



## The Influence of Profitability and Institutional Ownership on Firm Value: The Mediating Role of Dividend Policy

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### Abstract

**Purpose:** This study investigates the determinants of firm value in the Indonesian property and real estate sector during the post-pandemic recovery period of 2022–2024. It specifically examines the effects of Profitability and Institutional Ownership on Firm Value, with Dividend Policy positioned as a mediating variable. **Method:** This study employs a quantitative approach using secondary data from property and real estate companies listed on the Indonesia Stock Exchange. The sample was selected through purposive sampling based on criteria such as continuous financial reporting, profitability, and dividend distribution, resulting in a balanced panel of eligible firms. The hypotheses were tested using path analysis. **Findings:** The results show that Profitability, proxied by ROA, has a significant positive effect on firm value but a significant negative effect on dividend policy, indicating that firms tend to prioritize internal financing over dividend distribution. Institutional Ownership has a significant positive effect on dividend policy but does not directly increase firm value. In addition, Dividend Policy does not mediate the relationship between Profitability and Firm Value, nor between Institutional Ownership and Firm Value. **Implication:** This study contributes to Signaling Theory and Agency Theory by showing that, in the Indonesian property sector, dividend payments may be interpreted as a reduction in growth capital rather than a positive market signal. Practically, the findings provide insights for investors and corporate managers in designing capital allocation and payout strategies during periods of sectoral recovery.

**Keywords:** dividend policy, firm value, institutional ownership, profitability

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### Introduction

The property and real estate sector serves as a vital barometer for the Indonesian economy, reflecting both consumer purchasing power and the stability of the national investment climate (Setyabudi, 2021; Margono & Gantino, 2021). Following the global economic disruptions of the early 2020s, the period of 2022 to 2024 represents a critical phase of structural adjustment and recovery for Indonesian listed firms, particularly those operating in capital-intensive sectors (Hariadi et al., 2025; Irawan & Nugroho, 2025). During this window, firms faced high-interest rates and shifting urban demands, making the optimization

of firm value a primary objective for management (Pristiana & Murtadho, 2025; Salsabila & Imronudin, 2025). Firm value, often proxied by Price to Book Value (PBV), reflects the market's perception of a company's financial health and future prospects (Akhmadi & Januarsi, 2021; Chettri & Kharkongor, 2022). A high valuation facilitates easier access to capital markets, yet achieving this remains complex in a volatile emerging market such as Indonesia (Cristina & Yasa, 2024; Pratiwi et al., 2022).

In the Indonesian context, property companies are characterized by high capital intensity and long-term project cycles, which make financial efficiency and strategic capital allocation especially important (Hariadi et al., 2025; Margono & Gantino, 2021). Consequently, financial performance, particularly profitability as measured by Return on Assets (ROA), is expected to be a primary driver of market interest and firm value (Akhmadi & Januarsi, 2021; Erwin et al., 2025). Furthermore, ownership structure, specifically Institutional Ownership (IOWN), is often viewed as a monitoring mechanism capable of reducing agency costs and improving managerial decision-making (Jensen & Meckling, 1976; Diab et al., 2023). However, the interaction between these performance indicators and market valuation is often filtered through the company's dividend policy (DPR) (Setyabudi, 2021; Putro & Wany, 2021). Investors in Indonesia frequently pay attention to yield, yet the trade-off between retaining earnings for expansion and distributing dividends remains a continuing point of contention (Januarsi & Sanusi, 2024; Oktari & Dianawati, 2023).

A significant research gap exists in the contemporary literature regarding the mediating role of dividend policy in the Indonesian property sector (Putro & Wany, 2021; Setyabudi, 2021). Previous studies have yielded inconsistent findings; some suggest that dividends function as a positive signal to the market, while others argue that in growth-oriented industries investors may prefer reinvestment over immediate payouts (Ross, 1977; Dzulyaikah et al., 2025). Empirical evidence also shows that the relationship between dividend policy and firm value may vary depending on firm characteristics and market context (Chettri & Kharkongor, 2022; Pratiwi et al., 2022). Moreover, much of the existing literature concentrates on earlier periods or broader sectors such as manufacturing, leaving limited understanding of how post-pandemic recovery pressures in 2022–2024 may have reshaped value creation logic in the property industry (Kusumawati & Harijono, 2021; Siregar et al., 2023).

This research aims to analyze the direct effects of Profitability and Institutional Ownership on Firm Value, as well as their indirect effects through Dividend Policy as a mediating variable (Setyabudi, 2021; Irawan & Nugroho, 2025). This study adopts Signaling Theory as the grand theory and Agency Theory as the supporting theory to explain the relationships among management, shareholders, and market perceptions (Spence, 1973; Jensen & Meckling, 1976). From a signaling perspective, dividend policy may communicate firm quality to investors, whereas from an agency perspective institutional investors may pressure management to distribute cash in order to reduce agency conflicts (Ross, 1977; Diab et al., 2023). By integrating these perspectives, this study seeks to clarify whether dividends serve as a credible signal of quality or merely reflect institutional pressure that does not necessarily translate into higher market valuation (Setyabudi, 2021; Dzulyaikah et al., 2025).

The novelty of this research lies in its specific temporal focus on 2022–2024 and its application of path analysis to a sector that is highly sensitive to financing pressures, cash allocation decisions, and market expectations in Indonesia (Hariadi et al., 2025; Pristiana & Murtadho, 2025). The study contributes theoretically by questioning the universal applicability of Signaling Theory in growth-oriented sectors within emerging markets (Spence, 1973; Oktari & Dianawati, 2023). Empirically, it provides more recent evidence on the relationships among profitability, institutional ownership, dividend policy, and firm value under post-pandemic economic conditions (Erwin et al., 2025; Irawan & Nugroho, 2025). Practically, it may assist corporate boards and investors in calibrating payout policies to better align shareholder

expectations with long-term value creation (Cristina & Yasa, 2024; Kurniawan & Sunarto, 2024).

## **Literature review**

### *Signaling theory*

Signaling Theory, pioneered by Spence (1973) and later applied to finance by Ross (1977), posits that corporate decisions serve as signals to outsiders to reduce information asymmetry between insiders and external investors (Spence, 1973; Ross, 1977). In capital markets, managers possess more complete information about the company's true condition and future prospects than outside investors (Spence, 1973; Jensen & Meckling, 1976). Consequently, financial actions such as achieving high profitability or declaring dividends are often interpreted as signals of the firm's future performance and quality by the market (Ross, 1977; Akhmadi & Januarsi, 2021). If a signal is costly and difficult for low-quality firms to imitate, it is more likely to be perceived as credible and to increase firm valuation (Spence, 1973; Ross, 1977).

In this study, Profitability (ROA) is treated as a fundamental signal of operational efficiency and managerial effectiveness (Akhmadi & Januarsi, 2021; Erwin et al., 2025). A high ROA indicates that the firm is capable of generating returns from its asset base, which should theoretically lead to a higher Price to Book Value (PBV) in the market (Margono & Gantino, 2021; Salsabila & Imronudin, 2025). Similarly, Dividend Policy (DPR) is often regarded as a strong signal because it involves an actual cash commitment and implies management confidence in future cash flows (Ross, 1977; Januarsi & Sanusi, 2024). However, the meaning of this signal may vary across industries and corporate contexts (Chettri & Kharkongor, 2022; Dzulyaikah et al., 2025). In the property sector, where firms require substantial liquidity for land acquisition and project development, a high dividend payout may be interpreted ambiguously either as a sign of strength or as an indication of limited growth opportunities (Pratiwi et al., 2022; Siregar et al., 2023).

Furthermore, Signaling Theory explains how the presence of institutional investors (IOWN) may itself function as a certification signal of firm quality (Diab et al., 2023; Irawan & Nugroho, 2025). Large institutional investors generally conduct deeper due diligence and monitoring, so their presence may signal to the market that the company has relatively stronger fundamentals and lower informational risk (Diab et al., 2023; Resandy & Marsono, 2025). This study therefore uses Signaling Theory to explain how profitability and ownership structure can be translated into market perceptions, while dividend policy is positioned as a secondary signaling mechanism that may strengthen or weaken the effect of the primary signals on firm value (Setyabudi, 2021; Putro & Wany, 2021).

### *Agency theory*

Agency Theory, as articulated by Jensen and Meckling (1976), focuses on the conflict of interest between principals (shareholders) and agents (managers) that arises from the separation of ownership and control (Jensen & Meckling, 1976). In this framework, managers may prioritize personal benefits, private control, or empire-building over the objective of maximizing shareholder wealth (Jensen & Meckling, 1976; Setyabudi, 2021). In this context, Dividend Policy is commonly viewed as a mechanism to mitigate agency costs by limiting managerial discretion over internally generated funds (Jensen & Meckling, 1976; Putro & Wany, 2021). By paying dividends, firms reduce the free cash flow available for potentially sub-optimal investments, thereby helping align managerial actions with shareholder interests (Jensen & Meckling, 1976; Januarsi & Sanusi, 2024).

Institutional Ownership plays a critical role in Agency Theory as an external monitoring mechanism capable of disciplining management more effectively than dispersed individual

investors (Diab et al., 2023; Jensen & Meckling, 1976). Unlike retail shareholders, institutional investors generally possess greater resources, better access to information, and stronger incentives to monitor managerial decisions closely (Diab et al., 2023; Resandy & Marsono, 2025). Such monitoring is expected to encourage managerial efficiency, improve operating performance, and pressure firms to distribute excess cash through dividends when appropriate (Setyabudi, 2021; Irawan & Nugroho, 2025). The reduction of agency costs through these governance and payout mechanisms should, in principle, be reflected in higher firm value as perceived by the market (Irawan & Nugroho, 2025; Pristiana & Murtadho, 2025).

However, the application of Agency Theory in the Indonesian property sector must also consider the dominance of concentrated ownership, family-controlled business groups, and the specific institutional environment surrounding corporate governance (Setyabudi, 2021; Nurhidayah & Soerono, 2025). If institutional investors behave passively or align themselves with controlling shareholders rather than minority investors, their monitoring role may become less effective in reducing agency conflicts (Diab et al., 2023; Nurhidayah & Soerono, 2025). Under such circumstances, the expected positive impact of institutional ownership on firm value may weaken or even become ambiguous (Irawan & Nugroho, 2025; Setyabudi, 2021). Therefore, Agency Theory provides an important lens for understanding why Institutional Ownership and Dividend Policy may influence firm valuation through the reduction, persistence, or transformation of internal conflicts within the firm (Jensen & Meckling, 1976; Putro & Wany, 2021).

#### *Hypothesis development*

Profitability is generally viewed as the primary determinant of a firm's ability to pay dividends because higher earnings provide greater internal cash resources for distribution to shareholders (Januarsi & Sanusi, 2024; Erwin et al., 2025). According to the lifecycle perspective of dividends, firms with strong profitability and more mature operations tend to generate surplus cash that may exceed their immediate investment needs, thereby allowing higher dividend payouts (Pristiana & Murtadho, 2025; Siregar et al., 2023). Prior empirical studies also suggest that profitable firms use dividend payments as a mechanism to signal financial strength and firm quality to the market (Ross, 1977; Akhmadi & Januarsi, 2021). In the property sector, sustained Return on Assets (ROA) is particularly important because it reflects the firm's capacity to generate returns from large asset holdings and supports the liquidity needed to maintain a consistent Dividend Payout Ratio (DPR) (Margono & Gantino, 2021; Salsabila & Imronudin, 2025). Based on the theoretical framework and the logical relationships previously described, the hypotheses proposed in this study are as follows:

H1: ROA has a positive effect on DPR.

The market value of a firm is closely linked to its ability to generate profits, as profitability reflects the firm's operational performance and long-term financial sustainability (Akhmadi & Januarsi, 2021; Erwin et al., 2025). From the perspective of Signaling Theory, a high Return on Assets (ROA) serves as a clear signal of competitive advantage, managerial effectiveness, and efficient asset utilization (Spence, 1973; Ross, 1977). Investors are generally willing to assign a higher valuation to companies that demonstrate strong profitability because such performance increases confidence in future returns and business prospects (Margono & Gantino, 2021; Cristina & Yasa, 2024). This relationship becomes even more relevant in capital-intensive industries such as property, where the efficient use of large asset bases is essential in shaping market perceptions of firm value (Salsabila & Imronudin, 2025; Irawan & Nugroho, 2025). Based on the theoretical framework and the logical relationships previously described, the hypotheses proposed in this study are as follows:

H2: ROA has a positive effect on PBV.

Institutional investors are often associated with a stronger preference for regular dividend payments because dividends provide a tangible return and help justify investment decisions to their own beneficiaries and stakeholders (Setyabudi, 2021; Pristiana & Murtadho, 2025). From the perspective of Agency Theory, institutional ownership can strengthen pressure on management to distribute dividends as a way to reduce free cash flow under managerial control and limit the possibility of inefficient investment decisions (Jensen & Meckling, 1976; Putro & Wany, 2021). Because institutional investors generally possess greater monitoring capacity and bargaining power than individual shareholders, they are more capable of influencing corporate payout decisions (Diab et al., 2023; Resandy & Marsono, 2025). Therefore, a higher concentration of institutional ownership is expected to encourage a stronger dividend policy within the firm (Setyabudi, 2021; Irawan & Nugroho, 2025). Based on the theoretical framework and the logical relationships previously described, the hypotheses proposed in this study are as follows:

H3: IOWN has a positive effect on DPR.

The presence of institutional investors may generate a positive halo effect for a company because it signals stronger professional oversight and lower agency risk in the eyes of the market (Diab et al., 2023; Resandy & Marsono, 2025). From both Agency Theory and Signaling Theory perspectives, institutional ownership can be interpreted as an indicator of better monitoring quality and greater confidence from sophisticated investors (Jensen & Meckling, 1976; Spence, 1973). As a result, the market often rewards firms with higher institutional ownership through stronger valuation, since such firms are perceived to have better corporate governance and lower information asymmetry than companies dominated by dispersed retail ownership (Irawan & Nugroho, 2025; Nurhidayah & Soerono, 2025). Therefore, greater institutional backing is expected to contribute positively to the firm's Price to Book Value (PBV) (Setyabudi, 2021; Irawan & Nugroho, 2025). Based on the theoretical framework and the logical relationships previously described, the hypotheses proposed in this study are as follows:

H4: IOWN has a positive effect on PBV.

Based on the Bird-in-the-Hand theory, investors tend to prefer certain dividend income in the present over uncertain capital gains in the future, making dividend payments an important determinant of investment attractiveness (Pratiwi et al., 2022; Pristiana & Murtadho, 2025). A consistent and relatively high Dividend Payout Ratio (DPR) may signal that the company is mature, financially stable, and supported by healthy cash flows, which can strengthen investor confidence in the firm's prospects (Ross, 1977; Cristina & Yasa, 2024). In the Indonesian capital market, where many investors still pay considerable attention to dividend yield, a favorable dividend policy is expected to increase stock demand and raise market valuation relative to book value (Januarsi & Sanusi, 2024; Kurniawan & Sunarto, 2024). Therefore, firms with higher dividend payouts are expected to exhibit higher Price to Book Value (PBV) (Chettri & Kharkongor, 2022; Dzulyaikah et al., 2025). Based on the theoretical framework and the logical relationships previously described, the hypotheses proposed in this study are as follows:

H5: DPR has a positive effect on PBV.

This hypothesis proposes that the value created by profitability (ROA) may not be fully recognized by the market until it is confirmed through dividend distribution as a visible financial signal (Ross, 1977; Putro & Wany, 2021). In this framework, ROA provides the firm with the capacity to pay dividends, while Dividend Policy (DPR) functions as the signaling channel through which profitability is translated into investor confidence and market valuation (Januarsi & Sanusi, 2024; Setyabudi, 2021). The resulting market reaction is then reflected in Price to Book Value (PBV), which captures how investors assess the firm's quality and future prospects (Akhmadi & Januarsi, 2021; Pristiana & Murtadho, 2025). If this mediating relationship holds, it implies that profitability alone is insufficient to maximize firm value

unless part of that profit is distributed to shareholders through dividends (Putro & Wany, 2021; Hariadi et al., 2025). Based on the theoretical framework and the logical relationships previously described, the hypotheses proposed in this study are as follows:

H6: DPR mediates the effect of ROA on PBV.

This hypothesis suggests that institutional ownership may enhance firm value not only through its direct presence, but also through its ability to influence corporate payout decisions (Setyabudi, 2021; Irawan & Nugroho, 2025). Institutional investors are generally expected to pressure management to adopt a more disciplined dividend policy as a mechanism to reduce agency problems and limit the misuse of excess cash (Jensen & Meckling, 1976; Putro & Wany, 2021). When Institutional Ownership (IOWN) increases Dividend Policy (DPR), and the resulting dividend payout strengthens investor confidence and market valuation, the contribution of institutional investors to firm value is realized indirectly through dividend distribution (Diab et al., 2023; Pristiana & Murtadho, 2025). Therefore, dividend policy is expected to function as an intervening channel through which institutional ownership affects Price to Book Value (PBV) (Setyabudi, 2021; Dzulyaikah et al., 2025). Based on the theoretical framework and the logical relationships previously described, the hypotheses proposed in this study are as follows:

H7: DPR mediates the effect of IOWN on PBV.

## Method

This study employs a quantitative research design with an associative approach to determine the causal relationships between profitability, institutional ownership, dividend policy, and firm value. The analysis utilizes a series of corporate financial observations to capture the structural dynamics within the property and real estate sector listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. To ensure the integrity and relevance of the data, a purposive sampling method was applied based on a set of rigorous financial and reporting criteria. This selection process, which narrowed the population to 11 qualified companies over a three-year observation window, resulted in 33 total observations as detailed in Table 1.

Table 1: Purposive sampling criteria and selection results

No	Sample Selection Criteria	Count
1	Property and real estate companies listed on the IDX (2022–2024).	40
2	Companies not presenting continuous or complete annual reports (2022–2024).	-3
3	Companies experiencing a net loss during the period 2022–2024.	-19
4	Companies not distributing dividends during the period 2022–2024.	-7
	Final Research Sample (Companies)	11
	Total Observations (11 companies x 3 years)	33

To ensure precision in testing the structural relationships, each variable is translated into a measurable financial proxy based on established accounting literature. The operational definitions and mathematical formulas for the independent variables (ROA and IOWN), the mediating variable (DPR), and the dependent variable (PBV) are presented in Table 2.

Table 2: Measurement of variables

No	Variable	Operational Definition	Formula
1	Profitability (X1)	Ability to generate profit from assets (Akhmadi & Januarsi, 2021; Erwin et al., 2025).	$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$

2	Institutional Ownership (X2)	Percentage of shares held by institutions (Diab et al., 2023; Irawan & Nugroho, 2025).	$IOWN = \frac{\text{Inst. Shares}}{\text{Total Shares}} \times 100\%$
3	Dividend Policy (M)	Proportion of earnings paid as dividends (Januarsi & Sanusi, 2024; Pratiwi et al., 2022).	$DPR = \frac{\text{Dividend Per Share}}{\text{Earnings Per Share}}$
4	Firm Value (Y)	Market perception of the firm's value (Akhmadi & Januarsi, 2021; Cristina & Yasa, 2024).	$PBV = \frac{\text{Stock Price}}{\text{Book Value Per Share}}$

The data analysis in this study is performed using Partial Least Squares Structural Equation Modeling (PLS-SEM). This method is selected for its superior ability to handle complex structural models and assess mediating effects simultaneously, even with a limited number of observations. The evaluation is conducted in two primary stages: the measurement model (outer model) and the structural model (inner model). In the measurement model stage, reliability and validity are evaluated through Cronbach’s Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). Given that the variables in this study utilize single-indicator financial ratios, the reliability values are inherently 1.000. Furthermore, discriminant validity is verified using the Heterotrait-Monotrait Ratio (HTMT), where values below 0.90 confirm that the constructs are empirically distinct. In the structural model stage, the study assesses the Coefficient of Determination (R2) to measure the model's predictive power for the endogenous variables. The hypotheses are tested through a bootstrapping procedure to obtain T-statistics and P-values. A relationship is considered statistically significant if the P-value is less than 0.05. This path analysis approach allows for a granular examination of whether the drivers of firm value act directly or are transmitted through dividend policy as a mediating mechanism.

### Results and discussion

Before evaluating the structural relationships between variables, a descriptive statistical analysis was conducted to provide an overview of the data distribution for the 11 property and real estate companies observed between 2022 and 2024. The following Table 3 presents the mean, median, minimum, maximum, and standard deviation for each research variable.

Table 3. Statistic descriptive

Variable	Mean	Median	Min	Max	Standard Deviation
ROA	4.363	3.81	0.31	11.06	3.087
IOWN	0.645	0.71	0.12	0.97	0.248
DPR	0.696	0.51	0.02	3.17	0.62
PBV	3.18	2.59	0.27	8.53	2.747

The descriptive results reveal several key insights into the financial condition of the sampled firms. Profitability (ROA) shows an average of 4.36%, indicating that the sampled firms are generally efficient in generating profit, although the wide range (0.31% to 11.06%) highlights significant performance disparities within the sector. Institutional Ownership (IOWN) averages 64.5%, suggesting that the majority of shares in these property firms are held by institutions, which provides a strong basis for monitoring management. Regarding Dividend Policy (DPR), the mean value of 0.696 (or 69.6%) indicates a relatively high payout ratio, though the standard deviation of 0.62 suggests high variability in how much profit is returned to shareholders. Finally, the Firm Value (PBV) shows a mean of 3.18, with a maximum value

of 8.53, indicating that the market generally values these property companies well above their book value, despite the industry's inherent volatility.

After establishing the data distribution through descriptive statistics, the next step in PLS-SEM analysis is to evaluate the measurement model (outer model). Table 4 presents the results of the reliability and convergent validity tests to ensure that each construct is measured accurately.

Table 4. Reliability and validity results

Variable	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
ROA	1.000	1.000	1.000	1.000
IOWN	1.000	1.000	1.000	1.000
DPR	1.000	1.000	1.000	1.000
PBV	1.000	1.000	1.000	1.000

The results in Table 4 show a value of 1.000 for all reliability parameters (Cronbach's Alpha, rho\_A, and Composite Reliability) as well as convergent validity (AVE). This occurs because the variables in this study (ROA, IOWN, DPR, and PBV) are single-indicator constructs derived from objective financial ratios. In such cases, there is no measurement error variance between multiple indicators within a single variable. Therefore, the model meets the requirements for perfect reliability and validity, allowing for further structural testing.

After establishing the reliability and convergent validity of the constructs, it is essential to ensure that each variable is empirically distinct. This study utilizes the Heterotrait-Monotrait Ratio (HTMT) to assess discriminant validity. The results of this evaluation are presented in Table 5.

Table 5. Heterotrait-Monotrait Ratio (HTMT) Results

	DPR	IOWN	PBV	ROA
DPR				
IOWN	0.343			
PBV	0.622	0.432		
ROA	0.481	0.068	0.616	

Discriminant validity is considered established when HTMT values are below the conservative threshold of 0.85 or the more liberal threshold of 0.90 (Henseler et al., 2015). As shown in Table 5, all inter-construct correlation ratios are well below 0.90, with the highest value being 0.622 (between Dividend Policy and Firm Value). This indicates that there is no issue of multicollinearity or overlapping constructs, confirming that each variable in the model ROA, IOWN, DPR, and PBV represents a unique financial dimension.

Following the confirmation of discriminant validity, the structural model's quality is evaluated using the Coefficient of Determination ( $R^2$ ). This metric indicates the proportion of variance in the endogenous (dependent and mediating) variables that is explained by the exogenous (independent) variables within the model.

Table 6. Coefficient of determination ( $R^2$ ) results

Variable	R Square	R Square Adjusted
DPR	0.328	0.283
PBV	0.594	0.552

The results in Table 6 show an  $R^2$  value of 0.328 for Dividend Policy (DPR), meaning that 32.8% of the variability in dividend payouts among Indonesian property firms is explained by Profitability (ROA) and Institutional Ownership (IOWN). More importantly, the  $R^2$  value for Firm Value (PBV) is 0.594, indicating that 59.4% of the variance in market valuation is explained by the combined influence of ROA, IOWN, and DPR. According to Hair et al. (2019), an  $R^2$  value nearing 0.60 in a behavioral or financial context suggests a moderate to substantial explanatory power, signifying that the chosen variables are strong predictors of firm value in this sector.

The final stage of the structural model evaluation involves testing the hypothesized relationships through a bootstrapping procedure to determine the significance of the path coefficients. Table 7 provides a comprehensive summary of the direct and indirect effects, along with their respective T-statistics and P-values.

Table 7. Summary of path coefficients and hypothesis testing

Relationship Between Variables	Original Sample	Standard Deviation	T Statistics	P Values
ROA → DPR	-0.459	0.089	5.147	0.000
ROA → PBV	0.450	0.133	3.388	0.001
IOWN → DPR	0.312	0.140	2.230	0.026
IOWN → PBV	-0.297	0.135	2.204	0.028
DPR → PBV	-0.304	0.147	2.063	0.040
ROA → DPR → PBV	0.140	0.078	1.794	0.073
IOWN → DPR → PBV	-0.095	0.070	1.344	0.179

The results show that Profitability (ROA) has a significant impact on both endogenous variables, but in opposite directions; it significantly decreases the dividend payout ratio ( $\beta = -0.459, P < 0.05$ ) while significantly increasing firm value ( $\beta = 0.450, P < 0.05$ ). Institutional Ownership (IOWN) is found to significantly drive dividend distribution ( $\beta = 0.312, P < 0.05$ ), yet it exerts a significant negative direct effect on market valuation ( $\beta = -0.297, P < 0.05$ ). Notably, Dividend Policy (DPR) itself shows a significant negative influence on firm value ( $\beta = -0.304, P < 0.05$ ), contradicting the traditional bird-in-the-hand logic in this specific sector. Regarding mediation, both H6 ( $P = 0.073$ ) and H7 ( $P = 0.179$ ) are rejected as their P-values exceed the 0.05 threshold. This statistically confirms that Dividend Policy does not act as a bridge for profitability or institutional ownership in creating firm value. The findings suggest that the transmission of value in the Indonesian property sector is a direct process rather than one mediated by payout strategies.

*The relationship between profitability and dividend policy*

The analysis reveals that Profitability, proxied by Return on Assets (ROA), has a significant negative effect on Dividend Policy (DPR), leading to the rejection of H1. This finding is counter-intuitive and contradicts the conventional assumption that higher profits naturally lead to higher dividend distributions (Erwin et al., 2025; Pristiana & Murtadho, 2025). In the specific context of the 2022–2024 period, this result suggests that Indonesian property firms may have operated in a growth-preservation mode, where increased profitability was not immediately translated into dividend payouts (Salsabila & Imronudin, 2025; Hariadi et al., 2025). When profitability increases, management may strategically retain earnings for land banking, project development, or debt reduction rather than distributing them to shareholders, particularly in capital-intensive sectors such as property and real estate (Margono & Gantino, 2021; Irawan & Nugroho, 2025). This mechanism is consistent with Pecking Order Theory,

which argues that firms tend to prioritize internal financing over external distribution in order to preserve financial flexibility during periods of recovery or expansion (Setyabudi, 2021; Putro & Wany, 2021).

*The relationship between profitability and firm value*

Profitability (ROA) demonstrated a significant positive effect on Firm Value (PBV), resulting in the acceptance of H2. This result strongly supports Signaling Theory, as the market tends to perceive strong profitability as a primary indicator of a firm's fundamental value, regardless of whether those profits are immediately distributed as dividends (Spence, 1973; Ross, 1977). Investors in the Indonesia Stock Exchange (IDX) property sector appear to behave rationally by placing greater emphasis on a company's earning power and long-term capital gain potential than on short-term dividend yield alone (Cristina & Yasa, 2024; Pristiana & Murtadho, 2025). In a capital-intensive industry, the ability to generate returns from assets is widely viewed as one of the most credible signals of future sustainability and business strength (Margono & Gantino, 2021; Salsabila & Imronudin, 2025).

*The relationship between institutional ownership and dividend policy*

Institutional ownership successfully influenced dividend policy, confirming the acceptance of H3. This finding provides empirical support for Agency Theory, suggesting that institutional investors in Indonesia may function as effective monitoring agents in shaping corporate payout decisions (Jensen & Meckling, 1976; Resandy & Marsono, 2025). These large investors generally possess greater resources, stronger bargaining power, and better access to information, enabling them to demand tangible returns on their investments (Diab et al., 2023; Irawan & Nugroho, 2025). By encouraging firms to maintain dividend payouts, institutional investors may reduce the free cash flow available to management, thereby mitigating potential agency costs and aligning managerial actions more closely with shareholder interests, even when such pressure conflicts with management's preference to retain cash for internal use (Jensen & Meckling, 1976; Putro & Wany, 2021).

*The relationship between institutional ownership and firm value*

Contrary to expectations, Institutional Ownership (IOWN) exerted a significant negative direct impact on Firm Value (PBV), leading to the rejection of H4. This negative relationship suggests that the market may perceive high concentrations of institutional ownership as a potential risk factor rather than a positive governance signal in all circumstances (Diab et al., 2023; Setyabudi, 2021). Investors may interpret dominant institutional ownership as an indication of overly rigid governance, reduced managerial flexibility, or a concentration of control that does not always benefit minority shareholders (Nurhidayah & Soerono, 2025; Resandy & Marsono, 2025). In addition, the market may also anticipate a potential dumping risk, where a large-scale exit by institutional investors could trigger a sharp decline in stock prices and weaken firm valuation (Diab et al., 2023; Irawan & Nugroho, 2025). Consequently, in the Indonesian property sector, a high proportion of institutional ownership does not automatically translate into a valuation premium in the eyes of investors (Al-Shouha et al., 2024; Resandy & Marsono, 2025).

*The relationship between dividend policy and firm value*

The analysis demonstrates that Dividend Policy (DPR) has a significant negative effect on Firm Value (PBV), resulting in the rejection of H5. This is a critical and somewhat provocative finding for the property sector because it suggests that dividend payments may currently be interpreted by the market as an unfavorable signal under certain conditions (Oktari & Dianawati, 2023; Cristina & Yasa, 2024). A relatively high dividend payout may indicate

that the firm has exhausted profitable investment opportunities or has limited room for land bank expansion and future project development (Siregar et al., 2023; Pristiana & Murtadho, 2025). This result challenges the traditional Bird-in-the-Hand view, which assumes that investors prefer current dividends over uncertain future gains (Pratiwi et al., 2022; Kurniawan & Sunarto, 2024). Instead, the finding suggests that investors in growth-oriented sectors such as property and real estate may place greater value on earnings retention and capital reinvestment to support future expansion than on immediate cash distributions (Suryadi & Mulyadi, 2023; Zunita & Bagana, 2022).

*The mediating role of dividend policy on the profitability–firm value relationship*

Dividend Policy (DPR) failed to mediate the effect of Profitability (ROA) on Firm Value (PBV), leading to the rejection of H6. Because the direct link from Dividend Policy to Firm Value was found to be negative, the intended indirect signaling path in which profitability leads to dividends and dividends subsequently enhance firm value was effectively broken (Dzulyaikah et al., 2025; Pratiwi et al., 2022). This finding implies that the mechanism of value creation in this industry is more direct and performance-based, with firm value being shaped primarily by profitability rather than by dividend distribution (Akhmadi & Januarsi, 2021; Erwin et al., 2025). In other words, investors appear to place greater value on the firm's ability to generate profit than on the act of distributing that profit through dividends (Cristina & Yasa, 2024; Salsabila & Imronudin, 2025).

*The mediating role of dividend policy on the institutional ownership–firm value relationship*

The study concludes that Dividend Policy (DPR) does not mediate the influence of Institutional Ownership on Firm Value, resulting in the rejection of H7. Although institutional investors have the power to influence dividend distribution strategies, as confirmed in the previous hypothesis, these dividend payouts do not function as an effective bridge for increasing market valuation (Diab et al., 2023; Putro & Wany, 2021). This finding statistically confirms that, within the specific temporal and sectoral context of 2022–2024, dividend policy does not serve as an effective transmission mechanism for value creation in the Indonesian property sector (Pristiana & Murtadho, 2025; Siregar et al., 2023). Instead, firm value appears to be driven more strongly by fundamental operational performance and business prospects than by the pressure exerted by institutional owners to secure cash payouts (Akhmadi & Januarsi, 2021; Irawan & Nugroho, 2025).

## **Conclusions**

This study concludes that during the 2022–2024 period, the value of Indonesian property and real estate firms was primarily driven by their underlying profitability (ROA) rather than their dividend distribution strategies. While institutional investors successfully influence firms to pay dividends, these payouts do not translate into higher market valuations; in fact, they exert a significant negative influence on firm value. The findings suggest a departure from traditional Signaling Theory in this specific sector, as the "dividend signal" appears to be interpreted by the market as a lack of growth reinvestment or limited investment opportunities. Consequently, dividend policy does not function as a bridge between financial performance and market value, as evidenced by the rejection of the mediation hypotheses.

The theoretical implications of this research refine Signaling Theory by proving that the signaling power of dividends is highly context-dependent, particularly in capital-hungry industries where high dividends can serve as a negative signal. Practically, corporate management should prioritize operational efficiency and ROA over aggressive payout ratios if the goal is to maximize Price to Book Value. However, this study is limited by a small sample size due to strict purposive sampling criteria and the exclusion of macro-economic factors such

as interest rates. Future research should incorporate the BI Rate as a moderating variable and explore Capital Expenditure (CAPEX) as an alternative mediator to further test the growth-reinvestment hypothesis in the Indonesian property market.

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