



## The Role of Financial Performance in Mediating Capital Structure, Ownership Structure on Dividend Policy

### ABSTRACT

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This research aims to examine how capital structure and ownership structure affect dividend policy, and to determine if financial performance plays a role in mediating this relationship. The study employs a quantitative methodology alongside an explanatory research technique. The object of this research is Consumer Non-Cyclical sector companies based on the IDX Industrial Classification (IDX-IC). A purposive sampling method was employed to acquire a sample of 28 firms. The technique for analyzing data is Partial Least Squares Structural Equation Modeling (PLS-SEM) with the software WarpPLS 8.0. The results showed that capital structure significantly negatively affects Consumer Non-Cyclical sector companies, with higher debt ratios resulting in lower dividends. Ownership structure also affects dividend policy, with greater share ownership by significant shareholders leading to higher dividends. Financial performance has an effect on dividend policy, suggesting that companies with stable profits have more resources to pay dividends to shareholders. Yet, the financial results cannot act as a mediator for the influence of capital and ownership setups on choices regarding dividends. Future studies need to include different industry sectors to assess uniformity among various economic sectors and address fluctuations in the broader economy.

**Keywords:** Capital Structure; Ownership Structure; Financial Performance; Dividend Policy

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### INTRODUCTION

Global economic conditions, with all fluctuations and changes, encourage business competition among business people to maximize their performance and financial productivity. Company productivity is inseparable from management's ability to determine financing policy. The company primarily receives funding from its own equity capital and debt.

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The company's financial management objectives are influenced by decisions related to its capital structure policy, making it important for the company. Financial framework of the firm is made up of a combination of debt and equity. Capital structure policy is related to the trade-off between profit and acceptable risk level. When a company takes on more debt, it increases the risk borne by shareholders and the return on equity (Brigham & Houston, 2019).

The capital structure is optimal if a company has an ideal blend of debt and equity, specifically when there is an equilibrium between the company's worth and the expenses related to capital structure. Decision about capital structure will affect the investment funding decision, the continuity of the company, which is funded by the source of funds from where and with what amount, which certainly involves the interest expense and risk borne by the company. Decisions regarding the financial resources a company needs encourage management to think about effective and efficient financing to fund company operations, namely investment and financing decisions (Le & Phan, 2017).

Investment decisions are related to which physical assets the company acquires, and financing decisions are related to how these assets are financed. Dividend policy is the financing of corporate debt and generating profits, the next step is whether all or some of the earnings made by the company are given to the shareholders as dividends, while the rest are reinvested back into the company in the form of retained earnings, which are used to finance corporate investment.

A study has been carried out on the connection between capital structure and dividend policy by Salju, Sapar, & Asrianti (2022) and Dewi, Suhadak, & Handayani (2014) shows that capital structure has a positive and significant impact on dividend policy. However, research by Jabbouri (2016); Farahani & Jhafari (2013); and Mulyani, Singh, & Mishra (2016) reveal that a capital structure dominated by debt will have a negative impact on dividend policy.

Ownership structure also has a role in influencing dividend policy; this is important because it achieves the company's goal of creating value for its owners (shareholders) by maximizing their wealth. Owners often have limitations in managing their business to achieve these goals. This situation causes the owner to hand over the company's responsibility to a second party called the manager. Numerous researches back the view that there is a beneficial relationship between ownership structure and dividend policy (Widiatmoko, Badjuri, & Irsad (2021) ; Lin & Fu (2017); Booth & Zhou (2017)).

This study also considers how financial performance influences dividend policy. Dividends are the primary way for the company to convey its financial health and condition. The quick and precise market response in changing the stock price right after the dividend declaration suggests that investors or shareholders find the announcement to be valuable and informative.

Dividends are used by managers as a tool to signal or convey messages about the company's prospects. Some research results on the impact of financial performance to dividend policy are shown by Putri, Dewi, Bagus, & Sedana (2018); Foong & Abd Malek (2022); Machfiro, Sukoharsono, & Nuzula (2017) show that profitability of a company has a notable and beneficial impact on dividend policy.

Dividend policy is strategic policies of corporate finance that will have an impact on firm value (Sugeng, 2019). On the other hand, dividends are the main element of return expected by investors (shareholders) on their company's investment, so the company's financial performance must be a priority for managers. Research by Detthamrong, Chancharat, & Vithessonthi (2017); Muwafiq, Edi Purnomo, Usamah, & Ainur rachmani (2023); Riaz (2015) discover that there is positively correlation between capital structure and financial performance.

Financial performance is also influenced by ownership structure. The theory underlying the correlation ownership structure and financial performance is agency theory Jensen & Meckling (1976). Agency theory suggests that there is a possibility of conflicts of interest between shareholders (principals) and company managers. An alternative to reduce agency costs is to increase management ownership. According to Lin & Fu (2017); Shah, Nadir Khan, & Professor (2022); Dewi et al. (2014) show that there is a strong correlation between ownership structure and financial performance. Previous research shows that capital structure and ownership structure influence dividend policy and financial performance. So, financial performance can be used as a mediating variable in this study.

This study was carried out on companies in Consumer Non-Cyclicals sector between 2020 to 2022. Consumer Non-Cyclicals sector companies consist of food and products like beverages, processed foods, agricultural products, tobacco, household items, and personal care products sold in staples retail stores. The selection of objects in Consumer Non-Cyclicals sector is because this company sector plays an important role in meeting the daily needs of people in Indonesia, and also, this company is considered to be able to survive in the event of a global economic crisis and pandemic.

Judging from the operational activities carried out by Consumer Non-Cyclicals sector companies at this time, the company requires a lot of capital considering the fluctuations in the price of production raw materials, which are sometimes very different from previous predictions that this causes the company's production costs to increase and results in the selling price of the product becoming even higher. From the

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explanation above, the way a company finances its operations is crucial for its overall success. it can affect the company's financial condition, share's price and survival.

From the previous explanation, it can be concluded that there is a gap between several studies related to the impact of capital structure and ownership structure on dividend policy. From previous research, it was found that Financial Performance affects dividend policy so that it is possible to become a mediating variable for the effect of capital structure and ownership structure on dividend policy.

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This study aims to investigate how the financial performance of the firm is affected by their capital structure and ownership structure in the Consumer Non-Cyclicals sector in Indonesia, with a specific focus on their impact on dividend policies. This study specifically investigates how capital structure and ownership structure impact dividend policy, while also exploring if financial performance plays a role in mediating these effects.

### **LITERATURE REVIEW**

#### ***Capital Structure***

The capital structure of a company is defined as the percentage each type of capital that comes from investors, with a total of one hundred percent. The composition of a company's capital is crucial for its overall performance is the mix of Debt, preferred stock, and common stock that maximizes the stock's intrinsic value (Brigham & Houston, 2019). Management can enhance company performance by identifying the appropriate balance between debt and equity. The policy on the capital structure involves balancing risk and return. Increasing the amount of debt taken on increases the risk for shareholders, but also raises the expected rate of return. Companies frequently employ a lower level of debt than what is recommended by the optimal capital structure in order to have the option to raise capital through debt when necessary.

#### ***MM Theory I (No Tax)***

Modigliani and Millers (M&M) capital structure theory, developed in 1958, Capital structure in corporate finance is a key idea that examines how the blend of Debt and equity funding affects a company's overall value. This theory has two prepositions. The first is capital structure irrelevance, which means that, in a perfect market, The firm's value remains the same regardless of its capital structure. In simpler terms, the total

value of a firm is not impacted by whether it uses debt, equity, or a mix of both for its financing.

The no-tax M&M Theory implies In a perfect market, a company's value is not affected by its capital structure. This theoretical framework challenges managers to focus more on the firm's operational performance and investment decisions rather than optimizing the debt-to-equity ratio. Although M&M theory provides a basic understanding of capital structure, its assumptions are not reliable.

### ***MM II Theory (With Tax)***

Modigliani and Miller's capital structure theory with tax introduces major modifications to the original model, reflecting a more realistic scenario by considering the impact of corporate tax. This theory contains two ideas: the first one focuses on the worth of the leveraged company. Corporate taxes allow interest payments on Debt to be deducted, creating a tax shield. The second concept is the cost of equity and leverage, which affirms that even with taxes factored in, leveraged companies still have a higher cost of equity compared to unleveraged ones.

The implications of Modigliani and Miller's theory of taxation suggest that, due to the tax protection provided by Debt, firm value increases with higher leverage. Therefore, firms have an incentive to use debt financing to maximize firm value. However, in practice, this increase in value is offset by other factors such as bankruptcy costs and financial distress.

### ***The Trade-off Theory***

Trade-off theory is a further development of MM II theory (1963) proposed by Kraus and Litzenberger (1973) and (1984). This theory argues that the best capital structure can be found by balancing The benefits of taking on debt (such as tax advantages from leverage) are weighed against the drawbacks of facing financial distress and agency problems. According to the trade-off theory, when a company increases its Debt, the amount of tax paid decreases due to interest payments on Debt and interest tax shelters, so the amount of tax paid decreases; as a result, when companies add Debt to their long-term financing structure, they face increased bankruptcy costs (Haryono, 2017).

### ***Pecking Order Theory***

Pecking Order Theory was known created by Stewart C. Myers and Nicolas Majluf in the year 1984. This theory explains how businesses prioritize their sources of funding for new projects or investments. As per this theory, companies prioritize using retained earnings to fund investments and only turn to external financing when internal funds are inadequate. External financing prioritizes using debt rather than equity.

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Based on pecking order theory, there is an ordering scenario in choosing funding sources, namely: a) The company prefers to use internal sources of funds in the form of retained earnings, b) if external funding is needed, the company will first choose the safest securities, namely the lowest risk debt, c) The company will consistently maintain a dividend policy by setting a fixed amount of dividend payments, d) To account for the impact of the constant dividend policy and fluctuations in profits, along with potential for investing, the company will use its current investment portfolio to address any cash flow shortages (Myers & Majluf, 1984).

### **Ownership Structure**

Ownership Structure based on to the distribution company's shares among shareholders. Ownership structure includes who the shareholders are and how many shares each shareholder owns. A company's ownership structure can significantly impact governance, management, strategic decisions, and overall company performance.

Jensen & Meckling (1976) stated that Ownership structure indicates that key factors in capital structure are influenced not just by the level of debt and equity, but also by proportion of ownership. Ownership structure can affect the source of funds policy, whether through debt or rights issues. If the source of funds is obtained from Debt, it means that the ratio of Debt to equity will increase, which in turn will increase risk. Ownership structure can be understand from two approaches, namely the agency approach and the asymmetric information approach.

### **Agency Theory**

Agency theory was introduced by Jensen & Meckling (1976). They found that firm separate management and ownership functions are more likely to experience conflicts of interest due to the separation of functions. Managers appointed by shareholders must act in accordance with the interests of shareholders, but it was found that there were differences in interests and information imbalances between the two parties, causing agency disputes.

Jensen & Meckling (1976) also found that agency problems occur when management ownership of company shares is less than 100%. This situation creates a tendency for managers' decisions to protect and serve the interests of the owners rather than to satisfy their interests. However, if the owners merge and then sell some of these shares to outsiders, a potential conflict of interest will immediately arise. Another cause of conflict between shareholders and managers is the funding decision, which includes how much Debt and equity capital to use.

### ***Asymmetric Information***

Asymmetric information (information imbalance) is a condition where parties paying attention to the company have unbalanced information. Information imbalance causes company management to have more information about the company than investors in the capital market (Hanafi, 2009). Keep in mind that the main goal of financial management is to improve prosperity of the shareholders through an increase in stock prices. If managers can provide information to outsiders in the form of convincing signals, outsiders will be impressed, which in turn will impact security prices.

Ownership structure, in this case, is classified into: a) institutional ownership is share ownership by institutions, both public and private, which is measured by utilizing the proportion of institutional share ownership compared to the total number of shares available; b) Managerial ownership refers to the ownership of shares by company management, including managers, directors, and commissioners actively participating in decision-making; and c) Public ownership involves shares in a company held by the general public.

### ***Financial Performance***

Financial performance is an evaluation to determine if the company has followed financial guidelines correctly, like creating a financial report that aligns with Financial Accounting Standards (SAK) or Generally Accepted Accounting Principles (GAAP). Financial performance should be something that can be measured and describes the empirical condition of a company of various agreed sizes (Fahmi, 2018).

The size of financial performance here is classified in the form of: a) Return On Assets (ROA) is a ratio used to assess earning aspect, b) Return On Equity is a ratio that measures the extent of the profit generated by company based on the amount of capital it has, c) Net Profit Margin, is a financial metric used to evaluate the amount of profit is obtained from each rupiah obtained on sales made by the company.

### ***Dividend Policy***

Dividends represent a portion of the company's earnings during a specific time that are distributed to shareholders (Sugeng, 2019). Form of dividend distribution can be cash dividends and stock dividends. The company's dividend policy decides the portion of profits that will be given to shareholders as dividends and how much will be kept for internal spending (Muwafiq et al., 2023).

***Dividend Policy Theory***

***Irrelevance Theory***

Merton Miller and Franco Modigliani made an argument in their paper (1961) known as the M&M Dividend Irrelevant Proposition. The company's value remains unaffected by the dividend policy implemented. Dividend policy is irrelevant to maximizing shareholder wealth. The company's value is influenced by income capacity, namely investment policy and not dividend policy, and dividend policy of a company does not affect investors' investment decisions (Miller & Modigliani, 1961).

The assumptions of MM Theory are taxes free, free transaction costs, perfect capital markets, and investors behave rationally. This assumption was challenged because it was considered unrealistic, so Relevant Theories emerged, including the bird in the hand theory and signaling theory.

***Bird in the Hand Theory***

This theory was developed by Gordon (1963) and Lintner (1964) in response to Modigliani and Miller's dividend irrelevance theory. They argue that, in reality, company's market value is directly impacted by its dividend policy. In this theory, dividends have a higher degree of certainty than capital gains. Investors are convinced to choose dividends whose nominal amount is certain rather than expecting capital gains whose value often fluctuates.

According to this theory, shareholders have a preference for dividend payments over retained earnings, so the company value is affected by dividend policy. This theory is refuted by Modigliani and Miller, who argue that investors who want direct cash flow from companies that do not pay dividends can sell part of their shares.

***Signaling Theory***

Signaling Theory was developed by Ross (1977) Explains that company leaders with superior knowledge of their company are more likely to share this information with potential investors in order to boost the company's stock value. Signaling Theory of Dividends based on assumption of asymmetric information. The argument of this theory states that managers as insiders use the policies they take, including dividend policy, as a means of signaling to investors/market about the private information they have Baker, Farrelly, & Edelman (1985). Managers use dividends as a tool to convey messages about the company's prospects. Therefore, dividends declared by the company are considered to have information content or indications about the company's prospects. The indicators used for dividend policy in this study are Dividend per share, Dividend Payout Ratio, and Dividend Yield.



### **Hypotheses of the research**

An effective capital structure is not static, as it constantly changes depending on business performance, risk level, and cost of capital. The dividend payment policy will be positively influenced by the level of debt utilization at a specific point in the capital structure due to the increased profit available to shareholders due to tax savings due to the use of Debt. Financial managers' decisions need to consider not only the company's investment returns but also the effect of these decisions on the company's share price in the future (Al-Malkawi et al., 2010).

Research related the correlation between capital structure and dividend policy has been conducted by Salju et al. (2022) and Dewi et al. (2014), showing that capital structure has a positively significant on dividend policy. When the company's capital structure is dominated by Debt, it will have a positive impact on the dividend distribution policy because the amount of profit available to shareholders has increased due to tax savings due to the use of Debt. However, research by Jabbouri (2016); Farahani & Jhafari (2013); and Mulyani et al. (2016) shows that capital structure has a significant negative effect on dividend policy. Companies with high leverage cause the company's ability to distribute dividends to decrease, so this research hypothesis is:

H1: Capital structure has an impact on dividend policy.

Agency theory is the basis for the connection between ownership structure and dividend policy. In agency theory, interest problems can occur between shareholders (principals) and managers (agents). As professionals, managers are expected to act on behalf of the owners to achieve the company's goals, particularly shareholder welfare. In fact, managers may even increase their own happiness. This situation can lead to a conflict of interest (agency conflict).

This conflict of interest will lead to agency costs. One alternative to reduce agency costs is to increase managerial ownership. Ross (1977) also argue that a greater proportion of managerial ownership will increase the prosperity of shareholders, namely the managers themselves, so that managers are more active in managing the company, which ultimately improves company performance. Several studies support the opinion that there is a positive influence between ownership structure and dividend policy (Widiatmoko et al., 2021; Lin & Fu, 2017 and Booth & Zhou, 2017 , while Dewi et al. (2014) research stated that there was no effect of ownership structure on dividend policy. Second hypothesis of the study is:

H2: There is an influence of ownership structure on dividend policy

The theory that explain the connection between financial performance and dividend policy is the signaling theory or signal theory, developed by Ross, (1977), This theory suggests when company executives are more knowledgeable about their company, they are more likely to share this information with potential investors in order to boost the

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company's stock price. Managers utilize dividends to communicate information regarding the company's future outlook. Therefore, dividends declared by the company are considered to have information content or indications about the company's prospects. Some research results on the effect of financial performance on dividend policy are shown by Putri et al. (2018); Foong & Abd Malek (2022); and Machfiro et al. (2017) that profitability has a strong and beneficial impact on the company's dividend distribution strategy. The third hypothesis of this study is:

H3: There is an effect of financial performance and dividend policy

Financial performance also important indicator of a company's health and operational success. Consistent financial performance builds trust among stakeholders, including employees, customers, suppliers, and society. Several studies have been conducted related to capital structure, ownership structure, dividend policy, and financial performance, among others, by Muwafiq et al. (2023); Roonowah and Seetanah (2023), Riaz (2015); and Detthamrong et al. (2017) demonstrate for company's financial performance is greatly impacted by its capital structure. This supports the view of trade-off theory, namely, companies that have high profitability will try to reduce the value of taxes by increasing the debt ratio; the impact of this additional Debt will reduce corporate taxes. The higher the capital structure value, the higher the financial performance of the company. From the explanation above, it is known that capital structure influences Financial performance can impact dividend policy, making it a potential mediating variable in this research. Therefore, the study's fourth hypothesis states:

H4: Financial performance can mediate the impact of capital structure on dividend policy.

Problems that often occur between management and shareholders in a company can be reduced by aligning the interests of both. The participation of managers in share ownership is expected to reduce existing conflicts. Increased ownership of a company allows managers to benefit directly from the decisions taken and avoid losses due to wrong decisions.

Some research related to the effect of ownership structure on financial performance, including Shah et al. (2022), there is a positively significant impact between ownership structure and financial performance. Lachaari & Benmahane (2022); Dewi et al. (2014); and Lin & Fu (2017) in their research, also show that ownership structure has direct impact to company performance. From explanation above, it is known there is an influence of ownership structure on dividend policy, and there is also an influence of financial performance on dividend policy so that financial performance can be used as a mediator in determining how ownership structure affects dividend policy, so the fifth hypothesis of this study is:

H5: Financial performance can mediate the effect of ownership structure on dividend policy

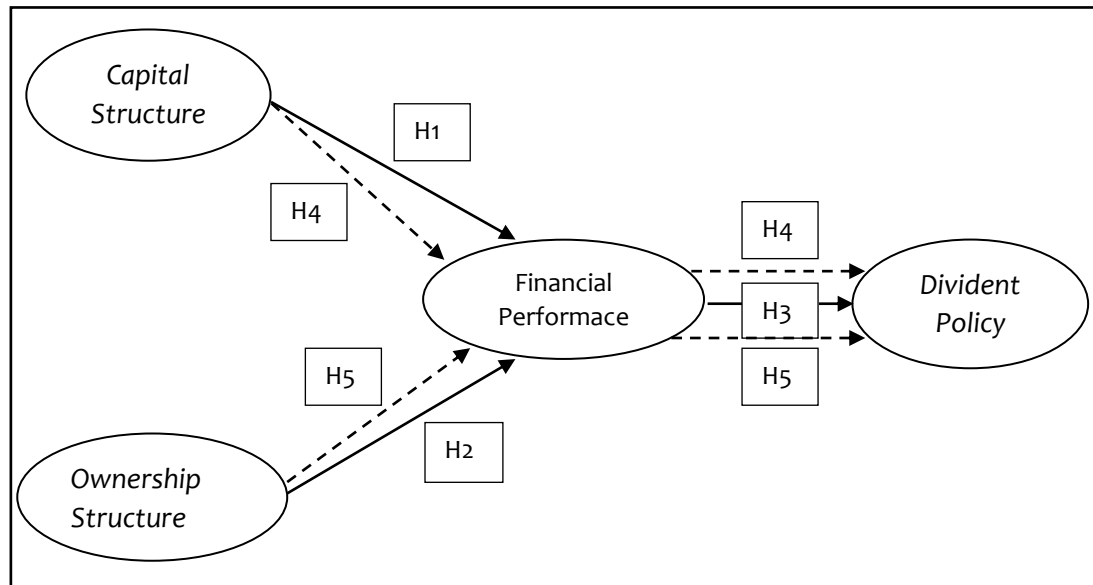


Figure 1. Hypotesis of the research

## METHODOLOGY

This research employs a quantitative methodology along with an explanatory research strategy to examine the causal relationship between independent variables (capital structure and ownership structure), mediating variables (financial performance), and dependent variables (dividend policy). The population of this research is Consumer Non-Cyclicals sector companies based on the IDX Industrial Classification (IDX-IC) industry sector classification. There are eleven sub-sectors included in the Consumer Non-Cyclicals sector classification, namely Food and basic Food Retail companies, Beverages, Processed Food, Agricultural Products, Tobacco, Household Products, and Personal Care Products, totaling 55 companies. The sample was selected using purposive sampling with the following criteria: a) the company distributes dividends within the research period 2020 to 2022. b) the company posted a profit. Based on these criteria, 28 companies were selected as research samples.

This study's research variables and measurements are a) Capital structure ( $X_1$ ), measured by debt ratio, Debt to equity ratio, and Long-term debt to total assets. b) Managerial ownership ( $x_2$ ) is measured by managerial ownership, institutional ownership, and public ownership. c) Dividend policy ( $Y$ ), measured by Dividends per share, Dividend payout ratio, and Dividend yield. Financial Performance ( $Z$ ) as a moderating variable, measured by Return on Asset, Return on equity, and Net profit margin. The analysis method used is Partial Least Squares Structural Equation Modeling (PLS-SEM) using WarpPLS 8.0.

### **RESULTS**

The methodology employed in this research is PLS-SEM, comprising of both an outer model and an inner model. Several actions are carried out in the external model, which include assessing convergent validity, discriminant validity, and reliability. In the internal model, testing is done on the coefficient of determination (R-Square), predictive relevance (Q-Square), direct effects also indirect effects.

#### ***SEM Goodness of Fit***

This research model's feasibility can be demonstrated by examining the multivariate coefficient of determination analysis represented by Q-Square (Q). Q-Square assesses the extent to which the findings align with the research framework. A value of Q greater than 0 suggests that the model is predictive. The model's strength is determined by the Q-square predictive relevance value, which ranges from 0 (zero) to one (Latan & Ghazali, 2012). The closer the Q-Square predictive relevance value is to 0, the weaker the research model, while the closer it is to 1, the stronger the research model.

The results of the computation indicate a predictive-accuracy percentage of 46.9%. The predictive relevance measure of 46.9% suggests that 46.9% of the data variance can be accounted for by the model. Simultaneously, the remaining 53.1% is accounted for by additional variables (that were not included in the model) and errors. Therefore, the established structural model is fitting.

#### ***Measurement Model***

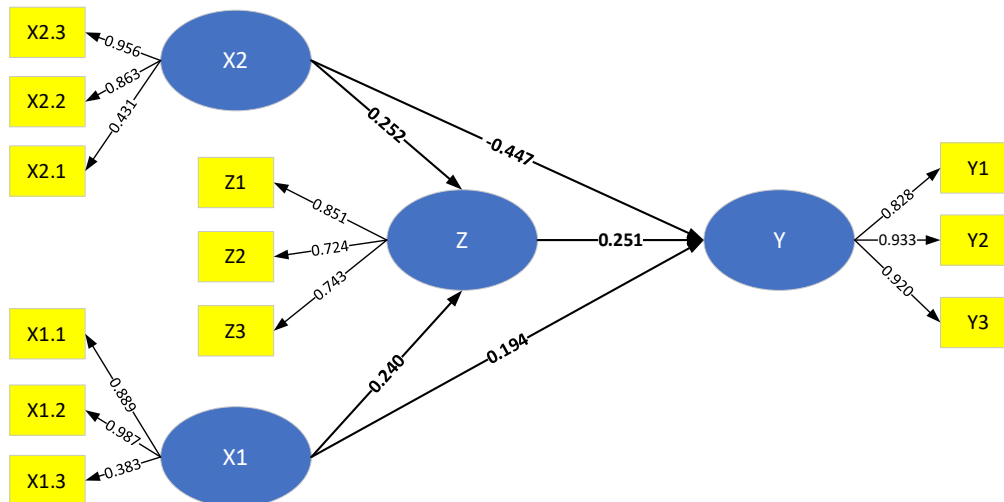
Understanding the measurement model is the initial step in SEM analysis. The measurement model shows the measurement of each observable variable in relation to the unobservable variable of the measuring indicator. The research variables are subjected to the measurement model. This measurement model is the same as Confirmatory Factor Analysis (CFA). The loading factor in the measurement model determines the extent to which the indicator contributes to the variable being measured. The indicator with the highest loading factor signifies that it is the most robust measure of the variable under consideration. If the P-value is less than 0.05 or the indicator is deemed constant, it is considered important as a variable measure. This section will present the measurement model of the four variables, namely Capital Structure (X<sub>1</sub>), Ownership Structure (X<sub>2</sub>), Financial Performance (Z), and Dividend Policy (Y), each of which is measured by several indicators.

**Table 1. Measurement Model Capital Structure (X1), Ownership Structure (X2), Financial Performance (Z) and Dividend Policy (Y)**

Variable	Indicator	Indicator Weight	P-value	Decision
Capital Structure (X1)	X1.1	0.928	< 0.001	Significant
	X1.2	0.950	< 0.001	Significant
	X1.3	0.917	< 0.001	Significant
Ownership Structure (X2)	X2.1	0.862	< 0.001	Significant
	X2.2	0.957	< 0.001	Significant
	X2.3	0.701	< 0.001	Significant
Financial Performance (Z)	X3.1	0.952	< 0.001	Significant
	X3.2	0.888	< 0.001	Significant
	X3.3	0.949	< 0.001	Significant
Dividend Policy (Y)	Y1	0.855	< 0.001	Significant
	Y2	0.926	< 0.001	Significant
	Y3	0.925	< 0.001	Significant

Source: Primary Data Processed, 2024

From the results listed, it can be seen that all indicators have a p-value of <0.001, which means that these indicators significantly measure latent variables and can be included in further analysis.

**Figure 1. SEM Structural Model: Direct Effect**

Source: Primary Data Processed, 2024

Researchers determined the convergent validity value for each variable based on the figure provided. Convergent validity testing assesses the validity of variables by comparing them to indicators in latent variables, ensuring that the indicators are well-understood to prevent any misinterpretation. According to established criteria, variables are considered valid when each indicator has a loading factor value of 0.70 or higher. The researchers determined the discriminant validity value for every variable. Examine

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discriminant validity by contrasting the square root of each construct's Average Variance Extracted (AVE) with the correlation among other constructs in the model. If the AVE value of the construct exceeds the correlation with all other constructs, it indicates strong discriminant validity. According to established criteria, variables are considered valid when each indicator has a loading factor value of at least 0.50.

### Structural Model

Analyzing the structural model is the next step in SEM analysis. The structural model shows the interconnectedness of research variables. Meanwhile, the coefficient of the structural model demonstrates the correlation strength between two variables. If the P-value is less than 0.05, there is a significant correlation between two variables. The findings are presented concisely in the Table 2.

**Table 2. SEM Structural Model: Direct Effect**

Direct Effect				
No	Connection	Coefficient	P-value	Conclusion
1	Capital Structure (X1) to Dividend Policy (Y)	-0.447	<0.001	Significant
2	Ownership Structure (X2) to Dividend Policy (Y)	0.194	0.034	Significant
3	Financial Performance (Z) to Dividend Policy (Y)	0.251	0.009	Significant
Effect of Mediation				
No	Relationship	Coefficient	P-value	Conclusion
4	Capital Structure (X1) to Dividend Policy (Y) through Financial Performance (Z)	0.063	0.207	<b>Not Significant</b>
5	Ownership Structure (X2) to Dividend Policy (Y) through Financial Performance (Z)	0.060	0.219	<b>Not Significant</b>

Source: Primary Data Processed, 2024

## DISCUSSION

### The Effect of Capital Structure on Dividend Policy

The effect of Capital Structure (X1) on Dividend Policy (Y) obtained a structural coefficient of -0.447 and P-value <0.001, meaning that there is a significant and inverse effect between Capital Structure (X1) and Dividend Policy (Y). These findings suggest that increased levels of debt lead to decreased dividends. These results are in line with the hypothesis of this study and line with the research of Jafrani (2013), Mulyani et al. (2016); and Jabbouri (2016).

A higher debt ratio in the capital structure can increase the pressure of paying interest and loan principal, which in turn can limit the company's flexibility in distributing dividends to shareholders. High-interest expense, risk of financial distress, debt

covenant restrictions, management preference for reinvestment, and reduction of conflict of interest risk are explanations that support this finding. Financial theory says that firms may be unable to pay dividends if they have more debt. This finding is in line with trade-off theory.

### ***The Effect of Ownership Structure on Dividend Policy***

The effect of Ownership Structure ( $X_2$ ) on Dividend Policy ( $Y$ ) obtained a structural coefficient of 0.194 and a P-value of 0.034. There is a positive and significant influence between Ownership Structure ( $X_2$ ) and Dividend Policy ( $Y$ ). These results indicate that the second hypothesis of this study is accepted. Ownership structure significantly impacts dividend policy because the preferences and goals of various shareholders can influence the company's decision to distribute dividends. This research supports Lin & Fu (2017); Booth & Zhou (2017); Widiatmoko et al. (2021); and Mardones & Cuneo (2020).

The results of this study can also be linked to signaling theory, which states that higher Dividend payments can serve as a way to communicate with the market about financial health and business prospects. Management and institutional shareholders may encourage higher dividend payments to provide positive signals about the profitability and stability of the business. From an agency theory point of view, significant institutional and managerial ownership can reduce agency costs due to conflicts of interest between management and shareholders. These theories suggest that ownership structure plays an important role in corporate dividend policy, where significant shareholders have the power to encourage higher dividend payments to achieve various strategic and financial objectives.

### ***The Impact of Financial Performance on Dividend Policy***

Impact of Financial Performance ( $Z$ ) on Dividend Policy ( $Y$ ) obtained a structural coefficient of 0.251 and a P-value of 0.009, meaning there is a significant and directly proportional effect between Financial Performance ( $Z$ ) on Dividend Policy ( $Y$ ).

Companies that generate stable and quality profits tend to have more resources to pay dividends to their shareholders. A strong dividend policy from a company can indicate high confidence in its performance and future prospects and can increase shareholder confidence. This is in line with the statement from Baker et al. (1985) that companies whose profits are stable and consistent tend to have a conservative dividend policy, paying relatively high dividends. They concluded that companies with stable profits tend to prioritize dividend distribution to maintain a conservative image and show investors stability. The same results are also shown in the research of Foong & Abd Malek, (2022); (Machfiro et al., 2017); Machfiro et al. (2017); and Putri et al. (2018)

***The Effect of Capital Structure on Dividend Policy through Financial Performance***

Indirect effect of Capital Structure (X1) on Dividend Policy (Y) through Financial Performance (Z) obtained a coefficient of 0.063 and a p-value of  $0.207 > 0.05$ . This means that the Financial Performance (Z) variable cannot mediate the influence between Capital Structure (X1) and Dividend Policy (Y). The fourth hypothesis in this research is rejected. Financial performance is not able to mediate capital structure on dividend policy; good financial performance is often expected to signal to shareholders and investors the company's ability to pay dividends. Shareholder preferences, industry characteristics, and market conditions can play a significant role in determining the relationship between capital structure and dividend policy.

Based on the agency theory, a highly leveraged capital structure can decrease the amount of money flowing in free cash flow available to management, thereby reducing the possibility of inefficient spending and allowing management to decrease agency costs. This explains why capital structure directly affects dividend policy without being mediated by financial performance Jensen & Meckling (1976)

From the view of signaling theory, companies that have a lot of debt want to send a positive signal to the market that management believes it can generate sufficient cash flow to pay debt and dividends. A high dividend policy can be used as a direct positive signal without the need to be mediated by financial performance. A study by Gill et al. (2010) shows that capital structure has a significant direct impact on dividend policy in emerging markets. Complex external factors often affect financial performance and do not necessarily act as effective mediators.

***The Effect of Ownership Structure on Dividend Policy through Financial Performance***

The indirect effect of Ownership Structure (X2) on Dividend Policy (Y) through Financial Performance (Z) obtained a coefficient of 0.060 and a p-value of  $0.219 > 0.05$ . This study shows that financial performance cannot mediate the effect of ownership structure on dividend policy in the Consumer Non-Cyclicals sector on the Indonesia Stock Exchange. Ownership structure, especially institutional investor ownership and management, has a direct and significant influence on dividend policy. According to agency theory, institutional ownership and management can decrease conflicts of interest between management and shareholders, which often lead to dividend policy. Meanwhile, according to signaling theory, institutional shareholders and management can encourage higher dividend payments to provide positive signals to the market about the stability and profitability of the company.

From both theories, a significant ownership structure can reduce agency costs and send positive signals directly to the market without using financial performance as an intermediary. Empirical results from studies in other markets also support these results,



showing that ownership structure tends to directly influence dividend policy in different contexts Harada & Nguyen (2011) and Setiawan & Phua (2013).

## CONCLUSION

The results showed that Capital Structure significantly negatively affects Consumer Non-Cyclicals sector companies. This indicates that as the company's capital structure has a higher level of debt, the lower the dividends paid. This finding indicates that companies with high debt ratios tend to experience greater pressure to pay interest and principal on loans, which in turn limits their flexibility in distributing dividends to shareholders. Ownership structure has an effect on dividend policy, meaning that the greater the share ownership by significant shareholders, the higher the dividends paid by the company. This finding indicates that the preferences and objectives of various shareholders can influence the company's decision to determine the quantity of dividends to be distributed. Financial performance has an effect on dividend policy, which suggests that companies that generate stable and quality profits tend to have more resources to pay dividends to their shareholders. Finally, financial performance cannot mediate the effect of capital structure and ownership structure on dividend policy. Other factors such as shareholder preferences, market conditions, and corporate strategy can also directly influence dividend policy, regardless of financial performance, so there is no intervention needed between capital structure or ownership and dividend policy through financial performance.

### **Limitations and Recommendations**

There are several limitations and recommendations in this study, namely that financial performance is not the only factor that can affect dividend policy. Other factors, such as market conditions, corporate strategy, and shareholder preferences, are needed to understand more deeply the influence of these factors on dividend policy. Future research is recommended to cover various industry sectors to evaluate whether the findings are consistent across different economic sectors by extending the research period to overcome macroeconomic variability and get a more comprehensive picture.

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