The Effect of Dividend Policy and Capital Structure on Firm Value: A Case Study in Vietnam

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***Abstract*—Dividend policy represents the portion of corporate profit that companies pay to investors. Capital structure is a crucial corporate policy that indicates the ratio of debt to total assets. This paper aims to investigate the effect of dividend payout and capital structure on firm value in Vietnam. The study utilizes data from publicly traded companies on the Vietnamese Stock Exchanges. The analysis methods used include pooled OLS, and fixed and random effects models. The results reveal that dividend payout policy has a positive effect on the corporate value of Vietnamese publicly traded companies. The proportion of debt usage also exerts a positive effect on firm value. The findings show that corporate size and firm profitability have a significant and positive relationship with firm value. The study's results are useful for planning corporate dividend and capital structure policies.**

Keywords*—Capital Structure, Dividend Policy, Firm Value, Corporate Size

I. Introduction

Numerous studies have explored the effect of dividend payout policy on company value, yielding various findings. Study [1] found a significant positive relationship between dividends and firm performance among publicly listed companies in Nairobi, highlighting the necessity of well-defined dividend policies. Study [2] revealed that the decision to issue dividends positively affects company value in Chinese real estate firms, with cash dividends having a more substantial impact than stock dividends. The research in [3] identified a positive correlation between dividend per share and Tobin's Q among companies listed on the Istanbul Stock Exchange, though this relationship was not significant for return on assets (ROA) and return on equity (ROE).

The effect of capital structure on corporate value has also been examined in numerous studies. Studies [4] and [5] found a positive relationship between the percentage of debt and corporate value. Study [6] highlighted the positive influence of financial leverage and company size on profitability and value, with firm profit serving as a mediator. Study [7] identified financial leverage as a mediator in Malaysia, though not in Indonesia. These findings are consistent with some Vietnamese studies [8, 9]. Study [8] identified financial leverage, foreign ownership, ROA, investment, growth, company size, and firm age as positive contributors to Vietnamese firm value, while tax avoidance, total accruals, and state ownership had negative effects. In Indonesia, study [10] showed that liquidity, activity, leverage, and profitability significantly affect corporate value. Capital structure, specifically the debt-to-equity ratio, positively affects value, and this relationship is moderated by corporate social responsibility (CSR) disclosure. Study [11] also found that financial leverage significantly impacts return on equity in the Indonesian food and beverage manufacturing industry, although company size and market value did not show a significant relationship with financial performance.

This paper investigates the effects of dividend policy and capital structure on corporate value in Vietnam and provides recommendations for enhancing firm value in the country.

This article is structured as follows. Section I presents the introduction. Section II provides a literature review, and Section III outlines the research methodology. Section IV presents the results on the effects of dividend policy and capital structure on corporate value, and Section V concludes the study.

II. Literature Review

Study [1] stated that the relevance of dividend policy has been an ongoing subject of debate in academic literature, with numerous studies reaching diverse conclusions. The authors focused on establishing the relationship between dividend policy and firm financial performance among companies publicly traded on the Nairobi Securities Exchange. Through regression analysis, the results revealed a significant and positive relationship, underscoring dividend payout as a crucial determinant of firm performance. These findings highlight the importance of a well-defined dividend policy and recommend that managers formulate such policies to enhance firm performance and shareholder value.

Study [2] examined the effect of dividend payout policy on the corporate value of real estate companies in China. They analyzed dividend policies and their characteristics using data from 132 selected Chinese real estate firms. In particular, they utilized financial statement data on dividend policy and enterprise value for the 2007–2010 period. The findings revealed that company value positively affects firms' dividend issuance decisions. Moreover, cash dividends demonstrated a more substantial effect on firm value than stock dividends.

Study [3] aimed to investigate the relationship between dividend policies and financial performance of companies traded on the Istanbul Stock Exchange (BIST). The study analyzed data from 172 non-financial companies during the 2008–2011 period. The researchers employed multiple regression analysis and descriptive statistics. The analysis indicated that dividend payments indeed influenced company performance. Specifically, a positive and statistically significant correlation was found between dividend per share and Tobin's Q. However, the relationships between dividend per share and ROA and ROE were statistically insignificant.

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The study in [12] investigated the relationship between dividend payments and firm value in Pakistan. The author used data from 25 publicly listed pharmaceutical and chemical firms on the Karachi Stock Exchange (KMKB) for the 2001–2010 period. The findings concluded that there was no significant correlation between dividend payout policy and company value. Our Hypothesis 1 is formed based on the above discussion as follows.

Hypothesis 1: Dividend policy has a positive effect on corporate value.

Numerous studies have reported that capital structure positively affects firm value. Studies [4] and [5] presented that the debt percentage in capital structure and corporate value have a positive relationship. In [6], the authors studied public companies and revealed the positive influence of financial leverage and company size on profitability and value. Firm profitability acts as a mediator in the relationship between capital structure, size, and firm value. Using Indonesian and Malaysian data, Study [7] investigated the effect of capital structure elements on financial performance during the 1990–2010 period. Financial leverage was found to act as a mediator in Malaysia, though not in Indonesia. The positive relationship between leverage and corporate value is consistent with prior research on publicly traded enterprises in Vietnam [8], [9].

A study [8] explored the effects of ROA, leverage, and tax avoidance on the value of Vietnamese firms. Their results indicated a statistically significant negative relationship between tax avoidance and business value at the 10% level. They analyzed publicly traded companies on the Ho Chi Minh City (HCMC) Stock Exchange (HOSE) during the 2010–2018 period and used the panel corrected standard errors (PCSE) model. Moreover, financial leverage, foreign ownership, return on assets, investment, company size, and firm age positively influenced firm value. In contrast, total accruals and state ownership had a negative effect on firm value. Notably, growth rate and company size did not show statistical significance in their findings.

Several studies have explored the determinants of corporate value and financial performance of Indonesian firms. Study [10] examined the effects of liquidity, activity, financial leverage, and firm profitability on the value of publicly traded Indonesian companies during the 2014–2019 period. Their findings indicated that liquidity and profitability significantly impact firm value. Interestingly, the ratio of debt to equity, as a capital structure measure, showed a positive effect on corporate value. This relationship between value and capital structure is moderated by CSR disclosure. Study [10] emphasized the importance of CSR in enhancing company value.

Study [11] investigated the effects of leverage, company size, and market value on the financial performance of publicly listed food and beverage manufacturers on the Indonesia Stock Exchange. The results revealed a significant relationship between financial leverage and return on equity. However, they did not find a significant correlation between company size or market value and the financial performance of these firms. Food and beverage manufacturing companies might consider financial leverage to potentially improve firm performance. Hypothesis 2 of this study is formed as follows.

Hypothesis 2: Capital structure has a positive effect on company value.

III. Research Methodology

This study employs a regression model in which the dependent variable is Tobin's Q, and the independent variables are dividend payout ratio, financial leverage, company size, and firm profitability, to examine the relationships between dividend policy, capital structure, and company value of Vietnamese listed companies [5, 13, 10, 14]. Corporate value is defined by Tobin's Q, which equals the sum of debt value and market value of equity, divided by total assets [14, 5, 4]. The dividend ratio (DIVRO) is calculated as cash dividends divided by total assets [1, 3, 16, 17]. Capital structure (i.e., CTLSR), as discussed in the literature review section, is measured by total debt divided by total assets. According to [18], [14], and [10], company size (SIZE) is calculated as the natural logarithm of total assets. Corporate profitability (i.e., ROA) is measured as net income divided by total assets [19, 20, 18, 21]. The regression model is presented as follows.

$$Tobin's\ Q_{i,t} = \alpha + \beta_1 DIVRO_{i,t} + \beta_2 CTLSR_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 ROA_{i,t} + \varepsilon_{i,t} \quad (1)$$

The research uses financial data of publicly traded companies on the Vietnam Stock Exchanges during the 2014–2020 period. The sample includes 4,218 observations. Three estimation methods are implemented for panel data analysis: pooled Ordinary Least Squares (pooled OLS), fixed effects, and random effects models. The Hausman test is subsequently performed to select the appropriate model.

IV. Empirical Results

We present descriptive statistics of variables such as firm value measured by Tobin's Q, DIVRO, CTLSR, firm size, and profitability in Table I. The mean value of Tobin's Q is 1.1241, with a standard deviation of 0.6039. Tobin's Q has a minimum value of 0.3428 and a maximum value of 4.2101. DIVRO exhibits a mean of 0.3239 and a standard deviation of 0.4246. Firm size (SIZE) has an average value of 13.3581 and a standard deviation of 1.5478. The minimum value of firm size is 9.8923, and its maximum is 16.2860. The average value and standard deviation of capital structure are 0.2427 and 0.2006, respectively. Table I reveals that firm profitability (ROA) has a mean value of 0.0569 and a standard deviation of 0.0843.

TABLE I. Descriptive statistics

Variables	Mean	Std. Dev.	Min	Max
Tobin's Q	1.1241	0.6039	0.3428	4.2101
DIVRO	0.3239	0.4246	0.0000	1.8797
CTLSR	0.2427	0.2006	0.0000	0.8255
SIZE	13.3581	1.5478	9.8923	16.2860
ROA	0.0569	0.0843	-0.2070	0.3409

Our paper presents the correlations between firm value (Tobin's Q), dividend policy, capital structure, firm size, and profitability in Table II. The correlation coefficient between profitability (ROA) and capital structure (CTLSR) is -0.2156. Firm profitability (ROA) and firm size (SIZE) have a correlation of 0.0896. The correlation coefficient between DIVRO and SIZE is negative (-0.0783). The results show that the correlation between firm value (i.e., Tobin's Q) and dividend ratio (DIVRO) is 0.1152. SIZE and Tobin's Q have a correlation of 0.0843, whereas the correlation between ROA and Tobin's Q is positive (0.3357).

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TABLE II. CORRELATION MATRIX

	Tobin's Q	DIVRO	CTLSR	SIZE	ROA
Tobin's Q	1.000				
DIVRO	0.1152	1.000			
CTLSR	0.0090	-0.3004	1.000		
SIZE	0.0843	-0.0783	0.2933	1.000	
ROA	0.3357	0.2542	-0.2156	0.0896	1.000

Table III reveals the regression results on the effect of dividend policy, capital structure, firm size, and ROA on company value. We employ several analytical methods, including pooled Ordinary Least Squares (OLS), the fixed effects model (FEM), and the random effects model (REM). The fixed effects model is more appropriate than OLS. The F-test for the pooled OLS model is 149.17 and significant at the 1% level. Thus, we proceed with FEM and REM estimations and implement the Hausman test to determine the most suitable model. The Hausman chi-squared statistic is 110.82 (p-value = 0). These results suggest that the fixed effects model is more suitable and is therefore chosen for the research analysis.

The findings indicate a positive and statistically significant relationship between dividend policy and corporate value (i.e., Tobin's Q). This result is consistent with Hypothesis 1. Numerous prior studies show that the dividend ratio positively affects firm value [3, 2, 15]. Capital structure is also found to have a positive effect on company value. This finding supports Hypothesis 2 and aligns with several previous studies such as [22, 23, 4, 14]. Firm value can be improved through an optimal capital structure, as companies can benefit from the tax shields associated with borrowing. The results further reveal that firm size positively affects company value at the 1% significance level. This finding is consistent with many studies [24, 25, 22]. Study [14] reported that larger corporate size contributes to increased company value. Moreover, firm profitability (ROA) has a positive effect on corporate value, as measured by Tobin's Q. This result aligns with many previous studies [25, 10].

TABLE III. THE REGRESSION RESULTS

Variables	OLS	FEM	REM
DIVRO	0.0068***	0.0761***	0.0295**
CTLSR	0.2015***	0.2366***	0.3098***
SIZE	0.0151***	0.1217***	0.0458***
ROA	1.3817***	0.6197***	0.8062***
Constant	-0.7101***	-2.5796***	1.5942***
N	4,218	4,218	4,218
F Test	149.17 (0.000)	47.93 (0.000)	
Ward Test			189.12 (0.000)
Hausman		110.82 (0.000)	

*The numbers in parentheses are p-values and ***, **, * report significance levels of 1%, 5% and 10%, respectively.

V. CONCLUSION

Dividend payout and capital structure are important corporate policies. Optimal financial leverage is crucial for companies due to its direct influence on firm value, the cost of capital, financial risk, and corporate profitability. This paper investigates the effects of dividend policy and capital structure on corporate value in Vietnam. The analytical methods used in the study are pooled OLS, the fixed effects model, and the random effects model. We employ financial data from publicly traded companies on the Vietnam Stock Exchanges during the 2014–2020 period. The results show that dividend payout policy has a positive effect on corporate value. Capital structure is also found to have a positive effect on firm value. The findings reveal that firm size and corporate profitability are positively related to firm value. Vietnamese publicly traded companies are recommended to consider increasing their dividend payout ratio to enhance firm value. Businesses may benefit from tax shields through debt financing, expand their corporate size, or optimize profitability to improve firm value.

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