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Institutional Ownership and Firm Value: The Moderating Role of Dividend Policy

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ABSTRACT

This study analyzes the effect of institutional ownership on firm value and examines dividend policy as a moderating variable in non-cyclical consumer companies listed on the Indonesia Stock Exchange during 2022-2024. Using a quantitative explanatory approach, the research employs panel data regression and Moderated Regression Analysis (MRA) on 48 observations selected through purposive sampling. The results indicate that institutional ownership has no significant impact on firm value. Additionally, dividend policy weakens the relationship between institutional ownership and firm value, implying that higher dividend payouts may reduce the effectiveness of institutional monitoring. These findings align with agency theory, particularly the free cash flow hypothesis, and signalling theory, highlighting the role of dividend decisions in influencing market perceptions. This study offers insights for corporate governance practices and assists management and investors in determining optimal ownership structures and dividend policies.

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1. INTRODUCTION

Firm value describes the market's judgment of a firm's performance and its prospects for growth in the future. A higher firm value indicates increased investor confidence in management's ability to create sustainable economic value (Brigham & Houston, 2019; Damodaran, 2020). In the capital market context, firm value is not solely determined by financial performance, but also by the quality of corporate governance, particularly the ownership structure. One important governance mechanism is institutional ownership. Agency theory suggests that institutional investors contribute to lowering conflicts between management and shareholders by strengthening supervisory functions. This is supported by their access to resources, level of expertise, and long-term investment orientation (Jensen & Meckling, 1976).

In practice, investors in the Indonesian capital market still pay close attention to corporate financial signals, particularly dividend policy, when assessing firm value. This is reflected in a 6% decline in PT Unilever Indonesia Tbk (UNVR) stock price in 2024 after the company announced a lower final dividend than the previous year, despite relatively stable net income (CNBC Indonesia, 2024). This market response suggests that dividend policy is regarded as a key signal of a company's future prospects and credibility. In companies with dominant institutional ownership, changes in dividend policy often attract serious attention from institutional investors because they directly affect market confidence in corporate governance quality.

A number of prior studies have explored the link between institutional ownership and firm value, yet the results are still inconclusive. Some research suggests that institutional ownership can enhance firm value by strengthening managerial oversight (Holly et al., 2023; Murti et al., 2024; Simbolon et al., 2025). On the other hand, several studies find no significant effect, especially when institutional investors act passively and show minimal participation in strategic decisions (Syahputri et al., 2024; S. A. Al Zahro & Handayani, 2025). These inconsistent findings highlight a research gap and indicate the importance of incorporating additional variables to better explain the relationship.

Within the state-of-the-art framework, most previous studies continue to position institutional ownership as an independent variable that is directly tested against firm value. Meanwhile, dividend policy is typically treated as a separate independent variable, rather than as a factor that may strengthen or weaken the impact of institutional ownership. According to signalling theory, dividend policy serves as a communication tool for management to convey the company's stability and performance prospects to investors (Ross et al., 2010). Furthermore, free cash flow theory explains that dividend payments can reduce the potential for inefficient use of funds by management by limiting the free cash controlled by the company (Jensen & Meckling, 1976). Thus, dividend policy has the potential to act as an internal mechanism that strengthens the effectiveness of external monitoring by institutional investors.

Addressing the existing research gap, this study introduces a novelty by analyzing dividend policy as a moderating variable in the relationship between institutional ownership and firm value. This study considers non-cyclical consumer sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period as the subject of analysis. This sector is chosen due to its relative resilience to economic fluctuations, while still operating within competitive environments that require effective financial and governance strategies. By integrating external monitoring through institutional ownership with internal control mechanisms represented by

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dividend policy, this research aims to offer a more comprehensive perspective on the determinants of firm value in emerging markets.

Building on this framework, the study is conducted to empirically assess how institutional ownership impacts firm value, as well as to examine dividend policy as a moderating variable in the relationship. The proposed hypotheses indicate that institutional ownership influences firm value, while dividend policy may act to strengthen or weaken this effect. Drawing from agency theory and signalling theory, this study is expected to contribute to the advancement of corporate governance literature and offer practical implications for management, institutional investors, and regulators in the Indonesian capital market.

The relationships among the variables in this study are illustrated in the following conceptual framework:

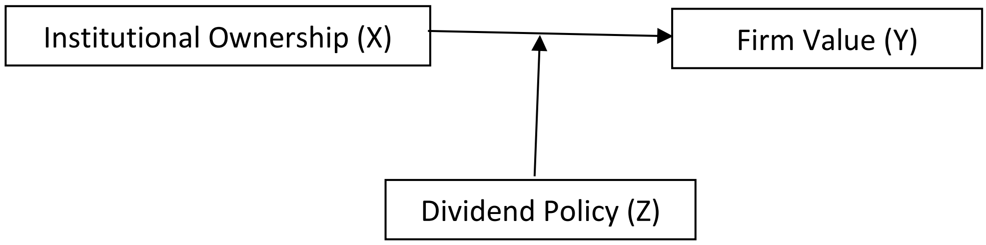

Figure 1. Research's Model

2. METHODOLOGY

A quantitative method is adopted in this study to analyze the linkage between institutional ownership and firm value, with dividend policy incorporated as a moderating variable. The hypotheses are tested empirically using statistical techniques, allowing for the assessment of both the strength and direction of the relationships between variables. The data used are secondary in nature, obtained from the annual reports of non-cyclical consumer sector firms listed on the Indonesia Stock Exchange (IDX) during 2022–2024. The chosen period represents the latest available data and is considered relevant to the aims of the study.

This study involves a population of 131 companies, with samples selected using purposive sampling according to several criteria: companies consistently listed during the study period, providing complete annual and financial reports in Rupiah, generating profits, paying dividends, and disclosing institutional ownership information. From this process, 25 companies were initially identified. After removing 9 outliers, the final sample was reduced to 16 companies. Over a three-year observation period, this results in a total of 48 observations.

Table 2 presents the operational definitions along with the measurement indicators for each research variable.

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Table 2. Variable Operational Definition

Variable	Definition	Metric
Firm value	reflects investors' perceptions of a company's future prospects and performance.	$PBV = \frac{Market\ price\ per\ share}{Book\ Value\ per\ share}$ (Azharin & Ratnawati, 2022)
Institutional ownership	defined as the proportion of shares held by financial institutions.	$INST = \frac{Shares\ Held\ by\ Institutions}{Total\ Shares\ Outstanding}$ (Rahman et al., 2022)
Dividend policy	strategic corporate decision regarding the proportion of profits distributed to shareholders compared to the portion retained for business expansion.	$DPR = \frac{Dividend\ per\ Share}{Earnings\ per\ Share}$ (Setyabudi, 2022)

This study employs panel data regression analysis using EViews 12 software. To identify the best-fitting model, several specification tests were performed, namely the Chow Test, Hausman Test, and Lagrange Multiplier Test. In addition, classical assumption tests including normality, multicollinearity, heteroscedasticity, and autocorrelation were carried out prior to hypothesis testing to confirm that the model satisfied the necessary statistical criteria.

The hypotheses were tested using the F-test to analyze the joint influence of variables and the t-test to determine their individual effects. The coefficient of determination was utilized to measure the model's ability to explain changes in firm value. Furthermore, the moderating role of dividend policy was assessed through Moderated Regression Analysis (MRA), which incorporates an interaction variable between institutional ownership and dividend policy into the model.

3. RESULT AND DISCUSSION

This study applied MRA as the analytical method. The data were processed using Microsoft Excel and EViews 12 to examine the influence of institutional ownership on firm value, with dividend policy included as a moderating variable.

Table 1. Descriptive Statistical Test Results

Variable	Mean	Min	Maks	Deviasi Standar
X	0,0678	0,2377	0,9714	0,1783
Z	0,4003	0,0359	0,8070	0,2023
Y	0,0597	-0,3451	0,6390	0,2983

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Observations	**48**

Source: Processed secondary data (2025)

Descriptive statistical analysis was used to describe the characteristics of each research variable using four indicators. Based on Table 1, the Institutional Ownership variable has minimum and maximum values of 0,2377 and 0,9714, observed at PT ULTJ and PT TGKA (2022), respectively. The Dividend Policy variable shows minimum and maximum values of 0,0359 and 0,8070 at PT SKLT and PT EPMT (2023), respectively. The Firm Value variable has minimum and maximum values of -0,3451 and 0,6390 at PT TBLA (2023) and PT MYOR (2022), respectively. The dividend policy score has the highest average value compared with the institutional ownership and firm value scores.

Table 3. Statistics Test Result

Variabel	Ordinary Least Square		Multicollinearity
	Coefficient	Prob.	VIF
C	-0,611203	0,0713	
X	0,396780	0,2721	1,619006
Z	0,428669	0,0319	7,306823
X_Z	-0,349186	0,0079	8,510957
Jarque-Bera			4,673314
Probability			0,096650
Prob. Chi-Square (Heteroscedasticity Test)			0,9915
Prob. Chi-Square (Breusch-Godfrey Test)			0,6997
F-Statistic			2,882626
Prob (F-Statistic)			0,046370
Adjusted R-Squared			0,107276

Source: Processed secondary data, 2025

Classical Assumption Tests

Table 3 presents the results of several classical assumption tests conducted on the regression model. In the normality test, the probability value is 0.096650 > 0.05, indicating that the data are normally distributed and meet the requirements for further regression analysis. The multicollinearity test shows that all independent variables have VIF values < 10, meaning that no multicollinearity problems are detected. Furthermore, the heteroscedasticity test results in a Prob. Chi-Square value of 0.9915 > 0.05, suggesting that the regression model is free from heteroscedasticity. Finally, the autocorrelation test using the Durbin–Watson statistic yields a Prob. Chi-Square value of 0.6997 > 0.05, indicating that there is no autocorrelation in the research model.

The Role of Institutional Ownership in Affecting Firm Value

The H1 hypothesis test indicates that institutional ownership has no significant impact on firm value. This is indicated by the partial test result with a significance value of 0.2721, which is higher than 0.05; therefore, H1 is not supported. These findings suggest that the proportion

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of shares held by institutional investors has not been sufficient to enhance the market's valuation of the firm. From the perspective of agency theory, institutional ownership is expected to function as an effective monitoring that helps minimize conflicts of interest between management and shareholders (Jensen & Meckling, 1976).

However, the findings of this study suggest that the monitoring function has not been implemented effectively. Institutional investors tend to be passive or short-term oriented, thus failing to exert sufficient pressure on management to improve performance and firm value. From a signalling perspective, institutional ownership has not been perceived as a positive signal by the market. Investors view the presence of institutions as shareholders as not necessarily reflecting the company's prospects and management quality, especially if not accompanied by consistent and transparent strategic policies. As a result, the market does not respond to institutional ownership with an increase in firm value. These findings are in line with(Holly et al., 2023; Syahputri et al., 2024; S. A. Al Zahro & Handayani, 2025; H. Zahro, 2018), who reported that institutional ownership does not have a significant impact on firm value. Conversely, these results contradict the findings of (Irawan & Nugroho, 2025; Marbun et al., 2025; Nariswari et al., 2025; Simbolon et al., 2025), who found that institutional ownership could increase firm value through more effective managerial monitoring.

This discrepancy indicates that the effect of institutional ownership on firm value is contextual and influenced by other factors, such as the characteristics of institutional investors, the quality of corporate governance, and managerial policies implemented. Therefore, a moderating variable, such as dividend policy, is necessary to clarify the relationship between institutional ownership and firm value.

The Role of Dividend Policy in Moderating the Relationship between Institutional Ownership and Firm Value

The H2 hypothesis testing results show that dividend policy acts as a moderating variable that weakens the relationship between institutional ownership and firm value. This is indicated by the Moderated Regression Analysis (MRA) results, which produce a significance value of 0.0079 (< 0.05), meaning that H2 is accepted; however, the moderating effect is negative as it reduces the influence of institutional ownership on firm value.

According to agency theory, particularly the free cash flow concept proposed by Jensen & Meckling (1976), dividend payments can mitigate agency conflicts by decreasing the amount of free cash flow that may be opportunistically controlled by management. However, when dividend policy is applied aggressively, the ability of institutional investors to drive long-term growth strategies is constrained. In this situation, institutional investors are no longer perceived by the market as active monitors promoting firm value, because most profits are allocated to dividends rather than reinvestment. From the signalling theory perspective, although dividends can signal financial stability, high dividend payments are not always interpreted positively by the market. In firms with dominant institutional ownership, excessively high dividend policies may be perceived as a signal of limited profitable investment opportunities in the future. This perception reduces the effectiveness of institutional ownership in enhancing firm value, making the moderating effect of dividend policy negative. These results align with (Syahputri et al., 2024; S. A. Al Zahro & Handayani, 2025), who stated that dividend policy can weaken the influence of institutional ownership on firm value, particularly in firms facing limited growth opportunities. Conversely, these findings differ from Ningsih (2021), who found that dividend policy strengthens the

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relationship. This difference shows that the role of dividend policy as a moderating variable is highly dependent on the company's context, ownership structure, and growth strategies implemented.

Overall, these findings indicate that dividend policy does not always reinforce the role of institutional ownership in increasing firm value. Under certain conditions, particularly when dividends are paid in high proportions, dividend policy can weaken the effectiveness of institutional investors' monitoring function in creating firm value.

4. CONCLUSSION

The results of this study demonstrate that institutional ownership does not have a direct and significant effect on firm value in non-cyclical consumer sector companies listed on the IDX during the 2022–2024 period. This finding suggests that the presence of institutional investors alone is not sufficient to directly enhance market valuation, as its impact may depend on other internal corporate mechanisms and managerial policies.

In addition, dividend policy is found to have a negative moderating effect on the relationship between institutional ownership and firm value. This indicates that higher dividend payouts tend to weaken the potential role of institutional ownership in improving firm value. One possible explanation is that excessive dividend distribution may reduce retained earnings that could otherwise be used to support long-term growth and investment activities, thereby limiting the effectiveness of institutional monitoring in creating added value.

Overall, these findings imply that the effectiveness of institutional ownership in influencing firm value is strongly shaped by internal financial decisions, particularly dividend policy. When dividend policies are not aligned with long-term corporate strategies, the governance benefits of institutional ownership may not be fully realized. Therefore, this study highlights the importance of balancing dividend distribution with sustainable growth objectives, while also strengthening the active monitoring role of institutional investors to ensure better corporate governance outcomes.

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