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The Role of Dividend Policy in Mediating the Effect of Ownership Structure and Financing Decisions on Firm Value: Evidence from Lq45 Companies in Indonesia

Zulkarnain Halim[1], Buyung Sarita[2], Sujono[3], Yusuf Rauf[4]

Abstract

This study aims to analyze the role of dividend policy in mediating the effect of ownership structure and financing decisions on firm value. The research employed a quantitative approach using panel data analysis on 15 companies listed in the LQ45 index of the Indonesia Stock Exchange (IDX) during the period 2014-2024. Ownership structure was measured through institutional ownership, managerial ownership, and public ownership. Financing decisions were proxied by various debt ratios including short-term debt to equity, long-term debt to equity, debt-to-equity ratio (DER), and debt-to-asset ratio (DAR). Dividend policy was measured using dividend payout ratio (DPR), dividend yield (DY), and dividend per share (DPS). Firm value was proxied by Tobin's Q, price-to-book value of equity (PBVE), market-to-book value of assets (MVBA), and market capitalization. The results of this study found that Ownership Structure has a negative and insignificant effect on Firm Value. Ownership Structure has a negative and insignificant effect on Dividend Policy. Financing Decisions have a positive and significant effect on Firm Value. Funding Decisions have a positive and significant effect on Dividend Policy. Dividend Policy has a positive and significant effect on Firm Value. The results of the mediation test indicate that Dividend Policy is unable to significantly mediate the effect of Ownership Structure on Firm Value. Financing Decisions have a positive and significant effect on Firm Value through Dividend Policy.

Keywords: *Ownership Structure, Financing Decisions, Dividend Policy, Firm Value, LQ45.*

Introduction

The success of a company is largely determined by the quality of financial decisions made by financial managers aimed at achieving corporate objectives. The primary goal of a company is to maximize shareholder wealth, which is reflected in increasing firm value as indicated by the company's stock price (Weston & Copeland, 2010). To enhance firm value, companies engage in financial activities through financial decisions. According to Van Horne (2002), there are two main decisions in financial management: financing decisions and dividend policy.

Financing decisions concern how to obtain funds to finance efficient investments, how to determine the optimal composition of funding sources for the company, and how that optimal composition should be maintained, as well as whether the company should use external capital or equity. Dividend policy involves decisions regarding company profits—whether they should be distributed to shareholders as dividends or reinvested (reinvestment) or retained by the company as retained earnings. When discussing financing decisions, several theories are relevant. The first is the pecking order theory, which prioritizes internal financing. Internal funds are obtained from profits generated by company activities (Mamduh, 2005). The second theory, trade-off theory, explains that optimal financing is found by balancing the benefits of debt financing (favorable corporate tax treatment) with higher interest rates and bankruptcy costs (Brigham & Houston, 2001).

[1] Student, Doctoral Program Management Science, University Halu Oleo, Indonesia, Email: halimzulkarnain047@gmail.com, (Corresponding Author)
[2] Lecturer, Doctoral Program Management Science, University Halu Oleo, Indonesia
[3] Lecturer, Doctoral Program Management Science, University Halu Oleo, Indonesia
[4] Lecturer, Doctoral Program Management Science, University Halu Oleo, Indonesia

Dividend policy is an integral part of company financing decisions. Dividend policy involves decisions about whether profits obtained by the company at the end of the year will be distributed to shareholders as dividends or retained to add capital for financing. According to Hanafi (2005), there are several theories related to dividend policy, including Irrelevance Theory, which states that dividends are not relevant to firm value, as proposed by Miller and Modigliani (1961). The next theory is Relevance Theory, which states that dividend policy is relevant to firm value under the assumption of imperfect markets.

Research findings regarding the relationship between financing decisions and firm value have shown mixed results. Studies by Hasnawati (2005), Djumahir (2005), and Bernadi (2007) found that financing decisions have a positive effect on firm value, while Muslimin (2006), Rachmawati and Triatmoko (2007), Sujoko (2007), Jiraporn and Liu (2008), and Fama and French (1997) found that financing decisions have a significant negative effect on firm value. Similarly, research on dividend policy and firm value has shown inconsistent results. Sujoko (2007) found that dividend payment variables have a positive and significant effect on firm value. Research by Asquith and Mullins (1983) found that increasing dividend payments increases company wealth, consistent with earlier studies that found dividend policy has a significant and positive impact on firm value (Yuningsih, 2008; Miller & Rock, 1985). However, Modigliani and Miller (1963) stated that dividend policy is not relevant in affecting firm value.

The emphasis on agency theory is chosen because based on empirical studies conducted in the context of imperfect capital markets, asymmetric information occurs due to managers' superior knowledge about the company's future prospects. This asymmetric information, based on signaling hypothesis regarding financing decisions and dividend policy under imperfect capital market conditions (presence of transaction costs and taxes), may influence firm value, which is determined not only by optimal investment decisions but also by financing decisions and dividend policy.

According to Weston and Copeland (2010), strategic financial decisions include financing decisions and dividend policy used to achieve company objectives, namely increasing shareholder wealth as reflected in increasing firm value, which is often reflected in rising stock prices. However, these objectives are often not achieved due to agency problems that occur because of the separation of ownership and management functions, which can encourage managers to act inconsistently with company objectives. Agency problems between shareholders and managers potentially occur when management does not own a majority of the company's shares. Shareholders want managers to work with the goal of maximizing shareholder wealth. If managers act not for shareholder wealth but more for individual wealth, job security, lifestyle, and other benefits, agency problems arise.Agency problems also arise when companies generate very large free cash flows. Jensen (1986) defines free cash flow as cash flows that exceed the funds needed for all projects with positive net present value (NPV) after discounting with the cost of capital. The existence of excessive free cash flow can lead to managerial discretion, namely actions and decisions, especially dividend policy, that do not fully reflect shareholder interests.

The LQ45 index represents the market capitalization of 45 of the most liquid stocks with large capitalization values, which is an indicator of liquidity. The LQ45 index uses 45 selected stocks based on stock trading liquidity and is adjusted every six months (at the beginning of February and August). Thus, stocks included in the index will always change. Stocks included in LQ45 are continuously monitored, and every six months a review is conducted (early February and August). If there are stocks that no longer meet the criteria, they will be replaced with other stocks that meet the requirements. Based on the inconsistencies in previous research findings and the empirical situation described above, this research is essential to examine the role of dividend policy in mediating the effect of ownership structure and financing decisions on firm value in LQ45 companies listed on the Indonesia Stock Exchange.

Literature Review

Ownership Structure

Ownership structure refers to the distribution of share ownership among different types of shareholders, including institutional ownership, managerial ownership, and public ownership. According to agency theory, ownership structure plays a crucial role in aligning the interests of managers and shareholders (Jensen & Meckling, 1976). Institutional ownership represents shares held by financial institutions, investment companies, or other institutions that theoretically have stronger monitoring capabilities over management. Managerial ownership reflects shares owned by board members and

directors, which theoretically aligns management interests with shareholders through the alignment of interests mechanism. Public ownership represents shares held by individual investors outside institutions and management, which relates to free-rider issues in monitoring and potential weakness in direct control over management (Demsetz & Lehn, 1985). Previous research has shown mixed results regarding the relationship between ownership structure and firm value. Vintilă and Gherghina (2015) found that managerial and employee ownership have a negative relationship with firm value, while institutional ownership has a positive but not significant effect. Yusheng et al. (2019) found that managerial ownership is positively related to firm value, while family and concentrated ownership are negatively related. Adeyanju and Kwenda (2021) found that concentrated and foreign ownership have a negative effect on firm value, while domestic ownership has a positive effect.

Financing Decisions

Financing decisions concern how companies obtain funds to finance investments and determine the optimal composition of funding sources. According to Modigliani and Miller (1958), in perfect capital markets, capital structure does not affect firm value. However, in imperfect markets, financing decisions become important. Trade-off theory explains that optimal capital structure is found by balancing the benefits of debt financing (tax benefits) with bankruptcy costs and financial distress costs (Kraus & Litzenberger, 1973). Pecking order theory explains that companies prefer internal financing over external financing, and when external financing is needed, debt is preferred over equity (Myers & Majluf, 1984). From an agency perspective, debt can act as a disciplinary mechanism because interest payment obligations reduce free cash flow that managers might misuse (Jensen, 1986). Financing decisions are typically measured using various debt ratios, including debt-to-equity ratio (DER), debt-to-asset ratio (DAR), and ratios of short-term and long-term debt to equity. Research on the relationship between financing decisions and firm value has shown inconsistent results. Some studies found a positive relationship (Hasnawati, 2005; Djumahir, 2005; Bernadi, 2007), while others found a negative relationship (Muslimin, 2006; Sujoko, 2007; Fama & French, 1997).

Dividend Policy

Dividend policy is a company policy related to the decision of whether to distribute net profits earned to shareholders in the form of dividends, or to retain them as retained earnings for reinvestment to support the company's future development. This policy is one of the central issues in financial management, as it concerns the balance between the interest of shareholders in receiving immediate returns and the company's need to maintain sufficient internal funds for growth. In modern financial studies, several main theories explain the relevance and impact of dividend policy on firm value. The first is the Dividend Irrelevance Theory proposed by Miller and Modigliani (1961), which states that under conditions of perfect capital markets (no taxes, no transaction costs, and information is equally accessible to all parties), dividend policy does not affect firm value. However, in reality, the existence of imperfections such as taxes, flotation costs, and information asymmetry makes dividend policy relevant. Next, the Bird-in-the-Hand Theory introduced by Gordon (1963) suggests that investors prefer certain cash dividends over uncertain potential capital gains in the future. This is because immediate dividends are perceived to reduce the uncertainty risk of future investment returns. The signaling theory provides another perspective, proposing that announcements of changes in dividend policy serve as signals to the market about the company's prospects and financial condition. When a company increases its dividends, it is often interpreted as a positive signal indicating that management is confident in the company's future performance and cash flows (Bhattacharya, 1979; Miller & Rock, 1985). From the perspective of agency cost theory, dividend policy is seen as one mechanism to reduce conflicts of interest between managers and shareholders. Dividend payments reduce the free cash flow under managerial control, thereby lowering the opportunity for inefficient use of funds and "disciplining" management to access the capital market more frequently when additional investment funds are needed (Easterbrook, 1984; Jensen, 1986).

Firm Value

Firm value, also known as firm valuation or company value, refers to the overall worth of a business as perceived by the market. It is a multidimensional concept that incorporates both quantitative and qualitative aspects, representing how investors evaluate the potential of a company to generate future economic benefits. Firm value reflects the collective expectations of investors regarding the company's ability to deliver future cash flows and the risks associated with achieving those cash flows. This perception is informed by various factors such as earnings potential, growth prospects, capital structure, corporate governance, risk profile, and the effectiveness of management in utilizing company resources

to maximize shareholder wealth. There are several established methods to measure firm value. The most commonly used indicators include Tobin's Q, the price-to-book value (PBV) ratio, and market capitalization. Tobin's Q is calculated as the ratio of the market value of a company (i.e., the sum of its market value of equity and debt) to the replacement cost of its assets; a value greater than one is often interpreted as a positive signal, implying that the market expects the company to generate returns above the replacement cost of its assets and therefore values the firm highly for its growth potential and strategic positioning. The price-to-book value ratio compares the company's current market price to its book value, with higher ratios generally indicating greater investor confidence in a company's future performance and value creation capabilities. Market capitalization, on the other hand, is determined by multiplying the current share price by the total number of outstanding shares and represents the market's assessment of the company's total equity value. Firm value is central to corporate finance and strategic management since it is seen as the ultimate indicator of company success and shareholder wealth maximization. A high firm value suggests strong investor confidence, perceived competitive advantages, and robust financial health, while a declining firm value may signal challenges in profitability, competitiveness, or market sentiment. Therefore, understanding and managing the determinants of firm value is essential for company executives and stakeholders alike, as it influences investment decisions, access to capital, and the company's long-term sustainability in dynamic market conditions.

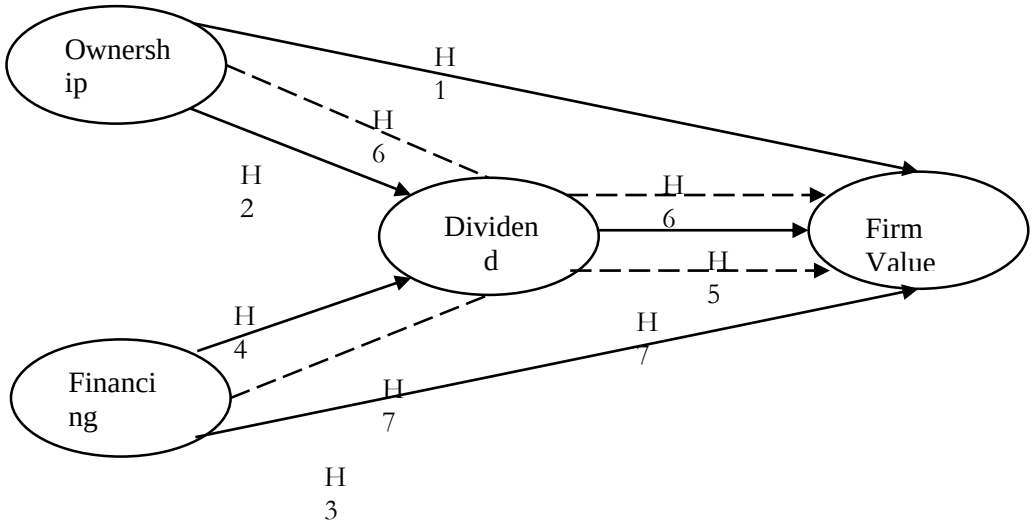

Figure 1 Conceptual Framework

Research Hypothesis

H1: Ownership structure has a positive and significant effect on firm value.

H2: Ownership structure has a positive and significant effect on dividend policy.

H3: Financing decisions have a significant effect on firm value.

H4: Financing decisions have a significant effect on dividend policy.

H5: Dividend policy has a positive and significant effect on firm value.

H6: Dividend policy positively and significantly mediates the influence of Ownership structure on firm value.

H7: Dividend policy positively and significantly mediates the influence of financing decisions on firm value.

Research Methods

This research employs a quantitative approach with an explanatory research design. The study uses panel data analysis, combining cross-sectional and time-series data from 15 companies listed in

the LQ45 index of the Indonesia Stock Exchange during the period 2014-2024. The analytical tool used was SmartPLS 4.

Research Results

Q-Square Value

The goodness of fit model is used to determine the extent to which endogenous variables can explain the diversity of exogenous variables, or in other words, to determine the extent of the exogenous variable's contribution to the endogenous variable. The goodness of fit model in PLS analysis is measured using Q-Square predictive relevance (Q2). The results of the goodness of fit model are summarized in Table 1 below:

Table 1 Q-Square

Endogenous Construct	R^2	Interpretation
KD	0,143	Weak
FV	0,523	Moderate

Source: Data processing results using Smart PLS 4.0, 2025.

Overall, the R^2 results indicate that the structural model of this study has a stronger explanatory power for Firm Value than for Dividend Policy. This finding is also consistent with the results of the path test, where KP and KD play an important role in explaining FV, while variations in KD are still relatively unexplained by the predictors included in the model.

Testing the Direct Effect Hypothesis

Based on the bootstrapping process, the direct effect coefficient value for this research model was obtained. A summary of the path analysis results in this study is presented in the table below:

Table 2. Summary of Results of Direct Influence Path Analysis

Direct Influence Path	Path Coefficient (β)	t-statistic	p-value	Information
OS → FV (H1)	−0,058	1,423	0,155	Not significant
OS → KD (H2)	−0,036	0,370	0,711	Not significant
FD → FV (H3)	0,598	7,184	<0,001	Significant
FD → KD (H4)	0,372	2,275	0,023	Significant
DP → FV (H5)	0,223	2,354	0,019	Significant

Source: Data processing results using Smart PLS 4.0, 2025

Based on the results of the direct influence path analysis, it can be explained that ownership structure (OS) does not have a significant effect on either firm value (FV) or dividend policy (DP). This is indicated by the path coefficient of OS to FV of −0.058 with a *t-statistic* of 1.423 and a *p-value* of 0.155, as well as the coefficient of SK to DP of −0.036 with a *t-statistic* of 0.370 and a *p-value* of 0.711. Since both *p-values* exceed the 0.05 significance level, hypotheses H1 and H2 are not supported, suggesting that ownership structure does not directly explain variations in firm value or dividend policy. In contrast, financing decisions (KP) have a positive and significant effect on both firm value (FV) and dividend policy (DP). The relationship between KP and FV shows a path coefficient of 0.598 with a *t-statistic* of 7.184 and a *p-value* of less than 0.001, indicating a strong and significant influence. This finding implies that more optimal financing decisions contribute to higher firm value. Similarly, the path from KP to KD is positive and significant, with a coefficient of 0.372, a *t-statistic* of 2.275, and a *p-value* of 0.023, supporting hypotheses H3 and H4. Furthermore, dividend policy (DP) is found to have a positive and significant effect on firm value (FV). This is evidenced by the path coefficient of 0.223, a *t-statistic* of 2.354, and a *p-value* of 0.019. This result indicates that appropriate dividend decisions can enhance investor confidence and positively influence firm value. Therefore, hypothesis H5 is supported. Overall, the findings suggest that firm value is primarily driven by financing decisions and dividend policy, while ownership structure does not exhibit a significant direct effect on either firm value or dividend policy.

Indirect Effect Hypothesis Testing

This study, in addition to analyzing the direct influence of exogenous variables on endogenous variables, also analyzes the indirect influence through the role of mediation. Table 3 below will describe

the indirect influence between research variables, to prove whether the indirect influence or mediation has a role or not. The results of the analysis of the mediation role path can be presented in the following table:

Table 3. Results of Indirect Influence Analysis (Mediation)

Indirect Path	Coefficient (β)	t-statistic	p-value	Information
FD → DP → FV	0,082953	2,118854	0,034152	significant
OS → DP → FV	−0,007930	0,403000	0,686965	Not significant

Source: Data processing results using Smart PLS 4.0, 2025

Based on the bootstrapping results, the indirect effect of FD → DP → FV is β = 0.082953, with t-statistic = 2.118854 and p-value = 0.034152. Because the p-value < 0.05, the indirect effect is declared significant, so that KD is proven to mediate the effect of KP on FV. Thus, H6 is declared accepted. The bootstrapping results show the indirect effect of SK → KD → FV is β = −0.007930, with t-statistic = 0.403000 and p-value = 0.686965. Because the p-value ≥ 0.05, the indirect effect is declared insignificant, so that KD is not proven to mediate the effect of SK on FV. Thus, H7 is declared rejected.

Discussion

Ownership Structure on Company Value

The test results indicate that ownership structure has a negative and insignificant effect on firm value, which can be understood from the characteristics of ownership data and firm value in the research sample. The ownership structure is dominated by institutional ownership with a high average proportion, while managerial ownership is relatively very small and even zero in many observations, and public ownership varies. This condition makes the mechanism of aligning interests between managers and shareholders not run optimally. On the other hand, firm value indicators show very large heterogeneity, with extreme variations in Tobin's Q, PBVE, and PBVA, so that signals from ownership structure tend to be drowned by fundamental factors, risk, and market perceptions. The correlation between ownership indicators and firm value is also relatively weak, while the interlocking between ownership indicators (especially institutional and public), so that the unique contribution of ownership structure to firm value is small and statistically insignificant. From the perspective of agency theory and ownership theory, ownership structure can work both ways, namely through a monitoring effect that increases value or an entrenchment effect and the potential for expropriation that suppresses value. When these two effects cancel each other out, the coefficient of the relationship becomes weak and even tends to be negative (Berle & Means, 1932; Jensen & Meckling, 1976; Shleifer & Vishny, 1997; La Porta et al., 1999). This finding is in line with previous research showing that the relationship between ownership structure and firm value is contextual and not always significant, particularly in emerging markets (Vintilă & Gherghina, 2015; Adeyanju & Kwenda, 2021), although it differs from studies that find a positive effect of institutional ownership in certain sample contexts (Maulina, 2023).

Ownership Structure on Dividend Policy

The test results show that ownership structure has a negative and insignificant effect on dividend policy, indicating that the more concentrated or controlled the ownership structure, the company's tendency to distribute dividends tends to weaken, although this pattern is not yet statistically consistent in the LQ45 sample. This negative direction can be understood from the composition of ownership dominated by institutional shareholders with a large proportion, relatively small managerial ownership, and varying public ownership, resulting in a trade-off between the preference for profit retention for internal financing and the demand for cash dividend distribution. The insignificant relationship is mainly influenced by the high volatility and the presence of outliers in the dividend policy indicators (DPR, DY, and DPS), which cause the ownership structure signal to be drowned out by variations in the dividend policy itself, as well as by the weak correlation between ownership indicators and dividends and the interlocking compositional nature of ownership indicators. Theoretically, these findings align with agency theory and ownership theory, which state that ownership can have a two-way effect, acting as a disciplinary mechanism through dividends or as a means of retaining earnings for control and investment purposes, resulting in a weak and insignificant final effect (Berle & Means, 1932; Jensen & Meckling, 1976; La Porta et al., 1999; Easterbrook, 1984; Jensen, 1986). Empirically, these results are consistent with studies finding that ownership concentration or managerial ownership can suppress

dividend payments in certain contexts (Lin et al., 2020; Kumar & Dewan, 2021), although they differ from studies reporting a positive effect of certain ownership on dividend policy (González et al., 2017; Mishra & Kapil, 2022), emphasizing that the Ownership Structure on Dividend Policy relationship is highly contextual and dependent on firm characteristics and market dynamics.

The Influence of Funding Decisions on Company Value

The test results show that financing decisions have a positive and significant effect on firm value, confirming that appropriate debt-equity capital structure management is perceived by the market as an important factor in value creation. This positive trend reflects that utilizing leverage at an efficient level is seen as a strategic instrument to support expansion, increase investment capacity, and optimize capital structure, especially in large and established companies such as LQ45 issuers. Although the indicators of financing decisions and firm value show high heterogeneity and volatility, a significant relationship remains, indicating that the influence of financing decisions is quite strong and consistent. The relatively significant correlation between several leverage indicators and market size/valuation strengthens this finding, indicating that large-capitalization companies have more room to utilize debt productively. Theoretically, these results are in line with the trade-off theory and Modigliani Miller with taxes that emphasize the benefits of debt through tax shields (Kraus & Litzenberger, 1973; Modigliani & Miller, 1963), agency theory that views debt as a disciplinary mechanism to reduce free cash flow problems (Jensen & Meckling, 1976; Jensen, 1986), and signaling theory that views debt decisions as a signal of management confidence in the company's prospects (Ross, 1977). These findings are also consistent with previous empirical evidence showing that optimally managed capital structure is positively and significantly related to firm value, especially in companies with strong access to funding and investment opportunities (Chowdhury & Chowdhury, 2010).

The Influence of Funding Decisions on Dividend Policy

The test results show that financing decisions have a positive and significant effect on dividend policy, indicating that managing the financing structure, both through a combination of short-term and long-term debt and the overall leverage level, plays a significant role in strengthening a company's ability to pay dividends. This positive trend reflects that when debt is managed effectively and at a productive level, external financing can support investment and operational needs without eroding dividend payment capacity, especially in relatively mature companies with good access to funding. Although the indicators for financing decisions and dividend policy show high variation and volatility, as well as varying partial correlations between ratios, the combined signal of financing decisions as a single construct remains significant, confirming that what is being assessed is not a single ratio but rather the overall financing configuration. Theoretically, this finding is in line with trade-off theory which emphasizes the benefits of debt at optimal levels (Kraus & Litzenberger, 1973; Myers, 1984), agency theory and free cash flow theory which view debt and dividends as complementary disciplinary mechanisms (Jensen & Meckling, 1976; Easterbrook, 1984; Jensen, 1986), and signaling theory which views financing and dividend policies as signals of management confidence in future cash flow prospects (Ross, 1977; Bhattacharya, 1979; Miller & Rock, 1985). Empirically, this result is consistent with previous research emphasizing the complementary nature of financing and dividend policies in achieving optimal financial outcomes (Njoku & Lee, 2025; Nguyen, 2025).

The Influence of Dividend Policy on Company Value

The test results show that dividend policy has a positive and significant effect on firm value, indicating that the market perceives the consistency and credibility of dividend payments as a positive signal of the company's quality and prospects. Although dividend policy indicators (DPS, DPR, and DY) and firm value indicators show considerable heterogeneity, the relatively significant dividend payment patterns in many sample companies make dividends function not merely as a formality, but as a real mechanism in forming market valuations. Descriptive correlations indicate that earnings policy-based indicators such as DPR and DPS tend to be positively associated with firm value, while dividend yield can fluctuate negatively due to stock price fluctuations; however, constructively, the positive signals of DPR and DPS are more dominant. Theoretically, this finding is in line with signaling theory which views dividends as a credible signal of cash flow strength and profit prospects (Bhattacharya, 1979; Miller & Rock, 1985), agency and free cash flow theory** which emphasizes the role of dividends in reducing agency costs and increasing efficiency (Jensen, 1986), as well as bird-in-the-hand theory and life-cycle theory of dividends which state that investors value dividend certainty and associate it with the stability and maturity of the company (Lintner, 1962; Gordon, 1963; DeAngelo et al., 2006). Empirically, these results are consistent with studies that confirm the relevance of dividends in increasing investor

perceptions and firm value, especially when information is not completely symmetric (Grullon et al., 2002; Seth & Mahenthiran, 2022; Abdullah et al., 2023; Chasiotis et al., 2024), while also showing that in a real market context, dividend policy is not completely irrelevant as assumed in a perfect market (Miller & Modigliani, 1961).

The Influence of Ownership Structure on Company Value Through Dividend Policy

The results of the mediation test indicate that dividend policy is unable to significantly mediate the influence of ownership structure on firm value, as the resulting indirect effect is negative and insignificant. This finding indicates that although dividend policy plays a role in increasing firm value, the ownership structure in this study sample has not consistently influenced dividend policy, so the impact does not continue to increase firm value. This condition can be explained by the character of the ownership structure, which is dominated by institutional ownership with quite large variations, relatively very small managerial ownership, and diverse public ownership, so that preferences for dividend distribution are not uniform and tend to cancel each other out. On the other hand, dividend policy and firm value show a high level of heterogeneity, while the relationship between ownership structure indicators and dividend policy is relatively weak, so the role of ownership structure as a driver of dividend policy is unstable. Theoretically, these results remain consistent with the views of agency theory and signaling theory which position dividends as a mechanism for reducing conflict and conveying information (Jensen & Meckling, 1976; Jensen, 1986; Bhattacharya, 1979; Miller & Rock, 1985), as well as with the corporate governance literature which emphasizes that the effectiveness of ownership structure is highly dependent on the context, preferences of dominant owners, and the quality of investor protection, so it does not always lead to a higher dividend policy and increased firm value (Shleifer & Vishny, 1997; La Porta et al., 2000; Faccio et al., 2001; De Cesari, 2012).

The Influence of Funding Decisions on Company Value through Dividend Policy

The test results show that financing decisions have a positive and significant effect on firm value through dividend policy, thus dividend policy acts as an effective mediator. This finding indicates that debt structure not only directly affects firm value but also strengthens firm value through increased capacity and commitment to dividend payments, which are then appreciated by the market. This pattern is supported by the high heterogeneity of leverage, dividend policy, and firm value, which makes investors more sensitive to payout policy as a signal of cash flow quality and managerial discipline. This relationship is also consistent with the positive correlation between some financing decision indicators and dividend indicators, as well as the positive correlation between dividend indicators, especially the dividend payout ratio, and firm value indicators, so that structurally the indirect effect appears significant. Theoretically, these results align with agency theory, which views debt and dividends as complementary disciplinary mechanisms that reduce agency costs (Jensen & Meckling, 1976; Jensen, 1986; Easterbrook, 1984), and with signaling theory, which positions dividends as a signal of cash flow strength and profit prospects that are positively responded to by the market (Bhattacharya, 1979; Miller & Rock, 1985; Ross, 1977). Furthermore, trade-off theory supports these findings by emphasizing that leverage managed at an efficient level can increase shareholder payout capacity and improve firm valuation (Kraus & Litzenberger, 1973). These findings ultimately indicate that dividend policy is a relevant partial mediator in channeling the influence of financing decisions on firm value, although it is not the sole mechanism at work (Miller & Modigliani, 1961; Vo & Ellis, 2017).

Conclusion

The conclusion of this study is that ownership structure does not yet play a primary role in determining firm value or directing dividend policy, as monitoring effects and potential interest dominance coexist, weakening the ownership signal to the market. Conversely, financing decisions emerge as a key factor influencing firm value, both directly and indirectly, as they reflect management's discipline and financial acumen in managing funding sources. A soundly managed financing structure provides cash flexibility and enables a company to maintain a consistent and credible dividend policy, which, in turn, is positively appreciated by investors. In this context, dividend policy serves as a signal and discipline mechanism that strengthens firm value, but is ineffective as a channel for the influence of ownership structure on firm value. Conversely, dividend policy has been shown to be a bridge that strengthens the influence of financing decisions on firm value, allowing the combination of appropriate financing and credible dividends to create a stronger corporate signal and contribute to strengthening market valuations.

Limitations

This study has several limitations that should be considered when interpreting the findings. First, the limited sample size of LQ45 companies means that the generalizability of the results may not be representative of all companies listed on the Indonesia Stock Exchange, particularly small- and medium-capitalization companies. Second, the relatively small variation in managerial ownership, with many zero values, potentially weakens the ability of ownership structure to explain differences in dividend policy and firm value. Third, the indicators for dividend policy and firm value exhibit high heterogeneity and volatility, and contain outliers. Therefore, the structural relationship, particularly in the mediation pathway, may be influenced by market data noise. Fourth, this study did not include theoretically relevant fundamental control variables, such as profitability, firm size, growth, and risk, leaving open the possibility of the influence of other factors outside the model. Fifth, the use of predictive-oriented PLS-SEM limits the power of purely causal inference, and time dynamics and changes in economic regimes have not been specifically tested. Finally, the mechanism testing is still focused on dividend policy as a mediator, so other alternative mechanisms that could potentially explain the relationship between the variables have not been explored.

Future Research

1. Refine the conceptualization and measurement of ownership structure

Because the relationship between ownership structure and dividend policy and firm value remains unconfirmed, future research should break down ownership structure into more specific dimensions (e.g., institutional, managerial, public, ownership concentration, or ultimate ownership). This approach has the potential to capture mechanisms that have been hidden when ownership structure is treated as a single aggregate construct.

2. Test alternative mediation pathways besides dividend policy

When ownership structure does not operate through dividend policy to influence firm value, further research could examine other mediators that are theoretically more closely related to the function of ownership, such as governance quality, monitoring quality, investment decisions, operational efficiency, disclosure quality, or risk management. This would help clarify how ownership actually channels its influence.

3. Include moderating variables to contextualize the relationship

Future research could include moderators that make the relationship between variables more visible under certain conditions, such as growth opportunities, business risk, firm size, level of industry competition, governance quality, or macroeconomic conditions. Moderators help explain why ownership structure may be relevant under some conditions while not under others. 4. Expand the sample size, period, and conduct model robustness tests.

4. To strengthen generalizability, future research could expand the observation period and industry sector variations, or compare groups of companies (e.g., high-growth companies vs. mature companies). Furthermore, the use of alternative specifications and robustness tests are important to ensure that theoretical conclusions do not rely on a single measurement method or model configuration.

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