

The impact of profitability and asset management on firm value and the moderating role of dividend policy: Evidence from Jordan



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ABSTRACT

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The objective of this study is to examine the influence of profitability and asset management on the valuation of a firm. The data utilized in this study was sourced from the financial statements of industrial firms that are publicly traded on the Amman Stock Exchange. The fixed effects model was utilized for all four economic models in the analysis of the panel data. One of the principal discoveries of this investigation is the favorable impact of the profitability and asset management metrics on the valuation of a corporation. The research findings indicate that the inclusion of dividend payments as a moderating factor in the association between profitability and asset management results in an augmentation of a firm's worth. The positive correlation between dividend payouts and a company's worth is attributed to their link with profitability and asset management. This study has the ability to offer valuable insights into corporate management by examining the aspects that can enhance a company's value. Moreover, it holds significance for both existing and potential investors to discern the determinants that have the potential to augment the worth of a corporation.

Contribution/Originality: This study contributes significantly by investigating the relationship between profitability, asset management, dividend distribution, and their moderating effects on company value in the Jordanian industrial sector. This analysis adds a valuable layer of understanding to financial literature and holds practical implications for decision makers in emerging markets.

1. INTRODUCTION

Most companies operating in developing countries strive to actively participate in the process of economic and industrial development. Their primary objectives involve maximizing market value and ensuring shareholders' high levels of satisfaction. Additionally, they seek to attract new investors through substantial dividend distributions and optimal investment in company assets. Consequently, this study endeavors to identify the factors that contribute to enhancing a company's value and promote its sustained growth.

Amid the pursuit of these objectives, asset management and high profitability emerge as pivotal factors that facilitate the realization of these goals. In advanced countries, various studies have demonstrated that offering high dividend distributions entices new investors and elevates the market value of a company (Rahko, 2023).

Furthermore, efficient asset management plays a critical role in bolstering productivity, reducing production costs, and increasing sales revenue, thereby yielding higher profits and augmenting the company's overall value. This, in turn, benefits shareholders through increased dividends (Husna & Satria, 2019; Soda, Hassan Makhoulf, Oroud, & Al Omari, 2022).

The dividend distribution policy also serves as an effective tool for attracting new investors, particularly when the magnitude of these distributions surpasses those of other companies. Moreover, high dividend payouts foster greater stability for shareholders and management, incentivizing the latter to adopt forward-looking asset management strategies based on future plans and studies. Such initiatives contribute to a company's stability, attract new investors, and ultimately maximize its overall value (Soda, Oroud, & Makhoulf, 2021).

Most previous studies that examined the impact of profitability and asset management on the value of companies focused on advanced markets. Hence, this study aims to illustrate the role that asset management and company profitability can play in maximizing the value of companies in developing markets, with a particular focus on the Jordanian industrial sector. Furthermore, this study explores the effect of the value of distributed profits on the relationship between profitability and asset management (independent variables) and company value (dependent variable). Previous studies have not decisively determined the nature of the relationship between these variables.

The paper is structured into four primary sections. The subsequent section reviews existing literature, providing an investigation of the relevant sources pertaining to the paper's topic. This is followed by the methodology section, outlining the approach used to fulfill the paper's objectives. Lastly, the conclusion section explains the final outcomes and implications of the study.

2. LITERATURE REVIEW

2.1. Company Cycle Theory

The theory of the corporate life cycle posits that companies undergo four distinct stages of development: introduction, growth, maturity, and decline. During the introduction and startup phase, companies face high establishment costs and encounter fierce competition, leading to an elevated risk of failure. As a result, companies in this stage tend to refrain from distributing profits, especially if they heavily rely on loans and external funding to finance a significant portion of their capital (Lloyd-Davies, 1975). On the other hand, companies in the maturity stage tend to distribute higher profits due to the accumulation of sufficient profits and increased self-financing sources (DeAngelo, DeAngelo, & Stulz, 2006). This perspective has been supported by several previous studies. For example, Irawan, Mahatma, and Sri Hasnawati (2023) observed a negative impact on dividend policy during the initial expansion stage of a company, while Safitri, Ambarwati, and Yacobus (2023) demonstrated that as a company ages and reaches maturity, it tends to reduce retained earnings and limit investment expansion opportunities. Consequently, it inclines toward higher dividend distributions compared to its early establishment years (Jebril, Almaslmani, Jarah, Mugableh, & Zaqeeba, 2023).

2.2. Signaling Theory

Spence (1973) introduced the signaling theory, which elucidates how companies convey signals to users of financial data, providing information on management actions that align with shareholders' interests (Makhoulf, 2022). According to this theory, companies can present information in their financial statements and accompanying reports as signals aimed at investors, indicating management's efforts to meet investor expectations or any other relevant information regarding the company's financial situation (Karasek III & Bryant, 2012). Furthermore, the signaling theory underscores that increased spending on asset investments and higher dividend distributions may positively influence investors' perceptions of a company's future growth, resulting in an upsurge in stock prices—an indicator of increased company value (Rosa, Hasnawati, & Kufepaksi, 2023).

2.3. Profitability and Firm Value

Profitability is a crucial indicator of a company's ability to generate and distribute profits to shareholders while achieving high returns on invested capital. [Sutanto and Hariadi \(2023\)](#) posited that higher profitability attracts new investors, fostering increased capital investment in a company and subsequently contributing to its future value. [Indy and Uzliawati \(2023\)](#) emphasized that maximizing profits is a primary goal for companies to satisfy both owners and shareholders. This can be achieved through measures such as improving product quality and making strategic investments, which enhance the company's reputation among external parties, particularly those with future interests and connections. Consequently, a rise in profitability enhances a company's value. [Pramudita and Gantino \(2023\)](#) observed that industrial companies' high profitability achieved through robust sales plays a significant role in attracting new investors and positively influencing the company's value. Similarly, [Arifin, Fauziah, and Suwarno \(2023\)](#) demonstrated that elevated profitability increases the demand for a company's stocks, leading to an augmented firm value ([Alshehadeh & Al-Khawaja, 2022](#)).

Moreover, [Wibowo and Surjandari \(2023\)](#) found that industrial companies that rely more on internal funding sources tend to have lower external financing levels, reducing the risk of defaulting on long-term debt obligations. This emphasizes the role of profitability as a mechanism to boost a company's value in the future. The signaling theory further supports these findings, as [Husna and Satria \(2019\)](#) observed that high profitability sends a positive signal to investors, indicating the company's strong performance and encouraging them to invest, thereby enhancing the company's value.

2.4. Asset Management and Firm Value

Effective asset management pertains to a company's ability to utilize its assets efficiently to generate increased revenue. [Sinaga \(2011\)](#) suggested that through proper asset management, a company can maximize its profitability and attract new investors to purchase shares. As demand for the company's shares increases, their prices rise, subsequently contributing to the firm's value. However, [Wulandari and Priantinah \(2020\)](#) argued that there is no direct positive effect of asset management (measured by asset turnover) on a company's value. They contend that the substantial value of assets in some companies might not necessarily reflect their efficient management. [Andreas, Wijaya, and Sembiring \(2021\)](#) supported this by stating that when a company has a high asset value, the cost of capital rises, leading to reduced profits. Conversely, a low asset value can hinder a company from generating sales capable of achieving high profits. Therefore, the value of assets should be proportional to the sales value, and the company should be capable of generating profits in proportion to the capital invested in the assets.

2.5. Moderating Role of Dividend Policy

Drawing on the bird-in-hand theory, investors prefer higher dividend distributions corresponding to their invested capital. This preference arises as larger dividend distributions not only pique investor interest but also contribute to increased demand for the company's shares, thereby elevating its value ([Lukman & Tanuwijaya, 2021](#)). [Akmalia \(2023\)](#) further supports this notion, highlighting the mediating role of dividend policy on the relationship between profitability and the value of industrial companies listed on the Indonesian Stock Exchange. A higher dividend distribution positively impacts a company's value. Conversely, [Rusnaeni, Gursida, Sasongko, and Hakim \(2023\)](#) contended that dividend policy as a moderating variable does not influence the positive impact of company performance ratios (ROA, ROE) on firm value measured by Tobin's Q. This is justified by their assertion that dividend policy relies on a company's vision for expansion through internal financing sources, including profits. [Santosa, Aprilia, and Tambunan \(2020\)](#) highlighted that a moderating dividend policy can amplify the effect of profitability on a company's value. Increased dividend distributions are viewed as a signal of improved performance and high profits, enticing new investors to purchase shares, and thus leading to heightened demand for the company's shares and an overall increase in their value. Moreover, previous studies also explored the relationship

between asset management and dividend distributions. Prakoso and Chabachib (2016) found that effective and proper asset management significantly impacts a company's profits, reflected in the distribution of dividends. Batubara, Susanty, Anggreani, and Valentine (2022) utilized the total asset turnover (TAT) ratio to measure the sales generated from various assets and found a positive correlation between this ratio and a company's ability to generate revenue and distribute dividends (Alqudah et al., 2023).

3. HYPOTHESIS DEVELOPMENT

In light of the aforementioned studies, the hypotheses were succinctly formulated as follows:

1. H1: Profitability significantly influences firm value.
2. H2: Asset management significantly influences firm value.
3. H3: Dividend policy significantly influences the relationship between profitability and firm value.
4. H4: Dividend policy significantly influences the relationship between asset management and firm value.

4. RESEARCH METHOD

The research sample comprises 54 industrial companies listed on the Amman Stock Exchange during the period spanning from 2017 to 2021. The selection of the industrial sector for the study is justified by its substantial size and significance in the Jordanian market. Data for the study were obtained from the financial reports published by the companies in the sample.

The study model differs from previous studies in that it studied the impact of profitability and asset management in three dimensions and dividend distribution as a modified variable on the value of a company calculated by Tobin's Q. To the best of our knowledge, there are no previous studies that have combined the above variables.

The study's variables, as depicted in Figure 1, encompass the following:

1. Independent variables: Profitability; Asset management
2. Dependent variable: Firm value
3. Moderating variable: Dividend distribution policy

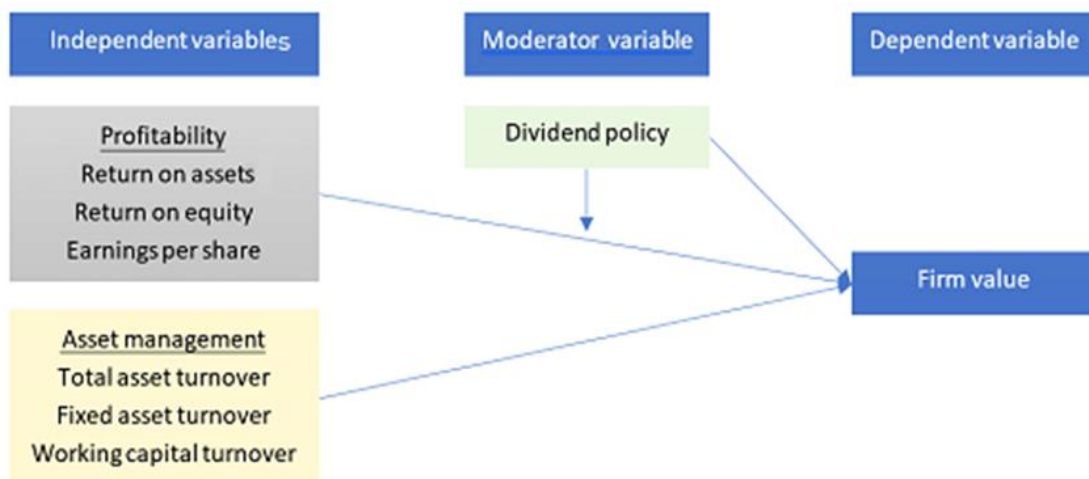


Figure 1. illustrates the interrelationships between these variables and their role in the study's framework.

4.1. Variable Measurements

The study utilized specific financial ratios to measure the variables (see Table 1). Profitability was assessed using the return on assets (ROA) and return on equity (ROE) ratios, representing the company's ability to generate profits relative to its total assets and shareholders' equity, respectively. Asset management was evaluated using the asset turnover ratio, which gauges the efficiency of assets in generating net sales. Company value was measured

using Tobin's Q, a widely accepted indicator that considers the relationship between the market value of equity and the book value of debt relative to total assets (Makhlouf, Laili, Basah, & Siam, 2015).

The dividend distribution policy was assessed through two key metrics: the dividend payout ratio, which examines the proportion of earnings distributed as dividends, and the dividend yield, which represents the dividend income relative to the market price of the company's shares. These measurements served as essential quantitative indicators in the study, allowing for a comprehensive analysis of the interplay between profitability, asset management, dividend distribution policy, and company value in the selected industrial companies listed on the Amman Stock Exchange from 2017 to 2021.

Table 1. Variable measurements.

Name	Code	Measurement
Profitability		
Return on assets	ROA	Net income/Total assets
Return on equity	ROE	Net income/Shareholders' equity
Earnings per share	EPS	Net income–dividends on preferred stock share/Average of outstanding shares
Asset management		
Total asset turnover	TAT	Total sales/Average total assets
Fixed asset turnover	FAT	Total sales/Average fixed assets
Working capital turnover	WCT	Total sales/Working capital
Firm value		
Tobin's Q	TQ	Market value to its assets' replacement cost
Moderator		
Dividend policy	DY	Dividend per share/Share price

5. RESULTS

5.1. Descriptive Analysis and Correlation Test

Table 2 shows the descriptive statistical results related to the independent variables (profitability and asset management) and the dependent variable (firm value), in addition to the moderating variable (dividend policy). Tobin's Q, which represents firm value, had an average of approximately 1.881. This means that the average market value of the companies was twice the book value. The values range from -2.55 to 21, with a very high standard deviation of 3.215. There was a significant variation among the profitability ratios of return on assets, return on equity, and earnings per share for the selected companies.

Table 3 shows that the correlation among the three profitability variables range from 0.11 to 0.63, indicating a moderate to low correlation, suggesting no significant issues in the relationships between these variables. Based on the descriptive statistics in Table 2, the average earnings per share were 0.022, while the average return on assets and return on equity were -1.354 and -10.731, respectively, with very high standard deviations. This indicates a considerable dispersion in the data, which will be addressed when testing the study's model.

Regarding the asset management variables, total asset turnover (TAT), fixed asset turnover (FAT), and working capital turnover (WCT) had average values of 0.51, 1.92, and 9.344, respectively, and all these ratios were positive. Referring to Table 3, and considering the correlation among these ratios, no significant correlation issues were found, with the highest correlation being 0.665 between TAT and FAT. However, the standard deviation rates indicate significant dispersion in the values, especially for working capital turnover, with a standard deviation ratio of 86.476, ranging from -34.714 to 974.176. Regarding the dividend policy variable (DY), the average was 2.109, with a standard deviation of 3.103. It should be noted that some companies did not distribute any dividends during the study period, while the highest dividend distribution ratio was 11.429. There were no significant correlation issues between the moderating variable and the other study variables.

Table 2. Descriptive statistics of variables.

Variable	Mean	Std. dev.	Min.	Max.
TQ	1.881	3.215	0.11	21
EPS	0.022	0.403	-2.55	1.821
ROA	-1.354	12.053	-85.716	14.138
ROE	-10.731	77.977	-734.643	123.108
TAT	0.51	0.278	0	1.151
FAT	1.92	2.075	0	11.76
WCT	9.344	86.476	-34.714	974.176
DY	2.109	3.103	0	11.429

Table 3. Pearson's correlation coefficients.

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) TQ	1.000							
(2) EPS	0.710	1.000						
(3) ROA	0.329	0.630	1.000					
(4) ROE	0.111	0.181	0.396	1.000				
(5) TAT	0.064	0.106	0.315	0.120	1.000			
(6) FAT	0.027	0.090	0.241	0.059	0.665	1.000		
(7) WCT	-0.015	-0.074	-0.098	-0.018	0.074	-0.023	1.000	
(8) DY	0.309	0.459	0.507	0.177	0.248	0.403	-0.050	1.000

5.2. Hypothesis Tests

The Driscoll–Kraay standard errors model was used to address any data heteroscedasticity issues. Diagnostic tests were conducted to determine the most appropriate model for panel data analysis, and the results of the Hausman specification test and the F-test indicated that the fixed effects regression was the most suitable model for the four economic models used in this study.

The results indicate the significance of the study's model regarding profitability variables and firm value. The study's model has an F-value of 267.58 and an R² value of approximately 49%. This suggests that the study's variables explain around 49% of a firm's value. It's worth noting that all the study variables were significant at a probability level less than 5%. Specifically, the earnings per share variable had a coefficient of 0.648, indicating a positive relationship with firm value. This means that as the earnings per share increased, firm value also increased. This ratio is one of the key indicators used by investors to evaluate company performance and determine the value of investments. However, it's important not to rely solely on this ratio to assess company profitability. Other measures were used in the consideration of potential issues arising from evaluating earnings per share independently, as it may not fully capture the long-term project sizes, associated risks, and the nature of the assets used, the study's model has an F-value of 267.58.

Looking at the second variable, return on assets, we find that its coefficient is 0.701, indicating a positive relationship between ROA and firm value. This result aligns with the financial accounting perspective, as this ratio serves as evidence of a company's efficiency in managing its assets and its ability to generate profits from them. Regardless of the sources of financing, whether from internal or external funds, this ratio is essential for both company management and users of financial statements, such as shareholders, creditors, and lenders. Lastly, the coefficient of the ROE variable is 0.10 (see Table 4), which is slightly low but still has a positive impact. As ROE increases, firm value also increases. Investors directly consider this return as a primary gauge for the funds invested and the efficiency of the company's management of these shares. Thus, they can use it to assess the company's performance.

Table 4. Results of the regression analysis related to Model 1.

TQ	Coeff.	Std. error	T	P > t
EPS	0.648	0.133	4.890	0.016
ROA	0.701	0.001	-5.530	0.012
ROE	0.100	0.000	6.010	0.009
_cons	1.866	0.084	22.240	0.000
R-sq overall (F-value)	49% 267.58			

From the analysis of the indirect relationship between the profitability indicators and firm value with the presence of dividend distribution as a moderating variable, the study's model has an F-value of 637.29 and a significance level of less than 5%. Additionally, the R² value was approximately 51%, indicating that the presence of dividend distribution as a moderating variable has increased the explanatory power of the study's model, while all study variables remained significant at a probability level less than 5%, except for the relationship between dividend distribution and earnings per share.

Furthermore, the model's coefficients for all variables significantly increased with the inclusion of the moderating variable, indicating that the relationship between the three profitability ratios and firm value improves and strengthens with the presence of dividend distribution as a moderating variable. Table 5 illustrates the indirect relationship between the profitability indicators and firm value, with dividend distribution as a moderating variable.

Table 5. Results of the regression analysis related to Model 2.

TQ	Coeff.	Std. error	T	P > t
EPS	0.835	0.259	3.220	0.049
ROA	0.009	0.002	3.850	0.031
ROE	0.001	0.000	16.200	0.001
EPS_x_DY	0.393	0.253	1.560	0.218
ROA_x_DY	0.024	0.009	3.660	0.047
ROE_x_DY	0.028	0.011	4.450	0.022
_cons	1.935	0.111	17.500	0.000
R-sq overall (F-value)	51% 637.29			

The results in Table 6 show the relationship between the asset management variables and firm value. The total asset turnover ratio and the working capital turnover ratio are both statistically significant at a level less than 5%. The model's coefficient for the total asset turnover ratio was approximately 50% with a positive sign, indicating that as the total asset turnover ratio increases, the firm's value also increases. This ratio signifies the company's ability to efficiently utilize its assets to generate profits, as well as its effectiveness in using assets to drive sales and ultimately achieve profitability, leading to an increase in the firm's value. The working capital turnover ratio has a coefficient of approximately 30% with a positive sign, indicating that the use of current assets leads to an increase in the value of the companies in the study sample. The overall model was found to be statistically significant, with an F-value of approximately 184 and significant at a level less than 5%. The R² value is approximately 39%, which is considered acceptable for this type of analysis.

Regarding the indirect relationship between the asset management variables and firm value through the presence of the moderator variable, we observe from the following table the statistical significance of the model, where the F-value was approximately 415, significant at a level less than 5%. The R² value was approximately 52%, indicating an improved explanatory power of the study model with dividend yield as the moderator variable.

Table 6. Results of the regression analysis related to Model 3.

TQ	Coeff.	Std. error	T	P > t
TAT	0.478	0.162	3.950	0.020
FAT	-0.058	0.028	-2.030	0.136
WCT	0.000	0.000	4.120	0.026
_cons	1.744	0.169	10.340	0.002
R-sq overall (F-value)	39% 183.96			

Additionally, all the asset management variables became statistically significant, while in the direct model, there was no significant effect of the non-current asset turnover ratio on firm value. However, with the presence of the dividend yield as the moderator variable, there is now a significant relationship for this variable, with a coefficient of approximately -39%. Furthermore, the interaction between the dividend yield and the total asset turnover ratio, non-current asset turnover ratio and working capital turnover ratio also showed statistically significant and negative coefficients. This means that companies that distribute dividends have lower opportunities to increase asset size and, consequently, their expansion activities may be reduced.

Table 7 represents the indirect relationship between the asset management indicators and firm value with the dividend yield as the moderator variable.

Table 7. Results of the regression analysis related to Model 4.

TQ	Coeff.	Std. error	T	P > t
TAT	0.835	0.259	3.920	0.029
FAT	0.387	0.002	3.850	0.031
WCT	0.297	0.000	16.200	0.001
TAT_x_DY	0.393	0.253	5.560	0.008
FAT_x_DY	0.024	0.009	3.660	0.047
WCT_x_DY	0.028	0.011	4.450	0.022
_cons	1.935	0.111	17.500	0.000
R-sq overall (F-value)	52% 415.17			

6. DISCUSSION

Maximizing a company's value constitutes a strategic objective pursued by diverse corporate managements, encompassing key sub-objectives such as profitability and effective asset management. This study seeks to investigate the relationship between profitability indicators (share of profits, return on assets, and return on equity) and asset management indicators (total asset turnover, non-current asset turnover, and working capital turnover) concerning a company's value measured through Tobin's Q. Furthermore, the study examines the influence of dividend distribution as a variable in these relationships. The study's findings align with prior research by [Indy and Uzliawati \(2023\)](#); [Pramudita and Gantino \(2023\)](#); [Wibowo and Surjandari \(2023\)](#) and [Rusnaeni et al. \(2023\)](#), who all found that profitability indicators contribute significantly to enhancing a company's value.

Additionally, the study concludes that a positive relationship exists between asset management and a company's value, consistent with the research conducted by [Batubara et al. \(2022\)](#) and [Sinaga \(2011\)](#). However, the study by [Wulandari and Priantinah \(2020\)](#) suggests no significant impact of asset management, measured by asset turnover, on the value of a group of contributing industrial companies. They argued that the substantial value of assets in these companies may not accurately reflect their ability to manage them effectively and efficiently. Moreover, [Andreas et al. \(2021\)](#) indicated that a high asset value leads to increased capital costs, resulting in lower profits. Conversely, a low asset value may hamper a company's ability to generate sufficient sales to achieve high profits. Therefore, it is crucial to align the value of assets with sales to ensure that profitability corresponds to the capital invested in assets.

The study's outcomes are in concurrence with [Batubara et al. \(2022\)](#), who demonstrated that effective asset utilization enhances profitability and dividend distributions, leading to a positive impact on company value. Numerous other studies also support these findings, as evidenced in [Batubara et al. \(2022\)](#) investigation, where proper asset utilization contributes to increased profitability and dividend distribution, consequently fostering a positive effect on company value.

One of the primary responsibilities of corporate management is to elevate the company's stock value and enhance it for shareholders, necessitating research aimed at augmenting value to bolster competitive advantage. The statistical results indicate that profitability significantly influences company value, measured by Tobin's Q . This implies that enhancing a company's performance can lead to an increase in its value, making it an attractive proposition for investors and stakeholders. Consequently, accurately determining a company's value becomes imperative for making informed investment decisions. The study's findings offer valuable financial insights and hold significant implications for users of financial data. Considering a company's value is of paramount importance for management, investors, and all other stakeholders. Financial managers must analyze profitability indicators and ensure efficient asset management to maximize shareholders' wealth and enhance the company's value. Moreover, they should continually evaluate dividend policies to positively impact the company's value. Simultaneously, financial executives must strive for profit stability to counteract negative signals from business risk indicators. Finally, current and potential investors should evaluate companies' overall financial health and avoid excessive focus on secondary matters.

7. CONCLUSION

In conclusion, this study demonstrates the positive impact of profitability and asset management on a company's value. The presence of dividend distribution as a moderating variable enhances this relationship further. The findings underscore the importance of analyzing profitability indicators, efficient asset management, and dividend policies for maximizing shareholder wealth and attracting investors. Companies must prioritize profit stability and align the value of assets with sales to ensure long-term value creation and competitive advantage. These insights provide valuable financial guidance for company management, investors, and stakeholders, emphasizing the significance of these factors in determining a company's overall financial health and value.

7.1. The Limitations

The reliance on a subset of manufacturing firms listed on the Amman Stock Exchange limits the applicability of the findings across industries. Also, the 2017–2021 time frame doesn't show long-term trends or recent developments. Additionally, the study's conclusions are dependent on the accuracy of the financial data in the annual and quarterly reports, and the omission of certain qualitative and external variables could compromise the comprehensiveness of the analysis. Lastly, although the study identifies correlations, it does not establish causation or address potential confounding factors in depth.

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Data Availability Statement: Upon a reasonable request, the supporting data of this study can be provided by the corresponding author.

Competing Interests: The authors declare that they have no competing interests.

Authors' Contributions: Conceptualization, writing – original draft, and review & editing, R.A.O.; methodology, software, writing – review & editing, Y.O.; conceptualization, resources, writing – review & editing, M.H.M.; data curation, writing – review & editing, A.R.A.; validation, writing – review & editing, H.A.A.K. All authors have read and agreed to the published version of the manuscript.

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