

Dividend Policy as A Mediation Variable the Effect of Good Company Governance and Profitability on Company Value

Chandra Fiqtyandi Al Kaff

Faculty of Economy, Universitas Islam Sultan Agung, Semarang, Indonesia, E-mail: chandra.alkaff@gmail.com

Abstract. Every business entity that has transformed into a public company has a fundamental obligation to improve the welfare of its investors. Optimizing company value is a crucial step that is always the focus of management to maintain the loyalty of existing investors and attract the attention of potential new investors to invest their capital. This study is designed to evaluate the function of Dividend Policy as a variable that mediates the impact of Good Corporate Governance (GCG) and the level of Profitability on Company Value. The analytical approach applied relies on quantitative methods, with the target population being corporations in the Construction sector that are officially operating and listed on the Indonesia Stock Exchange (IDX). To calculate and test the hypothetical relationship between variables, the researcher utilizes Partial Least Square (PLS) software as the main statistical test instrument.

Keywords: Company Values; Dividend Policy; Good Corporate Governance; Profitability.

1. Introduction

One of the essential goals of a large-scale business entity is to attract interest and boost the equilibrium welfare of shareholders. In the capital market ecosystem, a crucial factor that consistently serves as a central focus for both management and investors in every financial decision is the company's value. Investment allocation decisions generally rely heavily on a review of company value, which serves as a barometer of a business entity's fundamental viability. Company value is reflected in stock price fluctuations on the stock exchange, where these price dynamics reflect investors' collective evaluation of the issuer's performance (Purbawangsa et al., 2020). Based on this premise, every corporation is required to develop a robust strategic plan to maximize its market value and attract new capital inflows.

Researchers are interested in further examining the impact of good corporate governance on entity valuation, specifically proxied by the share ownership structure indicator. This

investigation was conducted to demonstrate whether this ownership architecture significantly contributes to firm value, using dividend policy as an intermediary variable.

A literature review by Kurniati (2019) suggests that the implementation of good corporate governance actually has a negative and statistically insignificant impact on financial performance. The conclusion of this previous research suggests that improving the quality of good corporate governance could potentially be accompanied by a decline in financial performance. The anomalies and inconsistencies in this previous research prompted the author to conduct an in-depth exploration of this topic.

On the other hand, an entity's valuation is also influenced by its inherent risk profile, both in terms of revenue streams and leverage. However, the direct impact of cash holdings is often considered ambiguous. This may be due to the lack of solid empirical evidence regarding the rational motives behind a corporation's cash accumulation (Isshaq, Bokpin, and Mensah Onumah, 2009).

An entity's profitability plays a vital role in dictating the rational preferences of capital owners when formulating investment tactics. This phenomenon is highlighted in the findings of Soewarno, Yulia Arifin, and Tjahjadi (2017), who stated that a surge in leverage tends to have negative implications for company value. The surge in company value that reaches its peak is usually accelerated by the phenomenon where leverage instruments can generate tax efficiency benefits that exceed the burden of debt costs itself. However, when the accumulated debt burden exceeds its profitability, the company's valuation automatically declines because the market perceives the risk level as too high. As a result, the company's value will only escalate to a certain optimal threshold before finally depreciating.

Research by Budagaga (2017) highlights a positive and significant linear correlation between the cash dividend ratio per share and the appreciation of an entity's market value. A proportional dividend distribution strategy is believed to be able to boost company value, given that this distribution policy is closely linked to the maturity of Corporate Governance, which ultimately fosters public trust. Conceptually, the volume or ratio of dividends distributed depends heavily on the urgency of the entity's expansion. Corporations undertaking massive projects or burdened with debt repayment obligations certainly have their own preferences in regulating the rhythm of their profit distribution to investors.

PATTIRUHU and PAAIS (2020) clarified that the profit distribution mechanism (dividends) is not always executed in the form of fresh funds (liquidity). This mechanism can be transmuted into stock dividends, bond schemes, or the release of non-cash company assets. For entities that have entered the mature business phase-where operations have anchored at a stable point with solid profitability and excellent debt repayment capacity-distributing dividends periodically is not a significant financial obstacle. Therefore, investors are required to remain careful when mapping their portfolios. If an investor has a short-term orientation to pocket cash dividends while managing risk moderately, they absolutely must understand the intricacies of the profit distribution policy adopted by the target company.

This comprehensive study is designed to examine the interaction between GCG and profitability on firm value, incorporating dividend policy as a mediating instrument. The author seeks to update the conventional research framework to bridge the research gap that has been a subject of academic debate. The final results of this observation are projected to provide a meeting point for disparate conclusions in the past while enriching existing theoretical foundations.

2. Research Methods

This academic exploration is woven using a quantitative paradigm, with the operational focus directed at proving the causality hypothesis formulated initially. This study design was specifically designed to solve the puzzle of the mediating function of the Dividend Policy instrument in bridging the effects of GCG and Profitability performance on Firm Value.

3. Results and Discussion

3.1. Good Corporate Governance and Dividend Policy

Based on empirical data analysis, it was found that corporate governance (GCG) negatively impacts dividend distribution policy. Ownership structure is the determining factor in whether to loosen or tighten profit distribution. While GCG is fundamentally designed to maintain equilibrium between the interests of various parties and reduce agency friction, this research reveals a paradoxical phenomenon where strict governance discipline often inhibits dividend distribution. This is understandable, given that board members and supervisory committees are far more cautious and conservative regarding fund allocation. They generally prioritize capitalizing profits for crucial project expansions or strengthening cash cushions for long-term sustainability.

3.1.1. Good Corporate Governance and Company Values

Based on analytical testing, GCG also negatively impacts the company's value proposition. The ideals of good governance, projected to inspire confidence among investors, instead resulted in a decline in valuations. This depreciation was strongly fueled by the swelling of unexpected budget burdens (agency costs) to finance the bureaucratic framework for external oversight and the assembly of specialist committees. The domino effect of these mounting compliance costs eroded short-term profit surpluses and compromised management's agility amid fierce competition. The slowdown in response due to the tangled governance bureaucracy undermined the euphoria of growth, cumulatively disappointing investor expectations..

These negative impacts can occur because GCG implementation often requires significant costs (agency costs). Companies must incur additional costs for the formation of an audit committee, independent oversight, reporting systems, external audits, and regulatory compliance. Having a large board of directors can lead to coordination problems, difficult oversight, and agency costs, thereby reducing the company's value (Nurhidayanti, et. al.,

2023). These costs have the potential to temporarily erode an entity's profitability, which in turn will trigger a decline in investor sentiment and assessment of the company's ability to generate profits. As a result, the company's value can decline.

Furthermore, overly strict GCG implementation can sometimes lead to slower and more bureaucratic decision-making. Management must go through various procedures and approvals before making strategic decisions. This can reduce a company's flexibility in responding to market opportunities and changes in the business environment. When a company becomes less adaptable, investors may perceive its growth prospects as declining, negatively impacting its value.

3.1.2. Profitability and Dividend Policy

An entity's ability to generate a monetary surplus (profitability) has clearly proven to be a powerful catalyst for a surge in dividend payments. This positive correlation legitimizes the postulate that a strong cash flow foundation is always directly proportional to a corporation's flexibility in providing compensation funds to its investors. When this construction sector issuer consistently delivers impressive returns on assets (ROA) and equity (ROE), executive control space automatically becomes more expansive in determining the equilibrium between cash dividend payments and corporate installment expenses. This positive trend serves to mitigate agency conflict, where routine cash inflows thwart managers' attempts to squander company coffers on reckless expansion instruments. Maximized profit figures also act as a market signal, convincing the stock exchange that the company's cash flow radiates absolute vitality. Profitability determines whether or not a company will pay dividends and how much to distribute. These empirical findings confirm the postulates of agency theory, which views dividend distribution as a mechanism to mitigate friction between executives and shareholders. When an entity generates a massive profit surplus, dividend disbursement functions as a control instrument to limit managers' discretion to misuse internal funds. Therefore, profitability has been shown to positively influence the direction of dividend policy. Logically, escalating profit-generating capacity is directly correlated with a corporation's intention to distribute a portion of its wealth to shareholders. This is evident considering that entities with excellent profitability are generally supported by adequate cash liquidity, enabling them to finance operations and execute dividend distributions. Furthermore, achieving a substantial profit margin represents superior organizational performance, which management often uses as a positive signal to attract the market. Given that investors prioritize issuers with a track record of stable dividend distributions, profitable corporations will undoubtedly strive to maintain this prestigious reputation. Issuers' profitability performance reports demonstrate a parallel correlation with the rhythm of dividend distribution. The capacity to accumulate profits strongly influences the cash ratio distributed to investors. This finding aligns with the foundation of Agency Theory, which argues that large dividend payments successfully suppress conflicts between executives and capital commissioners. A bulging profit margin ensures that entities have ample liquidity to meet all debt obligations while maintaining the

tradition of profit distribution, while simultaneously broadcasting a message of financial solidity to the public.

3.2. Profitability and Company Value

The analytical research cycle in this paper presents results that disrupt the established dogma of the capital market, as impressive records regarding profit-making capabilities fail to demonstrate a relevant leveraging force for increasing company value. While profit spikes reflect management's discipline and efficiency in deploying capital instruments, the stock market stage demands a more multidimensional observation than simply the allure of current margins. Investors are not easily captivated by temporary profit spikes that are simply used to cover historical debt losses or to plug leaks in operational tender costs. This shift in public rationality has triggered a tendency for stock players to more intently detect the resilience of macro funding ratios and the sustainability of future cash flows, rather than immediately chasing stocks solely because of fragile seasonal surges in profitability. However, research by Wijaya et al. (2021) shows that profitability does not significantly influence firm value.

This situation can arise because investors consider not only a company's profit level but also other factors such as capital structure, dividend policy, economic conditions, company growth, and cash flow stability. High profitability does not necessarily increase stock prices or company value if the profits are not accompanied by good growth prospects or effective corporate management (Monika & Yanti, 2024). Furthermore, in some companies, high profits are used to cover company liabilities or operational needs, thus not sending a positive signal to investors. This results in profitability not having a strong enough influence on market perception of company value. A record of impressive profit performance is conceptually plotted as a powerful magnet attracting company valuations. However, the final statistical results in this work surprisingly refute a significant influence between profitability and a company's market value. Abundant profits fail to attract share price prestige because modern investors go beyond historical margins. They often incorporate a combination of risk, funding structure, and the direction of macro business projections into their matriculation. Often, accumulated profits are simply sucked up to pay off a pile of bad debts or simply to patch leaks in operational costs, so that its attractiveness fades in the eyes of the stock market.

3.2.1. Dividend Policy and Company Value

The findings of this research demonstrate that dividend distribution decisions do not significantly impact fluctuations in company value. This empirical reality aligns with a fundamental view in the financial literature, namely the Dividend Irrelevance Theory, proposed by Modigliani and Miller. According to this theory, in a perfect market ecosystem—assumed to be free from taxes, transaction costs, and information asymmetry—an issuer's valuation is solely driven by its fundamental profit-generating ability and operational risk profile, not by the proportion of distributed profits.

Furthermore, this approach assumes that investors act rationally and are neutral between collecting current cash dividends or enjoying future capital gains. If a business entity retains its earnings and does not distribute dividends, investors have the flexibility to generate their own cash flow (homemade dividends) by selling some of their stock holdings. Conversely, excess cash from excessively large dividends can be easily reinvested in equity instruments. This unlimited substitution and flexibility eliminates the urgency of dividend policy. Ultimately, cash allocation strategies prove irrelevant in boosting a company's perception or long-term valuation.

3.2.2. Good Corporate Governance, Dividend Policy, and Company Value

The empirical findings in this study demonstrate that the dividend policy instrument fails to operate as a mediator in transmitting the influence of Good Corporate Governance (GCG) on company value appreciation. The direct path from governance implementation to entity value demonstrates a much more robust causal significance. Therefore, the inclusion of a profit-sharing scheme does not contribute any additional impact to corporate valuation in the construction industry. This conclusion confirms previous research by Rosida & Sundari (2021) and Napitupulu et al. (2026), which also found a paralysis in the mediating function of dividends in the relationship between GCG and issuer value. Conceptually, GCG was initiated to ensure transparent, accountable, and integrity-based company operations. Various oversight instruments—such as audit committees, the proportion of independent commissioners, and institutional ownership—are designed to reduce agency friction between executives and investors. From a classical perspective, profit distribution is often positioned as an instrument to mitigate agency problems due to its ability to limit managers' ability to misuse cash. However, the breakdown in the GCG chain of influence on company value via dividends can be attributed to shifting market preferences. Contemporary investors no longer value dividend payments as the sole barometer of issuer performance. Instead, today's investors place greater emphasis on long-term expansion prospects and growth capacity. As a result, even if GCG is well implemented and influences dividend policy, it does not directly increase the company's perceived value.

Further statistical analysis undermines the hypothesis that dividends act as an intermediary catalyst. Dividend schemes have proven ineffective in neutralizing the indirect effects of Good Corporate Governance and Profitability ratios on boosting Company Value. The direct, primitive relationship between profitability profiles and issuers' market value far exceeds the transmission capabilities of dividend distributions. This reflects the tendency of stock market savvy investors to pursue the promise of future value increases (capital gains) rather than competing for a share of current dividend profits.

3.2.3. Profitability, Dividend Policy, and Company Value

The findings of this study indicate that dividend policy is unable to act as a mediating variable between profitability and firm value. In the construction sector, a company's ability to generate profits has been shown to have a much stronger direct impact on firm value

without the need for intervention by dividend distribution decisions. This conclusion aligns with a previous study by Rosida and Sundari (2021), which also demonstrated the absence of a mediating role for dividend policy in the relationship between the two variables.

Conceptually, profitability is often viewed as the primary driver of a business entity's increasing value. Companies with high profitability represent solid operational performance, thus attracting investor interest. This profit is typically used as a benchmark for dividend distribution, which is conventionally interpreted as a positive signal on the stock market. However, empirical evidence shows that high profits do not always significantly impact an entity's value through dividends.

This phenomenon is primarily driven by a shift in investor perspective, which no longer positions dividends as the sole benchmark. In today's market ecosystem, investors tend to prioritize future growth prospects over short-term profit distribution. Companies with healthy financial performance often take the strategic step of allocating their profits as retained earnings. These funds are then reinvested for expansion or reinvestment, which are often considered more promising for long-term shareholder returns.

Furthermore, this finding is also supported by Miller and Modigliani's theory of dividend irrelevance. This theory argues that in an efficient market structure, dividend distribution schemes do not alter the value of a business entity. Market valuation is based purely on a company's capacity to generate operational profits and its level of business risk, rather than focusing on its profit distribution mechanism. In conclusion, regardless of an entity's profitability, strategic decisions regarding dividend payments do not necessarily alter market perceptions of its value.

4. Conclusion

Summarizing the entire in-depth analysis of the interactions between variables in the building construction industry cluster in the 2019-2024 time frame, the author presents the following conclusions: 1. Pillar erection Good Corporate Governance In fact, it has a negative impact on the dividend distribution determination scheme. The pattern of ownership consolidation has become the driving force behind the rationalization of cash disbursements. 2. The profitability of an entity is a crucial element that has a clear impact on dictating how aggressively the company distributes dividend cash deposits. 3. Profit sharing strategies and policies have proven ineffective in their efforts to deregulate the overall appreciation of corporate sales value. 4. The strengthening of GCG governance standards has failed to indirectly engineer issuer value through the mediation of dividend policies. The lines of communication are broken, and the impact is not multiplied. 5. The surge in corporate profits (profitability) failed to amplify its value when channeled through the dividend distribution gateway. The direct linear implications of a profitability track record on rising valuations actually dominated the capital market's radar.

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