

Corporate Governance and Capital Structure on Firm Value with Dividend Policy Moderation

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Abstract: This research examines how Good Corporate Governance (GCG) and capital structure affect company valuation, with dividend policy serving as a moderator, among LQ45 firms on the Indonesia Stock Exchange from 2022 to 2024. Employing a quantitative method, it utilizes secondary data from annual reports, encompassing 29 companies and 87 data points. Company value is gauged via Price to Book Value (PBV), while other factors rely on governance metrics and financial ratios. Findings indicate that GCG boosts company value, but capital structure harms it due to rising leverage risks. Dividend policy reinforces this dynamic and acts as a favorable cue to investors. These insights underscore the value of strong governance, careful capital management, and reliable dividend strategies in enhancing LQ45 firm valuations.

Keywords: Good Corporate Governance; Capital Structure; Firm Value; Dividend Policy; LQ45.

Introduction

Worldwide economic shifts and the swift pace of digital transformation have bolstered the Indonesian stock market's function as a provider of long-term funding, evident in rising market capitalization, trading volumes, and the expansion of retail investors. The LQ45 index has become an important indicator because it includes large-cap, highly liquid, and relatively stable fundamental issuers, with a high level of credibility due to the regular selection and evaluation process conducted by the Indonesia Stock Exchange. (Nas & Ramadhani, 2024).

Despite this, empirical data reveals ongoing market value pressures on LQ45 issuers. Key firms like PT Indocement Tunggul Prakarsa Tbk and PT Wijaya Karya (Persero) Tbk experienced PBV declines, despite their top-tier status (UPNVJ, 2022). In addition, extreme dividend policies, such as PT Perusahaan Gas Negara Tbk's distribution of around 80% of its profits as dividends, have the potential to send ambiguous signals to investors (PGAS, 2025). This situation highlights the need to evaluate internal elements impacting LQ45 firms' values.

Good Corporate Governance (GCG) plays a role in enhancing transparency and stakeholder protection Siregar et al., (2023), while the capital structure reflects funding decisions related to risk and financial flexibility (Ukhriyawati et al., 2019). Dividend policy serves as a signal of performance prospects and management confidence (Sugiyanto et al., 2023). Within the framework of Signaling Theory, these three policies become a means for companies to reduce information asymmetry and shape investors' perceptions.

However, Nas and Ramadhani (2024) demonstrate that effective corporate governance positively influences the value of LQ45 firms. Conversely, Susetyo et al. (2019) indicate that neither good corporate governance nor capital structure significantly affects firm value. These divergent findings indicate the presence of empirical inconsistency (an empirical gap), particularly regarding the effectiveness of internal policies in leading blue-chip firms in shaping market value. Furthermore, research on dividend policy's moderating role in

this link is scarce, particularly for LQ45 firms after the pandemic. Accordingly, this research examines how Good Corporate Governance and capital structure influence firm value, while incorporating dividend policy as a moderating factor in LQ45 firms from 2022 to 2024, to enrich empirical support for market signaling theory.

Theoretical Foundation

Signal Theory

Signaling Theory explains that companies can send signals to investors through various actions such as implementing Good Corporate Governance, making capital structure decisions, and dividend policies. Such signals help mitigate information asymmetry and guide market valuation perceptions (Ross, 1977). In this study, the three variables function as primary indicators shaping investors' evaluations of firm performance and future potential.

Good Corporate Governance

Good Corporate Governance (GCG) is a governance mechanism that ensures companies are managed in a transparent, accountable, and responsible manner. Mechanisms such as independent commissioners, audit committees, and managerial ownership strengthen company oversight (Siregar et al., 2023). Pujiati & Nur, (2023) explain that proper implementation of GCG increases investor confidence and company value. This perspective is consistent with Puspita, (2023), who argues that GCG conveys a favorable signal about managerial quality. Accordingly, this study treats GCG as a positive signal for investors, expected to affect firm value, particularly when strengthened by dividend policy.

Capital Structure

Capital structure represents the mix of debt and equity employed in corporate financing, indicating management's attempt to optimize financial risk and capital costs (Ukhriyawati et al., 2019). Controlled debt can serve as a signal of financial discipline, while excessive debt increases risk and depresses company value. The findings of Alfiadin Ardian et al., (2024) also indicate that capital structure affects company value because it reflects financial stability. Based on this, this study positions capital structure as a signal of risk and funding stability that is predicted to influence company value, including when reinforced through the moderation of dividend policy.

Firm Value

Firm value reflects how the market assesses a company's performance and growth prospects, often measured using the Price-to-Book Value (PBV) ratio (Virginia Dara Aprilly & Saleh Sadikin, 2024). A higher firm value indicates stronger investor confidence. In this study, firm value acts as the dependent variable, shaped by signals from Good Corporate Governance and capital structure, with dividend policy strengthening these effects as a moderating factor.

Dividend Policy

Dividend policy reflects management's choice in allocating profits and signals confidence in earnings sustainability (Sugiyanto et al., 2023). As a moderating variable, it reinforces the effect of Good Corporate Governance and capital structure on firm value. Conceptually, dividends function as signaling mechanisms that intensify the impact of both variables on firm valuation.

Hipotesis

The Effect of Good Corporate Governance on Firm Value

Signaling theory suggests that Good Corporate Governance reflects the effectiveness of managerial control and oversight. Strong GCG sends favorable signals to investors, leading to higher market valuation. Supporting this view, (Nas & Ramadhani, 2024) find that GCG positively influences firm value.

H1: Good Corporate Governance exerts a favorable influence on firm value.

The Effect of Capital Structure on Firm Value

Capital structure indicates how firms manage financing and financial risk. An optimal funding mix signals stability and improves investor confidence. Sugiyanto et al., (2023) provide evidence that capital structure influences firm value.

H2: Capital structure positively influences firm value

Dividend Policy Moderates the Effect of GCG on Firm Value

Dividend policy acts as a supplementary signal reflecting a firm's earnings capacity and future outlook. Stable dividends enhance the credibility of GCG signals in the eyes of investors. Findings from Khoiroh et al., (2024) support the notion that dividend policy can strengthen the effect of internal governance practices on firm value.

H3: Dividend policy moderates the effect of Good Corporate Governance on firm value.

Dividend Policy Moderates the Effect of Capital Structure on Firm Value

Regular dividend distributions indicate a firm's capacity to sustain financial stability even while operating under a particular capital structure. This condition makes the capital structure signal clearer and more credible to investors. Prior research suggests that dividend policy reinforces the link between financing choices and firm value (Brigham & Houston, 2019; Sugiyanto et al., 2023)

H4: Dividend policy moderates the effect of capital structure on firm value.

Method

This research uses a quantitative associative method to analyze how Good Corporate Governance and capital structure influence firm value, with dividend policy moderating, in LQ45 companies from 2022 to 2024. Samples were determined through purposive sampling, considering continuous LQ45 inclusion, complete annual reports, and data availability for all research variables (Sugiyono, 2023). Applying these criteria, the study selected 29 firms as the sample, generating 87 observations across the three-year research period. Secondary data sourced from annual reports and IDX publications were examined through classical assumption tests, t-tests, and determination coefficients. Multiple linear regression assessed the effects of independent variables, while the moderating role of dividend policy was evaluated using Moderated Regression Analysis (MRA) with SPSS.

Table 1. Sample Criteria

Variable	Indicator	Reference Source
Good Corporate Governance	1. Board of Commissioners 2. Audit Committee 3. Management (Board of Directors) 4. Shareholders	(Pujiati & Nur, 2023)
Capital Structure	DER (Debt to Equity Ratio) = (Total Debt / Total Equity) × 100%	(Ukhriyawati et al., 2019)
Firm Value	PBV (Price-to-Book Value) = (Share Price × Outstanding Shares / Total Equity) × 100%	(Sugiyanto et al., 2023)
Dividend Policy	DPR (Dividend Payout Ratio) = (Total Cash Dividend / Net Profit) × 100%	(Aprilly & Sadikin, 2024)

The dataset was subsequently analyzed using multiple linear regression and Moderated Regression Analysis (MRA) to assess both direct relationships and moderating influences.

Results and Discussion

Descriptive Statistics Test

This study uses 87 observations of companies included in the LQ45 index. Descriptively, firm value has an average of 3.036, with a minimum value of 1.08 and a maximum of 4.96, indicating variation in firm value across the sampled companies. The relatively moderate standard deviation suggests a stable data distribution. Moreover, the residuals exhibit a near-zero mean and remain within acceptable thresholds, suggesting the data are appropriate for regression analysis and hypothesis evaluation.

Classical Assumption Test

Classical assumption testing confirms that the regression model satisfies analytical criteria. The normality test, based on the P–P Plot, shows residuals aligned with the diagonal line, indicating a normal distribution. The multicollinearity test reveals Tolerance values of 0.722 and VIF values of 1.385 for all variables, suggesting no multicollinearity issues. The Durbin–Watson statistic of 1.353 indicates the absence of autocorrelation. Additionally, the scatterplot shows a random residual distribution, indicating the absence of heteroscedasticity. Consequently, all classical assumptions are fulfilled, confirming the regression model’s adequacy for subsequent analysis.

Hypothesis Testing

T-Test (Partial)

Coefficients ^a								
		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-4.421	.562		-7.861	.000		
	Good Corporate Governance	10.421	.633	.851	16.458	.000	.722	1.385
	Struktur Modal	-.294	.136	-.112	-2.166	.033	.722	1.385

a. Dependent Variable: Nilai Perusahaan

Figure 1. Hypothesis Test Results

The t-test results show Good Corporate Governance has a t-value of 16.458 ($p = 0.000$), positively affecting firm value with a coefficient of 10.421, while capital structure has a t-value of -2.166 ($p = 0.033$), negatively influencing firm value with a coefficient of -0.294. Consequently, stronger GCG enhances firm value, while higher capital structure diminishes it.

Coefficient of Determination (R²) Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.915 ^a	.838	.834	.37724	1.353

a. Predictors: (Constant), Struktur Modal, Good Corporate Governance
b. Dependent Variable: Nilai Perusahaan

Figure 2. Results of the Determination Coefficient Test

The coefficient of determination (R²) at 0.838 shows that 83.8% of the variability in company value is accounted for by effective corporate governance and financing structure, with the remaining 16.2% owing to other influences. The adjusted R² of 0.834 confirms the model's robustness in capturing the link between these predictors and firm value.

Multiple Linear Regression Analysis

Regression results indicate that strong corporate governance significantly increases firm value, with a coefficient of 10.421, t-value of 16.458, and p-value of 0.000. This shows that robust governance practices boost firm value. Conversely, capital structure negatively affects firm value, shown by a coefficient of -0.294, t-value of -2.166, and p-value of 0.033, suggesting higher leverage lowers company value.

Moderated Regression Analysis (MRA) Test

Tabel 3. Hasil Uji MRA X1-Z-Y

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients Beta	Sig.
		B	Std. Error		
1	(Constant)	-1.162	.266		.4367
	Good Corporate Governance	3.579	.439	.292	.000
	X1Z	4.186	.207	.724	.000

a. Dependent Variable: Nilai Perusahaan

The interaction analysis between Good Corporate Governance and the moderating variable confirms a strengthening effect on the relationship examined. This is supported by the significant X1Z interaction value of 0.000, which is below 0.05, demonstrating that the moderating variable effectively enhances the influence of GCG on firm value.

Tabel 4. Hasil Uji MRA X2-Z-Y

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.561 ^a	.315	.307	.77080	

a. Predictors: (Constant), Struktur Modal
b. Dependent Variable: Nilai Perusahaan

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients Beta	Sig.
		B	Std. Error		
1	(Constant)	2.691	.198		.000
	Struktur Modal	-1.915	.134	-.729	.000
	X2Z	5.075	.362	.713	.000

a. Dependent Variable: Nilai Perusahaan

The results of the Moderated Regression Analysis reveal that the moderating variable substantially enhances the impact of capital structure on company valuation. This is evidenced by an interaction p-value of 0.000, which is less than the 0.05 cutoff, indicating a strong statistical moderating effect. Moreover, the interaction coefficient of 5.075 and t-statistic of 14.020 confirm that the moderator strengthens the connection between capital structure and firm worth, offering solid empirical support for its inclusion. In direct terms, robust corporate governance elevates firm value by building investor confidence, whereas capital structure reduces it due to heightened financial risks from heavy debt reliance. However, dividend policy enhances both connections, as payouts send positive cues about

company stability and future outlook. These outcomes align with Siregar et al. (2023), who show that robust GCG implementation elevates firm value; Khoiroh et al. (2024), who identify dividend policy as a moderator that intensifies the impact of financial factors on value; and Dhani Wirianto et al. (2021), who argue that dividend policy and capital structure serve as key indicators for investors gauging risk, performance, and value.

Conclusion

The investigation explores the effects of Good Corporate Governance (GCG) and capital structure on corporate value, using dividend policy as a moderator in LQ45 entities traded on the Indonesia Stock Exchange from 2022 to 2024. Regression outcomes show that GCG positively and significantly affects firm value, backing the notion that robust governance strategies elevate corporate worth. On the other hand, capital structure has a substantial negative impact, indicating that greater debt dependence raises financial risks and diminishes market assessments of value. Additionally, the Moderated Regression Analysis verifies that dividend policy considerably intensifies the connection between GCG and firm value. It further strengthens the influence of capital structure on firm value, affirming that every proposed moderating hypothesis is validated. Overall, firm value is shaped by governance quality and financing decisions, with dividend policy serving as an additional market signal that amplifies investor confidence. This study emphasizes the importance of effective GCG implementation, prudent leverage management, and consistent dividend policies in enhancing market responses. Future studies are encouraged to broaden the sample across multiple industries, include additional non-financial factors such as sustainability performance or firm size, and extend the observation horizon to generate more comprehensive results.

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