F-Statistic		39,9592	0.0000

Referring to Table-6, the regression equation of Equation 1 is as follows:

$$\text{Price} = 7.8345 - 0.1693\text{DPR} - 4.5153\text{WACC} + 0.2084\text{GROWTH} \dots\dots\dots (3)$$

Table-6 shows that only the dividend policy has a significant effect on stock prices, with a negative direction. If the dividend policy increases, stock prices decrease. This finding supports the Tax Preference Theory and also indicates that investors in telecommunications stocks listed on the IDX prefer companies to distribute smaller dividends. When dividends are smaller, it means more earnings are retained. Retained earnings can be used by the company as a source of funding for future investments. This finding supports Hakami (2021), who examined stocks of all companies listed on the IDX, as well as Sjahrudin et al. (2023), who studied stocks of companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX).

The cost of capital (WACC) has a negative but insignificant effect. Fluctuations in the cost of capital do not affect stock prices. This finding does not support the Capital Structure Theory (Modigliani & Miller, 1963), which states that the higher the cost of capital, the lower the stock price. However, this finding is consistent with Hariyanur et al. (2022), who examined consumer goods and agriculture companies listed on the IDX, as well as Sunaryo et al. (2023), who studied retail trade companies listed on the IDX.

Dividend growth (Growth) has a positive but insignificant effect. Fluctuations in dividend growth do not affect stock prices. This finding does not support the Dividend Discount Model (Gordon, 1959), which argues that higher dividend growth will lead to higher stock prices. However, this finding is consistent with Febriana (2016), Singh (2019), Usman et al. (2020), and Layn (2022). Febriana (2016) examined manufacturing companies listed on the IDX, Singh (2019) examined the National Stock Exchange (NSE) in India, Usman et al. (2020) studied manufacturing companies listed on the IDX, and Layn (2022) also studied manufacturing companies listed on the IDX.

Table-7 presents the results of the best panel model selection for Equation-2. It can be concluded that the best model for Equation-2 is also the FEM.

Table 7. Selection of the Best Model for Equation 2

Indicators	CEM	FEM	REM
R ²	0.6425	0.9701	0.6394
Adjusted R ²	0.5288	0.9490	0.5247
F-statistic	0.5288	45.9527	5.5731
Prob(F-statistic)	0.0008	0.0000	0.0008

Table 8 presents the results of the Classical Regression Assumption Test for Equation 2. It can be concluded that Equation 2 also meets all assumptions.

Table 8. Classical Regression Assumption Test for Equation 2

Tests	Criteria	Test Result	Conclusion
Normality	Prob. Jarque-Bera >0.05	0,3083	Data distribution is normal
Multicollinearity	Correlation Coefficient < 8	DPR : 0,0971 WACC : 0,4385 GROWTH : 0,2741 SIZE : 0,7520 DPR_SIZE : 0,1407 WACC_SIZE : 0,6207 GROWTH_SIZE : 0,2437	No indication of multicollinearity
Heteroscedasticity	Prob. Chi Sq > 0,05	0.1070	No indication of heteroscedasticity
Autocorrelation	dU < DW < 4-dU	dU = 1,6498 DW = 2.024314	No indication of autocorrelation

The regression test results of Equation-2 are presented in Table 8. It can be seen that the FEM is the fit model. The F-statistic is 45.9527 with a Prob(F-statistic) of 0.0000. The R² value of 0.9701 indicates that the model is able to explain 97.01% of the variations in stock prices. The inclusion of the moderator variable (Size) and the interaction between the moderator and independent variables improves the model's ability to explain stock price fluctuations.

Table 8. Equation 2 – Fixed Effect Model

Variables	Coefficient	t-Statistic	Prob	Note
Constant	-6.5234	-1.2779	0.2185	
DPR	0.4254	0.2239	0.8255	
WACC	-35.1756	-1.7572	0.0969	*
growth	0.1499	0.1407	0.8898	
Size	0.4717	2.7296	0.0143	**
DPR*Size	-0.0171	-0.2776	0.7846	
WACC*Size	1.3446	1.9396	0.0692	*
Growth*Size	0.0043	0.1201	0.9058	
R ²	0.9701			
Adj. R ²	0.9490			
F-Stat	0.0000			

Note: *Significant at $\alpha = 10\%$

**Significant at $\alpha = 5\%$

Referring to Table 8, the regression equation of Equation 2 is as follows:

$$\text{Price} = -6.5234 + 0.4254\text{DPR} - 35.1758\text{WACC} + 0.1499\text{Growth} + 0.4717\text{Size} - 0.0171\text{DPR*Size} + 1.3446\text{WACC*Size} + 0.0043\text{Growth*Size} \dots\dots\dots (4)$$

Size has a positive and significant effect on stock prices. The larger the company, the higher the stock price. This finding supports the Signaling Theory (Spence, 1973), which states that large companies tend to provide positive signals to the market because they are assumed to have better prospects, lower risk, and more experienced management. These positive signals increase investor confidence and ultimately drive stock prices up. This finding is consistent with Faluthy (2021), who studied property and real estate companies listed on the IDX, and Hariyanur et al. (2022), who examined consumer goods and agriculture companies listed on the IDX.

The interaction between dividend policy and size (DPR*Size) has a positive but insignificant effect on stock prices. This finding indicates that size is unable to moderate the effect of DPR on stock prices. The size serves as a moderating variable for the impact of DPR on stock prices. This finding corroborates the research conducted by Pamungkas et al. (2021) on financial

firms listed on the IDX, Anita (2022) on banking firms listed on the IDX, and Hariyanur et al. (2022) on consumer goods and agricultural firms listed on the IDX.

The correlation between the cost of capital (WACC) and size (WACC*Size) has a positive and significant effect on stock prices (at $\alpha = 10\%$). This discovery shows that size can make the effect of WACC on stock prices stronger. Size functions as a quasi-moderator of the impact of WACC on stock prices. This finding aligns with the research conducted by Faluthy (2021) on property and real estate companies listed on the IDX, and by Anita (2022) on banking companies listed on the IDX.

The interaction between dividend growth (Growth) and size (Growth*Size) has a positive but insignificant effect on stock prices. This finding indicates that size is unable to moderate the effect of Growth on stock prices. Size acts as a predictor moderator of the effect of Growth on stock prices. This finding supports Pamungkas et al. (2021), who studied financial companies listed on the IDX, Anita (2022), who studied banking companies listed on the IDX, and Hariyanur et al. (2022), who examined consumer goods and agriculture companies listed on the IDX.

IV. CONCLUSION

Based on the results of this study examining the effects of Dividend Policy (DPR), Cost of Capital (WACC), and Dividend Growth (Growth) on Stock Price (Price) with Firm Size (Size) as a moderating variable, several important findings were obtained. The study shows that dividend policy has a big and bad effect on the stock prices of companies in the telecommunications sub-sector. The cost of capital has a small negative effect on stock prices, while the increase in dividends has a small positive effect on stock prices. In addition, the size of a company has a positive and significant effect on its stock prices. This means that investors are more confident in the company's performance and stability when it is larger. The moderation analysis also shows that the size of a company can change how the cost of capital affects stock prices, but it can't change how dividend growth affects the stock prices of telecommunications companies listed on the Indonesia Stock Exchange.

V. RECOMMENDATIONS

Financial managers should pay greater attention to the dividend payout ratio because it has a small but positive effect. The expense of capital should also be taken into account because it can have a big and bad effect on stock prices. Financial managers should also think about the size of the company, since it has a big and positive effect on stock prices. The stock price of a company will go up if its total assets go up. The size of a company also affects how the cost of capital affects stock prices.

For investors, it is recommended to be more selective when investing in companies in the telecommunications subsector. In this context, investors are advised to pay closer attention to the components of cost of capital and company size in telecommunications companies, as the study shows that cost of capital can reduce stock prices. Moreover, company size can strengthen the effect of cost of capital on stock prices.

Future researchers can apply the same research method to other subsectors or industries, as this study is limited to the telecommunications industry subsector. This study used a moderator variable measured by total assets, but future research can use total sales as an alternative measure. Another alternative is to use a dummy variable for company size, categorizing firms as large or small. In this study, company size as a moderator was found to only moderate the effect of cost of capital on stock prices. Future studies may consider other moderator variables, such as company profitability.

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