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Research Paper

The Role of Dividend Policy and Investment Decisions in Shaping Firm Value: Evidence from Indonesian Islamic Capital Market

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ABSTRACT

While the previous studies have mentioned the effect of dividend policy and investment choice on the value of a firm, the effect of these variables on the value of a firm in the Islamic Capital Market of Indonesia has not been studied. Responding to this gap, the present study assesses the effect of dividend policy and investment choice on the value of a firm and examine how the dividend policy and investment choice affect the relationships of ownership structure, capital structure, profitability and corporation growth on the value of a firm. The study employed a quantitative method and collected data from 71 companies registered under the Indonesian Sharia Stock Index (ISSI) from 2016 to 2021. Using the software SmartPLS, the researchers did a Partial Least Squares (PLS) analysis to derive the required data. The results disclose that investment and dividend policies mediate the impact of capital structure on firm value but do not mediate the influence of ownership structure. Specifically, investment choice positively affects profitability, while dividend choice has a negative effect; furthermore, only dividend choice mediates corporate growth. Overall, both policies significantly determine firm value, particularly through their connection to capital structure and corporate growth. Managers and policymakers in the Indonesian Islamic capital market should strategically align dividend and investment policies with capital structure and growth considerations to enhance firm value in a Sharia-compliant context.

Introduction

In Indonesia, the Islamic Capital Market has been expanding steadily since the year it was founded in 1997, with assets compounding each year (OJK, 2020). This study focuses on Sharia-compliant stocks, particularly the Indonesian Sharia Stock Index (ISSI), which is also required to follow Sharia guidelines as outlined by the Financial Services Authority Regulation No. (35/POJK.04/2017). The primary aim of public companies within the Sharia capital market is to uplift shareholder welfare and build value (Shimasaki, 2020). Firm value, which depicts the shareholders' worth, is assessed through the collaborative actions of the management team and shareholders in deciding which assets to invest in and how to manage them to foster optimal profits and organizational growth (Brealey et al. 2008).

Some of the factors that affect the value of the firm are ownership structure (Iswara & Setyabudi, 2020; Kusumawati & Setiawan, 2019; Lestari et al., 2021), capital structure (Alamsyah & Muchlas, 2018; De Andrés et al., 2018; Nurhayati & Agustin, 2020), level of profitability (Nurhayati & Agustin, 2020; Yanti et al., 2022), rate of company growth (Kusumawati & Setiawan, 2019; Pristi & Anwar, 2022; Shimasaki, 2020), dividend policy (Pakekong et al., 2019; Sulhan & Purnamasari, 2020; Syahri & Robiyanto, 2020), investment decisions (Sa'diyah, 2021). These previous studies assess the impact of direct relationships on the firm value variables. However, the present study does not analyze the effects of these variables on the firm value through dividend policy and investment decisions made on the Indonesian Sharia capital market, which is a new and under-researched area.

Firm value is affected by the firm's policies, including the dividend and investment policies (Mansour et al., 2019). This study's objective is to investigate how the dividend policy and the investment decisions affect the firm valuation. As defined by Copeland & Weston (1988) and Sartono (2001), the dividend policy is the policy that determines the distribution and retention of the firm's earnings. This policy is intended to maximize the firm's value, and consequently, the value of the firm's stock (Brigham & Houston, 2016), which is based on the dividend signalling hypothesis (Ross, 1977). The dividend yield and the dividend payout ratio are the major indicators of the dividend policy (Weston & Copeland, 2012). This research uses the dividends per share and earnings per share (Brigham & Houston, 2016; Weston & Copeland, 2012) as indicators. The term investment refers to the outlay of funds with the expectation of future return (Tandelilin, 2017), and the investment involves the selection of the most profitable alternative (Brigham & Houston, 2016) and the optimal allocation of the funds (Brealey et al., 2008). The value of the firm is increased by proper investment decisions, which can be measured by the price earnings ratio (PER) and the price to book value (PBV) (Brigham & Houston, 2016).

The ownership structure of a firm is important for corporate governance and affects agency costs as a result of how shareholder loyalty is modelled in relation to management (Jensen & Meckling 1976). This ownership structure is examined through agency theory and information asymmetry theory, which is concerned with how to resolve conflicts of interest (Iswara & Setyabudi 2020). Ownership structure includes management ownership as well as public ownership, which is measured by the percentage of shares that management controls and the public ownership ratio (Hasan & Butt, 2009). This structure is important in determining corporate governance and decisions relating to the structure of the firm's debt (Céspedes et al 2010). This study examines the structure of internal and external ownership. There is empirical evidence that suggests the existence of a mediating relation of dividend policy in the association of structure of ownership and firm value (Alamsyah & Muchlas 2018; Padnyawati & Kusumawati 2019). However, some authors have proposed that the relation in question could be the other way around (Iswara & Setyabudi 2020; Lestari et al 2021; Susanti et al 2019; Yulianti et al 2022). Furthermore, it appears that investment decisions are not important mediating factors in the relationship between the structure of ownership and the value of the firm (Rini 2017; Susanti et al 2019; Yulianti et al 2022).

Through the orchestration of both equity and debt financing, a company's capital structure is designed to optimize the company's financing potential (De Andrés et al., 2018). This strategy can be examined through the debt-to-equity ratio (DER) and the long-term debt-equity ratio (LDER) (Jiraporn et al., 2012). The DER indicates the degree of financial leverage, with higher ratios indicating a greater level of financial reliance on debt (Wijayaningsih & Yulianto, 2021). According to Salim and Susilowati (2020), the LDER indicates the amount of one's long-term financial debts to equity. The capital structure of a company has a large bearing on the financing options available, which impact the overall firm valuation and the financial position communicated to the shareholders (Myers, 2001; Ross et al., 2010). This study incorporates both DER and LDER as proxies for capital structure. Also, the combination of capital structure and dividend policy of a firm greatly influences the valuation of the firm (Alamsyah & Muchlas, 2018; Hairudin & Desmon, 2020), but the opposite is also true (Nurhayati & Agustin, 2020; Yanti et al., 2022). The range of possible outcomes on valuation is likely to be influenced by the capital structure of the firm and the level of investment (Shahwan, 2018; Wijayaningsih & Yulianto, 2021).

Profitability is necessary for estimating future growth and reflects management's control over earnings (Brigham & Houston, 2016; Weston & Copeland, 2012). Strong performance and high profitability allow for an optimistic potential outcome (Liong et al., 2023). This study analyzes four profitability ratios; a) Profit Margin on Sales, Brigham and Houston (2016) defines this as the net profit after tax over the sales; b) Return on Assets (ROA), Hunsan (2005) and Tandelilin (2017) consider this as the profit relative to the total assets, c) Return on Equity (ROE), net profit after tax over the equity, and d) Earnings per Share (EPS), the net profit allocated to each share which, directly impacts the investor returns and stock prices (Tandelilin, 2017; Husnan, 2005). Profitability reflects how much a firm can earn (Brigham & Houston, 2016), and from positive dividend policies, firm value increases (Iswara & Setyabudi, 2020; Wijayaningsih & Yulianto, 2021; Yulianti et al., 2022). However, other studies indicate that profitability impacts firm value measure minimally, with dividend policies playing the intermediate role (Nurhayati & Agustin, 2020; Pristi & Anwar, 2022). Furthermore, Shimasaki (2020) argues that investment choices may increase the positive impact of profitability on total firm value.

Business expansion, as explained in corporate growth studies, entails changing, expanding, and diversifying products, as well as building sales, profits, and total assets (Shimasaki, 2020). The permanent income hypothesis posits that the investment of current resources is necessary for expected future profits, hence increasing the welfare of business owners (Auliani et al., 2024). The main indicators explaining corporate growth include increased sales, profits, and total assets (Shimasaki, 2020). Companies that are expected to develop and grow in the near future attract higher investment interest (Céspedes et al., 2010). The rate of growth of a company also affects its financial structure and the composition of its capital. Investors assess their value based on growth, market expansion, and new product development (Pristi & Anwar, 2022; Shimasaki, 2020). Moreover, a wellformulated dividend policy is also necessary for the growth of the company (Liong et al., 2022). As Gitman and Zutter (2019) explain, the theory of corporate financing deals with the company's overall value, with the ultimate goal of maximizing the wealth of the shareholders. According to shareholder theory (Brigham & Houston, 2016; Fajri et al., 2023), this wealth maximization principle deals with the welfare of the shareholder with every increase in the stock price and dividend payouts. Market value of the company, as per Tobin's Q, reflects the market's view on the company's growth (Chung & Pruitt, 1994). This work employs a variation of Tobin's Q as per Chung & Pruitt, with the value of the marketable securities and debt of the firm vis-a-vis the firm's assets.

The main gap in the current literature is the lack of understanding of the phenomenon of how the dividend policy and investment decisions mediate the increase of a firm's value in the context of the Sharia capital market of Indonesia. There are determinants such as ownership structure (Alamsyah & Muchlas, 2018), capital structure (Nurhayati & Agustin, 2020), profitability (Yanti et al., 2022), and firm growth (Kusumawati & Setiawan, 2019), which are known; however, very few studies tackle the mediating effects of holding dividend policies and investment decisions in Sharia-compliant firms (Mansour et al., 2019; Syahri & Robiyanto, 2020). This study sheds light on the holding of these policies by Sharia-compliant firms on account of the Islamic business ethics, which do not abide by speculation and earnings from illegitimate sources (OJK, 2020). This study surpasses the limitations of past studies, which have examined the phenomenon by addressing the direct effects only by explaining how dividend policy and investment decisions mediate the relationships between the ownership structure, capital structure, profitability, and firm value. This focus is critical in the Sharia capital market, where the primary objectives address the unique regulatory and governance frameworks pertaining to the strategies on the investment and dividend payouts in order to achieve a greater value for the shareholders while facilitating the growth of the firm in compliance with the Sharia regulations.

The focus of this research is to understand how dividend policies and investment choices mediate and moderate the relationships between ownership structure, capital structure, profitability, corporate growth, and the overall value of the firm. The purpose of this research is to identify how dividend policies and investment decisions mediate the relationship between ownership structure and firm value. This research also seeks to identify the moderation and mediation effects of dividend policies in the relationship between the capital structure of a firm and the value of the firm. This study further aims to identify how dividend policies and investment decisions mediate the relationship between profitability and corporate growth on the value of a firm, and also directly affect the value of the firm. This research aims to offer a greater understanding of the determinants of firm value and the implications of this understanding for financial management and corporate governance (Shimasaki, 2020).

Hypotheses Development

The Influence of Ownership Structure on Firm Value Through the Execution of Dividend Strategies and Investment Choices

Some recent literature suggests that ownership composition does not affect the valuation of the firms using dividend policy (Iswara & Setyabudi, 2020; Lestari et al, 2021; Susanti et al, 2019; Yulianti et al, 2022). Other literature suggests that there is something

about the ownership structure that does have an effect on the firm value via dividend policy (Alamsyah & Muchlas, 2018; Padnyawati & Kusumawati, 2019). Other literature suggests that the effect of the ownership structure on the firm value does not get mediated by investment choices (Rini, 2017; Susanti et al, 2019; Yulianti et al, 2022). Hence, the initial hypothesis can be stated in the following manner:
H1a: The involvement of dividend policies influences the correlation between ownership structure and firm value.
H1b: Investment choices function as intermediaries in the connection between ownership structure and corporate valuation.

The Effect of Capital Structure on Firm Valuation Encompasses both Dividend Policy and Investment Decisions

A firm's overall value can be positively impacted by a firm's capital structure, and this can be further positively impacted by an optimal firm dividend policy (Alamsyah & Muchlas, 2018). Further, the literature has shown that the relationship between a firm's capital structure and the firm's value is highly influenced by the dividend policy of the firm (Hairudin & Desmon, 2020; Puspa et al, 2015). There are decisions relating to investment that negatively affect a firm's value, and this is due to the capital structure of that firm (Monica & Achmadi, 2017; Shahwan, 2018). The reverse is also true (Wijayaningsih & Yulianto, 2021). The second hypothesis is:
H2a: The connection between capital structure and firm value is moderated by dividend policy.
H2b: The association between capital structure and firm value is influenced by the mediation of dividend policy.

The Impact of Firm Value Due to Profitability Encompasses Variables Related to Dividend Policies and Investment Decisions

Nonetheless, negative influence becomes insignificant when dividend policy is considered an intervening variable (Nurhayati & Agustin, 2020; Pristi & Anwar, 2022; Tamrin et al., 2017). Conversely, although profit is an essential variable, several studies (Iswara & Setyabudi, 2020; Yanti et al., 2022; Yulianti et al., 2022) revealed a strong positive correlation between profitability and a firm's dividend policy, which, in turn, positively impacted the firm's value. Furthermore, the finding has been validated by other studies (Wijaya & Sedana, 2015; Wijayaningsih & Yulianto, 2021) as the effect of profit on the value of the firm is greater, the more the investment in projects. The third hypothesis is:
H3a: Dividend policy is an intermediary in correlation between profitability and firm value.
H3b: Investment choices act as intermediaries in influencing the connection between profitability and firm value.

The Influence of Corporate Growth on Firm Valuation Encompasses Elements Associated with Dividend Strategies and Investment Choices

As research growth suggests, dividend policy has a positive effect on the value of a firm due to the potential investment opportunities (Liong et al., 2023; Mayliza & Suryadi, 2023). The dividend policy is crucial as it aids the expansion of the firm. The hypothesis is:
H4a: A relationship between corporate growth and value is influenced by dividend policy.

H4b: Investment decisions mediate the correlation between company growth and value.

The Influence of a Company's Value Resulting From its Dividend Policy

The market value of a firm that institutes a policy of paying higher dividends is very much affected by the dividend policy of the firm. Meanwhile, the dividend policy of those companies that do not pay dividends or pay very low dividends is of no consequence to the firm value because of the dividend policy (Dang et al., 2021; Hung et al., 2020). This is as far as the company's worth is concerned, which pertains to the proportion of the dividend disbursement relative to the earnings, as indicated by the price earnings ratio and also price to book value (Syahri & Robiyanto, 2020). The fifth hypothesis is:
H5: The firm value is significantly influenced by the dividend strategy.

The Influence of The Choices Made in Investments on the Valuation of a Company

The value of a firm is much affected by the choices an entrepreneur makes as far as investment decisions are concerned (Sa'diyah, 2021; Sulhan & Purnamasari, 2020). However, when it is viewed in the context of capital expenditure versus book value assets, the investment decisions exhibited a lack of significant negative effect on firm value (Hasanuddin, 2021). The sixth hypothesis is:
H6: The decisions made in investments exert a substantial influence on the valuation of a company.

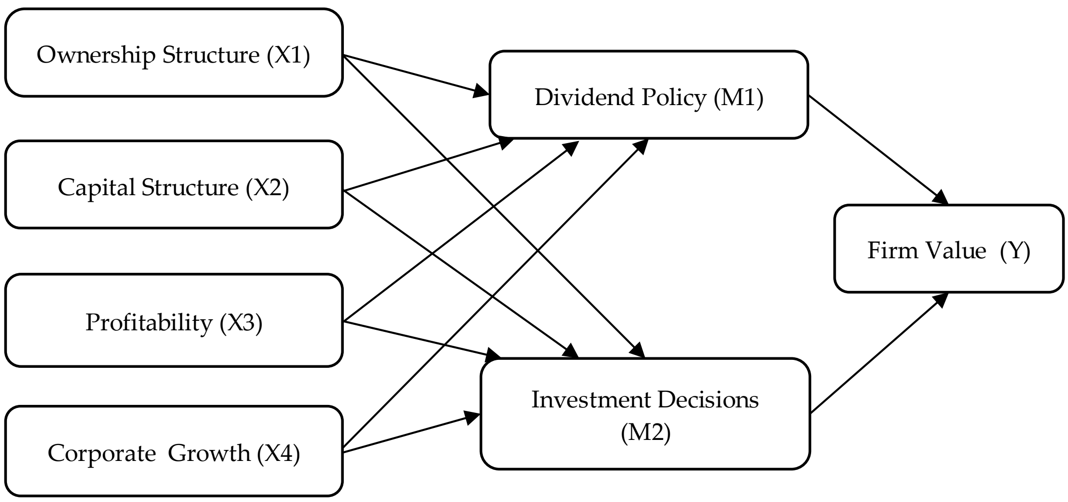

Figure 1. The Research Model

Method

Research design

The present study utilizes a quantitative research design to determine the mediational effect of dividend policy and investment decisions on firm value in the Islamic capital market of Indonesia. This involved the analysis of 71 firms that are listed on the Indonesian Sharia Stock Index during the 2016-2021 period and employed Partial Least Squares (PLS) analysis in SmartPLS in order to identify the relationships among ownership structure, capital structure, profitability, and corporate growth. While there are important topics in research that are yet to be fully addressed, this particular research suggestion stands out by providing evidence that differentiates how these financial policies affect different areas, hence benefiting corporate finance in the Islamic capital market.

Population

Focusing on the companies that experienced dividend payments consistently as well as on stable corporate performance, the ISSI-listed companies on the Indonesia Stock Exchange is analyzed from 2016 to 2021, companies an average 369 in number (see Table 1).

Table 1. Number of Population

Period I	Amount	Period II	Amount	Average
December 2015 - May 2016	317	June - November 2016	312	314,4
December 2016 - May 2017	316	June - November 2017	305	310,6
December 2017 - May 2018	332	June - November 2018	334	333,0
December 2018 - May 2019	332	June - November 2019	370	351,1
December 2019 - May 2020	405	June - November 2020	414	409,4
December 2020 - May 2021	442	Agus - November 2021	450	446,0
December 2021 - May 2022	421			421,0
Average population size for the period 2016–2021				**369,3**

*Source: Indonesian Stock Exchange, period 2016 - 2021, processed.

Sample

The sample criteria contained companies with registration plate number 1 from companies under the supervision of OJK, more specifically, from ISSI, with annual reports for 2016 to 2021. From this population, 169 firms compliant with Sharia laws, which were not dropped from the DES list, were selected. After the removal of 98 firms with irregularities in dividends, the sample became 71 firms.

Data Collection

The data from 2016 to 2021 were collected from the audited annual reports published in the websites of sample issuers. These data relate to the six variables of ownership, structure of capital, profitability, growth, policies on dividends and investments, and value of the firm. The variables ownership, capital, profitability, and growth, as independent variables, affect the dependent variable, which is the value of the firm, while dividends and investments are moderating variables. The use of secondary data has limitations, including the use of outdated data, inconsistencies in data because of different accounting policies, a lack of extensive details on ownership and investments, a lack of data on the rationale used by the management, and the unavailability of detailed information concerning the investments.

Analysis Method

The study employs the PLS method contained in SmartPLS 4 to analyze the data, concentrating on the analysis of variance and overcoming the challenges of covariance-based SEM (Latan & Ghozali, 2012).

Measurement Model (Outer Model)

Testing the external model encompasses checks for both validity and reliability. To show convergent validity, the loading factor of an item needs to be greater than 1, as well as the Average Variance Extracted (AVE) needs to be greater than 0.50. For an item to be considered as having discriminant validity, the cross-loading values must be greater than 0.70. Reliability can be assessed by both Cronbach's alpha and composite reliability, and composite reliability is taken into account if the value is greater than 0.70 (Hair et al 2021; Latan, Ghozali 2012).

Structural Model (Inner Model)

The structural model is concerned with estimating the relationships of latent variables, and this is through the use of path coefficients. Precision is further enhanced by bootstrapping (Hamid & Anwar 2019). The predictive power of the model can be assessed by R-squared (R 2) values, where 0.67 is considered having substantial predictive power of the model built, 0.33 of the model is considered having moderate predictive ability, and 0.19 is said to have very low predictive power (Chin 2010). The F 2 evaluates the impact of the exogenous variables of the model on the endogenous variables, where 0.02 is considered to have little impact, 0.15 is moderate impact, and 0.35 is taken to have high impact (Cohen 1988). The model's inherent predictive capability is estimated by the use of the effect sizes q 2 and Q squared (Hair et al 2021). The contribution of the particular construct variables to the path coefficient is assessed by bootstrapping and the t-value, and such values are 1.65 (10%), 1.96 (5%), and 2.58 (1%) (Chin 2010).

Test of Mediation Effects

Mediation analysis consists of three steps (Latan & Ghozali, 2012): (1) determine if the independent variable has a significant effect on the dependent variable (t-statistic > 1.96). (2) determine the effect of the independent variable on the mediating variable (t-statistic > 1.96). (3) assess the net effect of the independent and the mediating variable on the dependent variable. The results can be: (a) full mediation if only the mediating variable has a significant effect on the dependent variable, and (b) partial mediation if both the independent and the mediating variables have significant effects.

Results

Measurement Model Analysis

Escalating credibility and validity observations indicated that the MO indicator for ownership structure was unreliable, and so was eliminated, as evidenced by the loading factor of 0.053 (see Figure 2). As for capital structure, both the DER (0.963) and the LTDER (0.895) validated as such. Nevertheless, while PMS and ROE were removed for profitability, EPS (0.984) stood above all as the sole essential indicator. For corporate growth, both SG and

AG were eliminated for having loading factors that fell short of the 0.7 threshold. Of dividend policy indicators, DY (0.910) validated as such, whereas DPR (0.380) was acceptable albeit lower. Investment decisions in PER (0.782) and in PBV (0.977) were validated. Firm value was lastly identified as highly valid to measure through Tobin's Q (1.00).

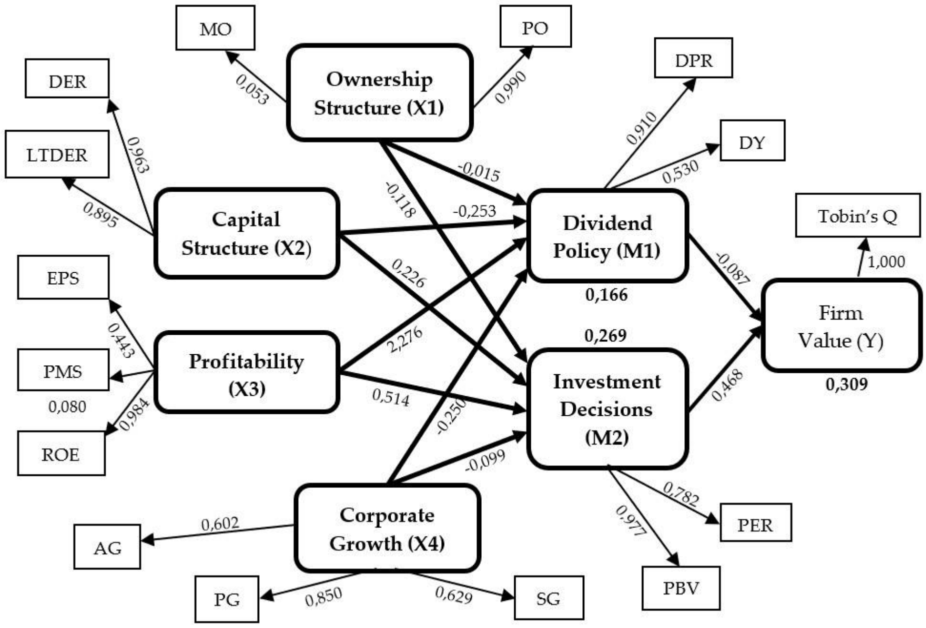

Figure 2. Initial Path Diagram with Loading Factor

Valid indicators for modelling tests (see Figure 3) include public ownership (0.990), DER (0.963), LTDER (0.895), PG on corporate growth (0.850), DPR on dividend policy (0.380), PER (0.782), PBV (0.977), and Tobin's Q on firm value (1.00). Criteria for validity: loading factor > 0.70, indicating unfit indicators have an error variance > 50%. AVE value > 0.50. AVE calculations using SmartPLS 4 are in Table 2.

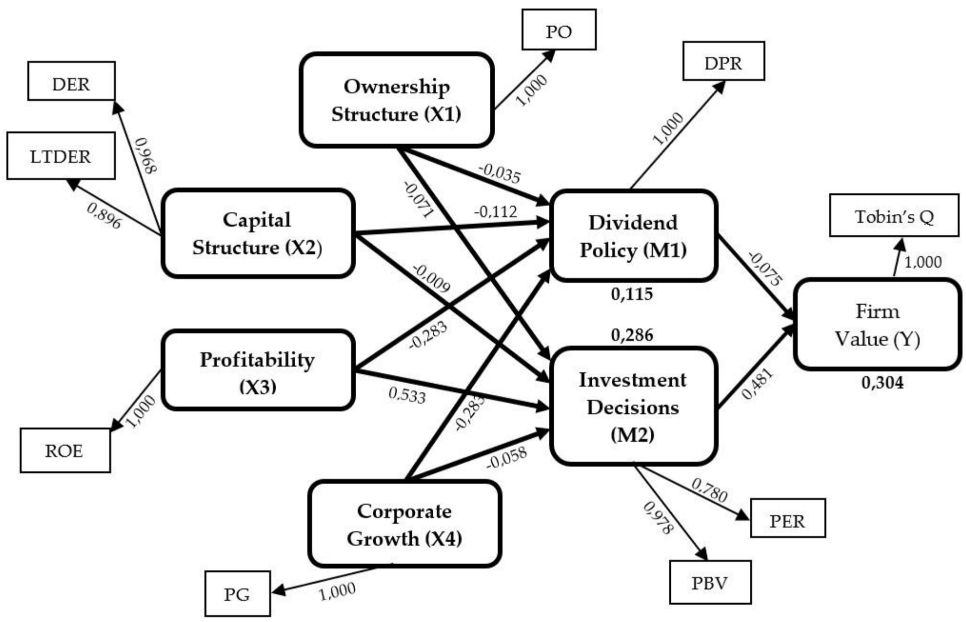

Figure 3. Path Diagram with Indicator Elimination and Factor Loading

Following the removal of unreliable indicators, the analysis in Table 2 shows compilation of Average Variance Extracted (AVE) Metrics, revealed AVE values exceeding 0.50 for each latent variable, thereby validating the assessment and ensuring satisfactory convergence.

Table 2. Compilation of Average Variance Extracted (AVE) Metrics

Latent Variables	(AVE)
X1	1,000
X2	0,861
X3	1,000
X4	1,000
M1	1,000
M2	0,783
Y	1,000

*Source: Results of data processing using the SmartPLS 4 application

The discriminant validity evaluation involved contrasting AVE's square root with the correlations among associated variables (Chin, 2010). To ensure appropriate discriminant validity, the square root of the AVE must surpass the correlation with other constructs. Elaborate findings are outlined in Table 3, which illustrates the square root of AVE and correlations between latent variables of X1, X2, X3, X4, M1, M2, Y, and AVE.

Table 3. The Square Root of AVE and Correlations between Latent Variables

Latent Variables	X1	X2	X3	X4	M1	M2	Y	AVE	AVE Square Root
X1	1,000	0,150	-0,129	-0,085	-0,074	-0,119	-0,208	1,000	1,000
X2	0,150	1,000	0,280	0,023	-0,053	0,134	-0,007	0,851	0,928
X3	-0,129	0,280	1,000	0,215	0,157	0,523	0,199	1,000	1,000
X4	-0,085	0,023	0,215	1,000	-0,232	0,058	0,083	1,000	1,000
M1	-0,074	-0,053	0,157	-0,232	1,000	0,135	-0,022	1,000	1,000
M2	-0,119	0,134	0,523	0,058	0,135	1,000	0,471	0,783	0,885
Y	-0,208	-0,007	0,199	0,083	-0,022	0,471	1,000	1,000	1,000

*Source: Results of data processing using the SmartPLS 4 application

Table 3 shows correlations between ownership structure and other variables (0.150, -0.129, -0.085, -0.074, -0.119, -0.208). These values are smaller than the square root of AVE (0.928), confirming validity. The evaluation of reliability, performed using both Cronbach's alpha and composite reliability, requires a value surpassing 0.70, as detailed in Table 4.

Table 4. Scores for Cronbach's alpha and Composite reliability

	Cronbach's Alpha	Reliability Composite
X1	1,000	1,000
X2	0,852	0,925
X3	1,000	1,000
X4	1,000	1,000

	Cronbach's Alpha	Reliability Composite
M1	1,000	1,000
M2	0,776	0,877
Y	1,000	1,000

*Source: Results of data processing using the SmartPLS 4 application

All constructs (X1, X2, X3, X4, M1, M2, and Y) have composite reliability values exceeding 0.70 (0.925, 1.000, 1.000, 1.000, 0.877, and 1.000). Similarly, Cronbach's alpha values for these constructs surpass the reliability threshold (1.000, 0.852, 1.000, 1.000, 1.000, 0.776, and 1.000), indicating the instrument's adequate reliability.

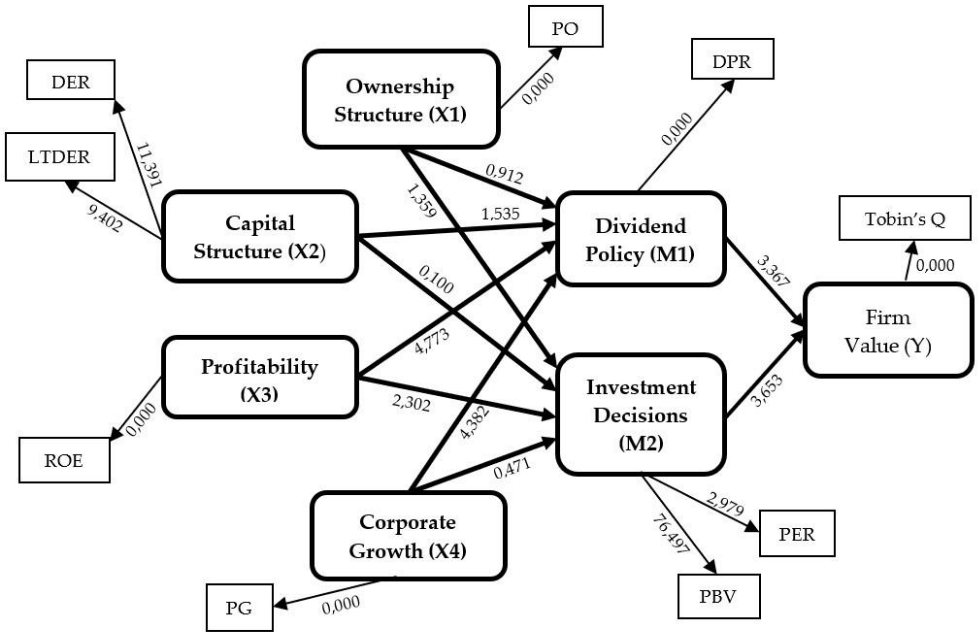

Figure 4. Structural Model after Bootstrapping

Structural Model Analysis

After the bootstrapping process with SmartPLS 4, the structural model is shown in Figure 4. The R^2 value, interpreted like in linear regression, measures how much exogenous variables influence the variability of endogenous variables. According to Chin, R^2 criteria are classified as substantial (0.67), moderate (0.33), and limited (0.19) (Chin, 2010). The outcomes of the R^2 test are presented in Table 5.

Table 5. Coefficient of Determination (R Square)

	R Square	Adjusted R^2
Y	0,304	0,289
M1	0,115	0,101
M2	0,286	0,275

*Source: Outcome of data analysis utilizing the SmartPLS 4 software

Table 5 presents the adjusted R^2 values for firm value (Y), M1, and M2. The adjusted R^2 for firm value (Y) is 0.289, meaning that 28.9% of its variation is explained by the model, which indicates a small influence. M1 has an adjusted R^2 of 0.101 (10.1%), and M2 has an adjusted R^2 of 0.275 (27.5%), both reflecting similarly small effects. The f^2 analysis further supports this, showing small impacts of the exogenous variables on the endogenous variables, with f^2 values of 0.02 for Y, 0.101 for M1, and 0.275 for M2. Detailed results of the f-Square (f^2) test can be found in Table 6.

Table 6. Effect Size (f-Square) Measurements

	(Y)	(M_1)	(M_2)
X1	0,061	0,001	0,006
X2	0,005	0,012	0,000
X3	0,002	0,057	0,336
X4	0,003	0,086	0,005
M1	0,007		
M2	0,236		
Y			

*Source: Outcome of data analysis utilizing the SmartPLS 4 software

Table 6 indicates a medium influence of M2 on Y (f-square value: 0.236). Medium-level f-square values are also observed for X3 on M2 (0.336) and X1 on Y (0.061). Similarly, the F-Square values for X3 on M1 (0.057) and X4 on M1 (0.057) are at a medium level. However, f-square values for other exogenous variables on endogenous variables are lower (ranging from 0.000 to 0.012), suggesting a more minor influence. For Q^2 prediction size, the impact size q^2 is tested, and the results are in Table 7.

Table 7. Effectiveness Magnitude q^2 Score

	Q^2
Y	0,160
M1	0,082
M2	0,140

*Source: Outcome of data analysis utilizing the SmartPLS 4 software

Table 7 shows q^2 values for endogenous variables Y, M1, and M2 (0.160, 0.082, and 0.140), all greater than 0, indicating predictive relevance.

Mediation Effect Test

Mediation effects analysis, based on Baron and Kenny's guidelines (Latan & Ghozali, 2012), involves steps like main effect tests and evaluating the impact of independent variables on mediators. Results show t-statistics exceeding 1.96 for X1, X3, X4, M1, and M2 on Y. Additionally, independent variables influence mediators with t-statistics above 1.96 for X2 on M1, X2 on M2, X3 on M1, and X3 on M2. Specific indirect effects are detailed in Table 8.

Statistical evidence presented in Table 8 shows that the t-statistics of the mediators M1 and M2 of the latent factors X1 and Y exceed 1.96 and their p-values are below 0.05 which implies that; 1) there is full mediation on the impact of the capital structure on the firm value via the mediators Dividend Policy (t-stat = 2.476; p = 0.012) and Investment Decision (t-stat

= 2.014; p = 0.023) and 2) there is partial mediation on the Profitability whereby the mediators impact the firm value via Dividend Policy (t-stat = 2.878; p = 0.005) and Investment Decision (t-stat = 2.851; p = 0.006) and the mediators of Corporate Growth also affect the firm value via Dividend Policy (t-stat = 2.839; p = 0.008).

Table 8. Specific Indirect Effect Values

	Original Sample	**Std. Deviation**	**T- Statistics**	**P-Values**
X1 toward M1 toward Y	0,003	0,004	0,747	**0,456**
X1 toward M2 toward Y	-0,034	0,033	1,048	0,295
X2 toward M1 toward Y	0,018	0,007	**2,476**	**0,012**
X2 toward M2 toward Y	0,088	0,044	**2,014**	**0,023**
X3 toward M1 toward Y	-0,018	0,006	**2,878**	**0,005**
X3 toward M2 toward Y	0,256	0,090	**2,851**	**0,006**
X4 toward M1 toward Y	0,021	0,007	**2,839**	**0,008**
X4 toward M2 toward Y	-0,028	0,057	0,492	**0,623**

*Source: Outcome of data analysis utilizing the SmartPLS 4 software

Discussion

This study examines the impact of several variables on the corporate valuation of companies listed on the Indonesian Sharia Stock Index (ISSI) from 2016 to 2021. The variables being studied are ownership structure, capital structure, profitability, corporate growth through the dividend policy, and investment decisions. The findings indicate that investment and dividend policies serve as mediators in the relationship between capital structure and firm value, but they do not mediate the effect of ownership structure. In particular, investment decisions enhance profitability, whereas dividend decisions exert a negative influence, and only dividend policy plays a mediating role in corporate growth.

To begin with, dividend distribution policy has no major effect on the ownership structure and the value of the firm, which means that companies need to strike an optimal ratio of their unretained earnings and dividend distribution for the purpose of capital retention for the long run. Dividends disbursed at an accounting period end primarily relate to the disbursement of net profit to the shareholders, with no major effect on ownership and stock value. Consider a profit distribution of 100 billion IDR for a firm where two shareholders predominantly hold the firm. This situation usually does not change their ownership, and also does not change the valuation of the firm. This means that for the completion of this research, dividends do not contribute to the value of the firm to a major extent. This is the contrary of what is articulated about dividends because they positively contribute to the value of the firm as an intervening variable (Alamsyah & Muchlas, 2018; Padnyawati & Kusumawati, 2019). Also, investment decisions do not seem to have a major effect on the ownership structure and the valuation of the firm, especially in firms that have a low level of public float. Results regarding stable profit allocations and strategies from retained profit over revising dividend distributions and public ownership are contradictory. As such, research regarding varying results from different proxy variables (Rini, 2017; Susanti et al, 2019; Yulianti et al, 2022) supports findings (Hairudin & Desmon, 2020). However, Sharia finance firms must focus on stable profit distribution.

Positive influence of capital structure on the value of the firm via dividend policy is indicative of the benefits of particular profitability and capital structure focus on dividend policy. A certain capital structure has the ability to further sustain the value of the firm and also build more confidence in the firm. Therefore, the management of the firm must ensure that the policies on dividends dispensed reflect the true position of the firm, since, per the theory, equity capital and policy on dividends has value (Alamsyah & Muchlas, 2018; Hairudin & Desmon, 2020; Hasanuddin, 2021). Moreover, firm value can also be enhanced by making sound investment decisions, contrary to the claims by earlier researchers. (Shahwan, 2018; Wijayaningsih & Yulianto, 2021) earlier claimed that the firm value is reduced as a result of poor/high-risk investments. This study documents the value of the investments of the firm, which is directed towards growth and profitability as a means of attracting market value and investors. Therefore, firms' investment policies, for instance, rights offerings or capital expansion, must be directed towards improving the capital structure without the addition of debt. For the firms quoted in ISSI, the firm ought to incorporate the financial policies with the capital structure improvements to focus on the management of dividends to enhance the firm value positively. This will provide the firm with the desired market position.

There are inconsistencies regarding the impact of dividend policy on the value of a firm. Nurhayati and Agustin (2020), Pristi and Anwar (2022), and Liong et al. (2023) note that the value of a firm may be adversely affected by its dividend policy if the firm does not meet specified market expectations regarding the distribution of profits. This is at odds with the evidence suggesting a positive relationship between dividends and the value of the firm (Iswara & Setyabudi, 2020; Yanti et al., 2022; Yulianti et al., 2022). Firms listed on the ISSI need to understand that while dividends attract investors, they may need to control how they announce dividends to avoid a post-announcement drop in stock price. This underscores the need for ISSI firms to adopt rational dividend policies. Moreover, the study confirms that investment decisions are important to the profitability and value of the firm, consistent with the findings of Damayanti & Sucipto (2022), and Wijayaningsih & Yulianto (2021). Firm value and competitive edge in the market can be enhanced through rational, innovative investment, such as in high-potential R&D, as is the case with PT ABC. Hence, companies on the ISSI need to adjust their financial policies to balance the payment of dividends with other investments to ensure the firm's continued positive development. Through the introduction of balanced and data-oriented strategies, organizations can achieve market positioning and Sharia compliant financial management principles.

Fourth, dividend policy acts as a positive moderator between company growth and firm value and contradicts some findings (Auliani et al., 2024; Mayliza & Suryadi, 2023), which showed dividend policy has little to no impact in promoting the value of the firm. While it is widely accepted that a firm's dividend policy has a positive impact on its value as a result of having growth opportunities, this research shows that a positive dividend policy can catalyze an increase in the profit of the firm and thus increase the value of the firm. Firms that increase dividend payments expand profit margins and attract long-term investors, which are positive signals about the firm. On the other hand, the Price Earnings Ratio (PER) and Price to Book Value (PBV) as proxies of Investment Bank are not significant in mediating the growth value relationship, thus other growth valuation relationships are potentially to be investigated. The findings clarify that even though there is a relationship between corporate growth and investment decisions, the relationship is more pronounced value depressing in the absence of dividend policies than it has been reported. For firms listed in the Indonesia Sharia Stock Index (ISSI), dividend policy and growth policy should be directed to provide positive signals in the market and enhance the value of the firm. In addition, there is a need to improve financial policies for the firms by incorporating more factors that consider investors other than PER and PBV. This alteration of strategy improves market attractiveness while simultaneously increasing investor demand and maintaining an ethical framework of Sharia-compliant financial management.

Fifthly, the adoption of a well-crafted and well-structured dividend policy improves the company's stock valuation as a result of attracting more investors, creating demand for the firm's shares, and increasing share price. Companies should adopt and implement positive dividend policies because they reflect the company's financial strength. Strong financial policies impact investors positively and enhance their confidence in the company's ability to manage resources and grow. This is consistent with prior works on dividend signalling theory (Ross, 1977). This study further highlights the implications of dividend policy on the management of asymmetric information with regard to the ability of investors to make judgments on the company's long-term prospects. The ISSI companies can enhance their market attractiveness, and their dividend policy can improve firm value.

Sixthly, the value of a firm is largely derived from its growth, which in turn depends on the investment decisions the company makes. The investment decisions should be governed by policies that are aimed at enhancing the value of the firm. This study highlights the need for the investment decision to be strengthened by a thorough evaluation of each of the projects in terms of the expected returns, the risk involved, and the justification of the investment value. This is consistent with the literature that identifies rational investment decisions to higher value of the firm. (Hasanuddin, 2021; Munawaroh & Munandar, 2024; Sa'diyah, 2021; Wahyudi & Chairunesia, 2019). Improving involvement within the company makes more company functions visible and leads to more effective governance, and helps both management and ownership. It is necessary to improve managers' skills in project evaluation for the company to continue to develop. Not every investment is equally valuable to the firm. But for the sake of the company, we identify the investments that might yield the most in the hopes of maximizing the potential for value to the firm. It is especially important for ISSI-listed companies to make well-informed and evidence-based investments and to be competitive within the framework of Sharia Finance.

The results of this study are crucial as they provide us with some theoretical and practical aspects. In amplifying the knowledge on the interplay of dividend policies, investment decisions, and ownership and capital structure within Islamic capital markets, we do break the knowledge gap on some of the extant economic relations that have been assumed to be synchronous. It is, of course, within the context of Islamic Finance, that we do establish some practical implications concerning the management and the policymakers to have some equilibrium on their finances that will provide for strategic management of dividends and investment decisions to bring some coherence to the demand for liquidity and the Sharia-based economic growth.

Conclusion

This research examines the relationship between dividend policy and investment decisions in enhancing corporate value in Indonesia, as reflected in the Sharia Stock Index.

Specifically, dividend policy moderates the relationship between capital structure and firm value, thus fostering corporate sustainability. While it is true that the policy on dividends may erode profitability, it is equally true that rational decisions on the investment boost corporate profitability and the firm's value. This element is adjunct to the intricate roles played by financial decisions in the corporate value and one that merits in-depth assessment. There is no denying that the study is constrained in its scope. This assessment is one that needs to be shifted to a different segment of the market by focusing on listed equities in the ISSI from 2016 to 2021, examining non-traditional investment decision proxies, and adding other determinants of firm value in the context of Islamic capital markets. Obtaining appropriate proxies for the variables will afford insight into the intricate relationship between financial policy and firm value, adding to the databank and the practice of finance.

The scope of this study is ISSI-listed equities between the years of 2016 to 2021 and traditional proxies of investment decisions and of firm value. To deepen the understanding of this relationship, this study needs to be expanded. This ISI-listed equity may be an alternative target for future research. This research may also consider using investment proxy variables other than traditional proxies and incorporate the value of the firm and other determinants. The realm of Islamic capital markets may be used to explain the firm value proxies. Additionally, the effects of profitability and the management of cum dates on the value and stability of the stock price may be subject to more detailed scrutiny. The effects of the mentioned variables on stock price volatility and stability may be further analyzed. The depth and insight of the variables may allow researchers to make a significant contribution to the data bank and also allow financial theory to be applied practically in Islamic finance.

Authors' Declaration

The author played a crucial role in developing the idea and designing the study framework. They are responsible for analyzing the data, interpreting the findings, and carefully discussing the results. Additionally, the authors thoroughly reviewed and approved the final version of the study manuscript.

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