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The Effect of Dividend Policy and Investment Cash Flow on Stock Returns with Company Size as a Moderating Variable: A Study of Food & Beverage Manufacturing Companies on the IDX (2021–2023)

Fakhri Arib Alsabani[1], Anne Putri[2*], Reviola Zahratu Aini[3], Sonia Ulva[4], Ahmad Zuhri Siregar[5]

[1,2,3,4,5]*Institut Teknologi dan Bisnis Haji Agus Salim Bukittinggi, Jln. Ahmad Yani No.79, Benteng Ps Atas, Kec. Guguak panjang, Kota Bukittinggi*, Sumatera Barat*, 26136, Indonesia*

**Corresponding: anne_kop10@yahoo.com*

Abstract. *This study aims to analyze the effect of dividend policy and investment cash flow on stock returns and to examine whether company size can moderate this relationship. The research subjects were food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. This study used a quantitative approach with a comparative causal method and Partial Least Squares (PLS)-based Structural Equation Modeling (SEM) analysis technique. The results showed that dividend policy had a positive and significant effect on stock returns, while investment cash flow had no significant effect. Company size was shown to strengthen the effect of dividend policy on stock returns, but did not moderate the relationship between investment cash flow and stock returns. These findings imply that companies need to consider dividend strategies and strengthen transparency in investment activities to attract a positive response from investors.*

Keywords: Company Size, Dividend Policy, Investment Cash flow, Stock Returns

1. Introduction

In today's increasingly competitive economy, companies are required to continuously improve their financial and operational performance to maintain business continuity. One strategy is to raise capital through the capital markets, namely by going public, offering shares to the public. This allows investors to invest their capital and expect to receive profits in the form of stock returns. Stock returns are an important indicator for investors in evaluating the potential returns from their investments. Therefore, understanding the factors that influence stock returns is crucial for both investors and company management.

The manufacturing sector, particularly the food and beverage subsector, is an interesting sector to study due to its stable nature and the ongoing demand for its products. Companies in this sector also have a significant number of issuers on the Indonesia Stock Exchange (IDX), thus providing a more comprehensive reflection of market conditions. However, despite the sector's relative stability, stock returns generated by companies in this sector still fluctuate. Data shows year-to-year stock return volatility, reflecting the interplay of internal and external factors that influence company stock performance.

Empirically, the relationship between these two variables and stock returns is not always consistent. For example, PT Mayora Indah Tbk (MYOR) experienced an increase in stock returns from 0.013 in 2021 to 0.202 in 2022, even though its dividend payout ratio decreased from 0.61 to 0.30. A similar phenomenon occurred at PT Siantar Top Tbk (STTP), where stock returns increased from 0.090 to 0.168, despite a decrease in its investment cash flow. This condition indicates a *gap phenomenon*, where changes in dividend policy and investment cash flow do not always align with changes in stock returns.

One internal factor that can influence stock returns is dividend policy. Dividend policy refers to the decision of company management to determine how much profit will be distributed to shareholders in the form of dividends and how much will be retained for reinvestment purposes. This policy is important because it can signal investors about the company's prospects and stability. Companies that consistently distribute dividends are generally perceived as having healthy and stable cash flows, making them attractive to investors.

Besides dividend policy, another influential factor is investment cash flow. Cash flow from investing activities reflects the extent to which a company allocates funds to support future business growth, such as purchasing fixed assets or other investments. High investment cash flow can indicate a company is expanding, potentially increasing its value and ultimately impacting stock returns. However, if investment cash flow is not matched by adequate returns, it can become a burden for the company and undermine investor confidence.

When analyzing the influence of these two variables on stock returns, it is also important to consider the role of company size as a moderating variable. Company size is often associated with stability, experience, and the ability to handle business risks. Larger companies are considered to have better resource and risk management capabilities than smaller companies. Therefore, company size can strengthen or weaken the influence of dividend policy and investment cash flow on stock returns.

However, previous research has shown inconsistencies or research gaps in the relationship between these variables. Some studies indicate that investment cash flow has a significant positive effect on stock returns, while others report no significant effect. Similarly, regarding the role of company size, there are differing results across studies regarding its ability to moderate the relationship between financial variables and stock returns.

Therefore, this study was conducted to re-examine the effect of dividend policy and investment cash flow on stock returns, with company size as a moderating variable, specifically for food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2023 period. This research is expected to contribute to the development of financial theory and serve as a consideration for investors and company managers in making strategic decisions.

2. Methods

This study uses a quantitative approach with a causal comparative approach. The study population is food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2023 period. The sampling technique used purposive sampling with the following criteria:

(1) the company consistently publishes financial and annual reports,

(2) uses the rupiah currency, and

(3) distributes dividends during the period.

The variables in this study consist of:

(1) Stock Return (Y), calculated based on the percentage change in stock price from period t to period t-1;

(2) Dividend Policy (X1), measured using the Dividend Payout Ratio (DPR);

(3) Investment Cash Flow (X2), seen from the investment activity cash flow statement; and

(4) Company Size (Z), measured by the natural logarithm of total assets.

The data analysis technique used Structural Equation Modeling (SEM) based on Partial Least Squares (PLS) with SmartPLS 3.0 software. Testing was conducted through outer model evaluation (validity and reliability), inner model evaluation (R-square test), and hypothesis testing using bootstrapping. Moderated Regression Analysis (MRA) was used to test moderating variables.

3. Results and Discussion

This study aims to analyze the effect of dividend policy and investment cash flow on stock returns, with company size as a moderating variable, in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2021–2023. Data were obtained from annual financial reports and analyzed using moderated regression analysis (MRA).

3.1. Outer Model Test

The outer model test aims to determine the validity and reliability of the indicators in measuring the construct. Based on the outer model test, it shows that the AVE value is >0.5, thus the results can meet the intuitive requirements for testing the level of co-construction and can be used for further analysis.

The outer loading value indicates the contribution of each indicator to the construct being measured. According to Hair et al. (2014), an outer loading value of ≥ 0.7 is considered excellent, although values between 0.6–0.7 are still acceptable if the AVE and construct reliability have been met.

3.2. Inner Model Test

Based on the data processing results, the R-Square was 0.264 and the Adjusted R-Square was 0.170. This result means that the influence between the variables is weak.

3.3. Hypothesis Testing

Based on the results of the regression test, it was found that dividend policy has a positive and significant effect on stock returns. This indicates that the higher the dividend payout ratio (DPR) a company provides, the higher the stock returns received by investors. This finding is consistent with signaling theory, which states that companies that distribute large dividends send a positive signal to investors that the company is in good financial condition and has bright business prospects. Investors generally respond positively to dividend information because it is considered to reflect stable earnings and good management governance. These results also align with previous research conducted by Nugroho and Febrianti (2022), which stated that dividend policy has a significant effect on stock returns.

Conversely, the analysis shows that investment cash flow does not significantly affect stock returns. Investment cash flow, in this context, describes a company's use of cash for long-term investments such as purchasing fixed assets or business development. This insignificance can be explained by several possibilities. First, investors may not immediately respond to investment cash flow information because the results of these investments are not yet visible in the short term. Second, high investment cash flows can also raise concerns if they are not accompanied by transparency and effective fund allocation. This finding supports research by Pranata and Rachmawati (2022), which also found that investment cash flows have no direct impact on stock returns.

Furthermore, the test results indicate that company size does not moderate the relationship between investment cash flow and stock returns. This insignificance indicates that company size does not influence how investors respond to a company's investment activities. This may be due to investors' more cautious perceptions of investment activities, regardless of company size. Investors likely await concrete results from their investments before responding through changes in stock prices.

The findings of this study have important implications for company management and investors. For management, these results emphasize the importance of considering dividend policy as part of a financial communication strategy to the market. Appropriate dividend payments not only serve as a means of distributing profits but can also increase investor confidence and stock market performance. Furthermore, investment decisions need to be communicated transparently and accompanied by a clear long-term plan to be well-received by investors.

For investors, the results of this study can be used as a consideration in evaluating company shares. Dividend-related information should not be viewed in isolation but should also be considered in conjunction with company size to obtain a more accurate picture of risk and potential returns. Meanwhile, investment cash flow information may be more relevant for long-term investment decisions.

Overall, the results of this study support the importance of dividend policy in influencing stock returns, reinforced by company characteristics such as size. Investment cash flows require further study, considering the timing and effectiveness of the projects funded by these investments.

4. Conclusions

This study aims to analyze the effect of dividend policy and investment cash flow on stock returns, with company size as a moderating variable, in food and beverage manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2023 period. The results show that dividend policy has a positive and significant effect on stock returns. This finding supports signaling theory, which states that dividends can be a positive indicator of company performance in the eyes of investors. Conversely, investment cash flow does not show a significant effect on stock returns, indicating that a company's investment activity is not yet fully perceived as an important factor by investors in short-term decision-making.

Company size has been shown to strengthen the effect of dividend policy on stock returns. This means that larger companies tend to be better able to attract a positive response from investors through their dividend policy. However, company size does not moderate the relationship between investment cash flow and stock returns, indicating that investment activity does not necessarily respond differently to investment activity in large and small companies.

These findings provide practical implications for company management, encouraging them to consider dividend policy as a strategic tool in building positive market perception. Furthermore, transparency and effectiveness in investment management need to be improved to provide a stronger signal regarding a company's future performance. For investors, information related to dividends and company characteristics such as size can be used as considerations in developing more accurate investment strategies. Future research is recommended to explore the influence of investment cash flow by considering other variables such as profitability, company growth, or investment efficiency to gain a more comprehensive understanding of the factors influencing stock returns.

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