



## When Dividends Speak: Corporate Strategy or Market Signal?

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### ABSTRACT

This study focuses on analyzing whether dividend policy acts as an intervening variable in the relationship between investment opportunities, leverage, and foreign ownership and the market reaction in Indonesia's energy and basic materials sectors. The analysis employs multiple linear regression with a mediation model on 133 firm-year observations from 2017 to 2023, using EViews 13 software. Classical assumption tests and the Sobel test are applied to validate the mediation effect of dividend policy. The empirical evidence suggests that investment opportunities have a significant negative association with dividend policy, and foreign ownership exerts a significant positive effect, whereas leverage demonstrates no statistically significant impact. Dividend policy exhibits a positive and significant influence on market reaction, providing empirical support for the signaling theory. Moreover, dividend policy significantly mediates the effects of investment opportunities and foreign ownership on market reaction, but not leverage, underscoring the nuanced role of dividends in shaping investor perception. These results imply that firms with high growth prospects should strategically manage dividend payouts to avoid negative market responses, while foreign ownership can enhance dividend policy as a monitoring mechanism. Practically, this research yields practical insights for both corporate decision-makers and investors in emerging markets to better align dividend strategies with market expectations. This research offers novelty by incorporating foreign ownership as a bridge that mediates the link between dividend policy and market reaction in energy and basic material sectors within a dynamic emerging market context.

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## 1. INTRODUCTION

Dividend policy is a fundamental topic within the realm of accounting, particularly in the domain of applied accounting research that focuses on corporate financial decision-making and market-based outcomes. As firms strive to optimize their capital structure while maintaining shareholder satisfaction, dividend decisions often reflect deeper strategic considerations (Baker et al., 2020; Dixit et al., 2020). In emerging markets like Indonesia, such decisions become even more nuanced due to varying economic conditions, sector-specific dynamics, and investor expectations (Hartono et al., 2021; Wahjudi, 2020). The relevance of dividend policy is heightened in sectors like energy and basic materials, which are exposed to external shocks and cyclical trends (Filho et al., 2023; Matondang et al., 2024; Sinha et al., 2022). Despite the growing body of literature on dividend policy, empirical exploration in these sectors within the Indonesian context remains scarce, particularly in how dividend policy acts as a signal influencing market behavior (Amal, 2023; Hartono and Raya, 2022; Tyas and Bandi, 2021).

From a theoretical standpoint, this study is grounded in the corporate life cycle theory, agency theory, and signaling theory. Firms characterized by high investment opportunities—often in their growth stage—tend to retain earnings to fund expansion, thereby reducing dividend payouts, whereas more mature firms with limited investment prospects are generally more likely to distribute dividends (Dixit et al., 2020; Louziri and Oubal, 2022). Meanwhile, leverage introduces an agency conflict between shareholders and creditors; higher debt levels often lead to reduced dividend payments as firms prioritize financial obligations (Akpataka et al., 2024; Nguyen et al., 2021). Moreover, foreign ownership introduces another layer of complexity. According to signaling theory, foreign investors might influence dividend policies differently depending on their expectations for transparency, governance, or market returns—though prior findings on this relationship remain inconclusive (Bataineh, 2021; Boshnak, 2023; Hasan et al., 2023).

However, previous studies have predominantly centered on common industries and overlooked sectoral heterogeneity. Research on dividend policy has been extensively conducted across various countries—such as Vietnam (Linh et al., 2024; Nguyen et al., 2021; Tran, 2021), the United States (Kanojia and Bhatia, 2022), Morocco (Louziri and Oubal, 2022), the United Kingdom (Tekin and Polat, 2021), Sri Lanka (Baker et al., 2020), India (Dixit et al., 2020), Tanzania (Chindengwiwe, 2024), and Nigeria (Akpataka et al., 2024)—or across industries like manufacturing and finance in Indonesia (Hartono et al., 2021; Wahjudi, 2020; Widodo et al., 2021). Nevertheless, energy and basic materials remain underexplored in Indonesia, despite their economic significance and sensitivity to global commodity fluctuations (Filho et al., 2023; Matondang et al., 2024). Furthermore, while dividend determinants such as investment opportunities and leverage have been widely examined, the role of foreign ownership remains limited and empirically ambiguous. The added exploration of market reaction to dividend announcements introduces another dimension rarely integrated into prior Indonesian studies, especially within these sectors.

This study addresses several research gaps and offers distinct contributions. First, it integrates foreign ownership as a variable influencing dividend policy, building on the call for broader ownership structure analysis (Tayachi et al., 2023). Second, it highlights sector-specific dividend dynamics in energy and basic materials, in response to Hartono et al.'s (2021) recommendation for sectoral diversification. Third, it models dividend policy not only as an outcome but also as a bridging mechanism between internal corporate factors and external market responses. This dual role of dividend policy enhances the explanatory power of the model in capturing investor behavior within fluctuating economic settings (Hartono and Raya, 2022; Prakash and Yogesh, 2021).

In line with these motivations, this study is conducted to assess the intermediary function of dividend policy in linking investment opportunities, leverage, and foreign ownership to market reactions within the Indonesian energy and basic materials sectors. The findings make an important contribution to empirical accounting research through expanding the theoretical and empirical understanding of how firm-specific financial factors interact with dividend signaling and investor response. The findings are expected to offer practical insights for corporate decision-makers, investors, and policymakers in evaluating financial strategies under sectoral and macroeconomic uncertainty.

## 2. METHODS

This study adopts a quantitative empirical approach, in line with applied accounting research focused on capital market responses and corporate financial decisions. The selection of this method is based on its suitability to examine causal relationships among financial variables and investor behavior through statistical modeling. Similar approaches have been employed in previous accounting studies that analyzed dividend policy and market reaction, such as [Hartono et al. \(2024\)](#) and [Hartono and Raya \(2022\)](#), demonstrating its relevance for explaining investor response using secondary data and econometric tools.

The analysis is conducted on companies registered on the Indonesia Stock Exchange throughout the energy and basic materials sectors during 2017–2023. These sectors were selected due to their sensitivity to global commodity prices and macroeconomic fluctuations, which make dividend policy decisions particularly strategic. A purposive sampling method is applied, guided by specific inclusion parameters outlined below:

**Table 1.** Sample selection criteria

| Description   | Total |
|---|-------|
| Energy and basic materials sector companies listed on IDX                                   | 201   |
| Not listed on IDX since 2017  | (73)  |
| Did not distribute dividends consecutively for the fiscal years 2017-2023                   | (102) |
| Lacked data related to the proxies used in the study  | (7)   |
| The final research sample consists of data collected over a total of 7 years of observation | 133   |

Source: Indonesia Stock Exchange (2025)

The research relies on secondary sources, including company annual reports, official websites, and IDX-issued publications. The analysis focuses on five key variables, consisting of one dependent variable (market reaction), three independent variables (investment opportunity, leverage, and foreign ownership), and one mediating variable (dividend policy).

To capture market reaction, the study utilizes the Cumulative Abnormal Return (CAR) approach over a [-5, +5] day event window surrounding dividend announcements, capturing investors' short-term responses to corporate signals ([Hariyanto and Murhadi, 2021](#); [Hartono and Raya, 2022](#)). Dividend yield is used as an indicator of dividend policy, which reflects shareholder income relative to market price and serves as an indicator of firm stability ([Louziri and Oubal, 2022](#); [Nguyen et al., 2021](#)). Investment opportunity is assessed through the Price-to-Book Value (PBV) metric, representing market expectations for future growth ([Hartono et al., 2021](#); [Kanojia and Bhatia, 2022](#)). Leverage is assessed through the Debt to Asset Ratio (DAR), a stable measure of financial risk and capital structure ([Akpataka et al., 2024](#); [Linh et al., 2024](#); [Lotto, 2020](#)). Lastly, the proportion of equity held by foreign investors is used to represent foreign ownership, acknowledging their

potential role in influencing corporate financial decisions (Leliana and Yenni, 2023; Moin et al., 2020; Soda et al., 2023; Tarmidi et al., 2023).

The analysis uses multiple linear regression with mediation, processed through EViews 13. Classical assumption tests—normality and multicollinearity—are conducted prior to model estimation. Model selection is based on comparison among common effect, fixed effect, and random effect models using Chow, Hausman, and Lagrange Multiplier tests (Basuki and Yuliadi, 2014). The selected model must be supported by at least two of the three tests.

A t-test at a 5% significance level is used to assess the partial effect of each independent variable, and the Sobel test is conducted to verify the mediation effect of dividend policy. The coefficient of determination for mediation is assessed using the approach of Cao et al. (2023) to ensure validity and precision in measuring indirect effects.

### 3. RESULTS AND DISCUSSION

Accurate regression modeling requires research data to meet classical assumptions. In this panel data analysis, normality and multicollinearity tests were conducted to ensure the model's feasibility. The initial test results indicated that the model did not meet the normality assumption. Therefore, all variables were transformed into their natural logarithm form. After transformation, retesting showed that the model fulfilled the normality assumption and did not experience multicollinearity issues, as evidenced by the correlation coefficients between variables not exceeding the 0.85 threshold.

**Table 2.** Normality test

| Condition             | Probability Value (Jarque-Bera Test) | Interpretation           |
|-----------------------|--------------------------------------|--------------------------|
| Before Transformation | 0.000000                             | Not normally distributed |
| After Transformation  | 0.099767                             | Normally distributed     |

Source: Processed data using EViews 13

**Table 3.** Multicollinearity test

| Variable | DY        | PBR       | DAR       | FOR      |
|----------|-----------|-----------|-----------|----------|
| DY       | 1.000000  |           |           |          |
| PBR      | -0.055268 | 1.000000  |           |          |
| DAR      | -0.270248 | -0.100709 | 1.000000  |          |
| FOR      | 0.085986  | 0.443608  | -0.176917 | 1.000000 |

Source: Processed data using EViews 13

Next, the selection of the best regression model was performed through model estimation tests. The test results indicated that for the first regression equation, which examines the relationship between independent and mediating variables, the fixed effect model is identified as the most suitable estimation approach. For the linkage between the mediating and dependent variables, the Common Effect Model is determined to be the best-fitting model based on the model selection criteria.

**Table 4.** Model estimation test

| Regression Equation     | Chow (p-value) | Hausman (p-value) | Lagrange Multiplier (p-value) | Best Model    |
|-------------------------|----------------|-------------------|-------------------------------|---------------|
| Independent → Mediating | 0.0000         | 0.0282            | 0.0000                        | Fixed Effect  |
| Mediating → Dependent   | 0.4529         | 0.8752            | 0.9211                        | Common Effect |

Source: Processed data using EViews 13

**Table 5.** Regression results from eviews and sobel test

| Variable      | t-Statistic | Prob.  | Effect               |
|---------------|-------------|--------|----------------------|
| PBR → DY      | -3.916847   | 0.0002 | Significant negative |
| DAR → DY      | 0.427705    | 0.6697 | Not significant      |
| FOR → DY      | 3.694195    | 0.0003 | Significant positive |
| DY → MR       | 0.011122    | 0.0330 | Significant positive |
| PBR → DY → MR | -2.055057   | 0.0399 | Significant negative |
| DAR → DY → MR | 0.421146    | 0.6736 | Not significant      |
| FOR → DY → MR | 2.020810    | 0.0433 | Significant positive |

Source: Processed data using EViews 13

### 3.1. Effect of Investment Opportunities on Dividend Policy

The empirical results demonstrate a statistically significant negative relationship between investment opportunities and dividend policy, with a t-statistic of -3.916847 and a p-value of 0.0002. This indicates that firms possessing higher investment opportunities are less likely to engage in dividend distribution. This outcome is in line with the life cycle theory, which asserts that firms in their growth phase typically retain earnings to support internally financed investment projects with high return potential, while firms in the maturity stage—facing limited growth prospects—are more inclined to return excess cash to shareholders through dividends (Dixit et al., 2020; Louziri and Oubal, 2022).

From a theoretical standpoint, investment opportunities reflect a firm's potential to generate future profits through strategic asset allocation. According to the life cycle theory, firms in their growth stage tend to retain earnings to finance expansion, while mature firms with limited growth prospects are more inclined to distribute dividends (Dixit et al., 2020; Louziri and Oubal, 2022). This perspective is reinforced by Hartono et al. (2021), who observe that companies often reduce dividend rates when internal funding can support profitable projects and enhance investment capacity. Empirical evidence also supports this theoretical view, as Baker et al. (2020) and Tekin and Polat (2021) report that firms with greater investment opportunities tend to pay lower dividends. Similarly, Ben-Nasr and Ghouma (2022) highlight that Shariah-compliant firms, which generally face more limited investment avenues, display different payout behaviors depending on the availability of growth opportunities. Collectively, these findings confirm a close relationship between dividend policy, strategic investment decisions, and the firm's life cycle position.

### 3.2. Effect of Leverage on Dividend Policy

The analysis reveals that leverage has no meaningful statistical impact on dividend policy, supported by a t-statistic of 0.427705 and a p-value of 0.6697. This result suggests that variations in a firm's debt levels do not necessarily translate into consistent changes in dividend payout behavior. While traditional financial theories often indicate an inverse relationship between leverage and dividend due to increased financial constraints, the lack of significance found in this study implies that alternative determinants may exert a greater influence on corporate dividend policy decisions.

This finding aligns with Louziri and Oubal (2022), who argue that leverage is not the primary determinant of dividend policy, as payout decisions are more strongly influenced by internal factors such as profitability, firm maturity, and managerial signaling motives. The signaling theory supports this view, suggesting that firms may maintain dividend payments even under high leverage conditions to convey positive information about future performance (Mauris and Rizal, 2021). Despite a heavily leveraged capital structure, such cases strategically use dividend payments to

reinforce investor confidence. Agency theory also provides a relevant explanation, as Widodo et al. (2021) note that dividend distribution can serve to reduce agency conflicts and demonstrate managerial accountability, particularly when ownership and control are separated. Empirical evidence from Mauris and Rizal (2021) shows that both high- and low-leverage firms continue to distribute dividends, indicating that payout decisions may be driven by strategic considerations rather than solely by financial constraints. Saputra et al. (2024) further conclude that while leverage has a direct positive effect on dividend policy, the effect is statistically insignificant, leading to the rejection of the hypothesis that leverage influences dividends. This view is consistent with Benyadi and Andrianantenaina (2020), who explain that even when a company is able to repay its long-term debt, it may still decide not to pay dividends in that year because it prioritizes using current assets or profits to settle short-term debt obligations.

However, this finding differs from several previous studies that documented a noteworthy negative correlation between a firm's leverage level and its dividend distribution strategy. For example, Wahjudi (2020) argues that higher leverage reduces net profits available for dividend distribution, causing firms to retain earnings rather than pay dividends. Linh et al. (2024) and Nguyen et al. (2021) also conclude that firms under greater financial pressure prioritize debt repayment over shareholder returns, which implies an inverse and significant relationship between leverage and dividends. Moreover, Tekin and Polat (2021) and Tran (2021) highlight that lower-leveraged firms are inclined to provide more substantial dividend payouts, as they face fewer constraints in accessing external capital and are under less pressure from creditors. In contrast, the present study's findings reveal that a similar trend does not universally apply, at least within the context of the sample and sector observed.

### 3.3. Effect of Foreign Ownership on Dividend Policy

A t-statistic of 3.694195 and a p-value of 0.0003 indicate a positive and statistically significant relationship between foreign ownership and dividend policy. This finding implies that firms with higher levels of foreign ownership are more inclined to distribute greater dividends. The finding aligns with the agency theory and the outcome hypothesis, which propose that foreign investors—being external and independent from management—encourage greater dividend distributions as a means of reducing agency conflicts, particularly when direct monitoring is limited (Choi and Park, 2019; Farooq et al., 2024).

Foreign investors often face information asymmetry and geographic distance, which limit their ability to effectively oversee management activities. As a response, management may use dividend distributions as a commitment mechanism to assure investors of the firm's performance and reduce managerial discretion over free cash flows (Boshnak, 2023; Farooq et al., 2024). In this context, higher dividends act as a substitute for direct control, providing reassurance to foreign investors about the credibility and governance of the firm.

This finding also supports the view that in markets with weak investor protection or low transparency, foreign shareholders tend to exert pressure on firms to distribute more dividends as a safeguard against potential expropriation by insiders. Boshnak (2023) highlights that a higher proportion of institutional and foreign shareholders is linked to increased dividend payouts, especially when managerial oversight is limited. Similarly, Choi and Park (2019) provide empirical evidence that firms characterized by foreign shareholder presence exhibit greater dividend payouts relative to firms with only domestic shareholders.

However, this result contrasts with several other studies that report either no significant effect or a negative association. For example, Moin et al. (2020) finds that foreign investors in IDX-listed firms may accept lower dividends, possibly due to their long-term investment horizon or belief that their risks are mitigated through other monitoring mechanisms. Likewise, Hasan et al. (2023) and

Soda et al. (2023) suggest that foreign ownership does not significantly influence dividend payouts, particularly in firms where alternative governance tools are already in place.

### 3.4. Effect of Dividend Policy on Market Reaction

Empirical evidence from this research demonstrates a statistically significant positive association between dividend policy and investors' market response, as reflected by a t-statistic of 0.011122 and a p-value of 0.0330. This suggests that firms with stronger dividend policies—measured through indicators such as dividend yield or payout—tend to elicit more favorable reactions from the capital market. The result supports the signaling theory by indicating that dividend declarations communicate essential information about a company's future performance and financial stability, thereby influencing investor behavior (Amal, 2023; Prakash and Yogesh, 2021).

Dividend announcements are often perceived as signals of executive confidence in the company's long-term earnings capacity and financial resilience. Consequently, investors interpret dividend increases or consistent payouts as positive news, prompting an increase in stock demand and price appreciation (Al-Najjar and Kilincarslan, 2019; Ozo and Arun, 2019). This market behavior is particularly evident during periods of heightened uncertainty. For instance, Prakash and Yogesh (2021) finds that dividend announcements during periods of policy uncertainty or economic instability leads to significantly positive market responses, highlighting the value placed by investors on stable dividend signals.

The present study's results are also aligned with Berezinets et al. (2019), who confirms that the Indian stock market reacts positively to dividend increases, supporting the predictive power of dividend signaling theory. Similarly, Hartono and Raya (2022) and Tinungki et al. (2022) report that dividend announcements during the COVID-19 pandemic led to observable positive cumulative abnormal returns, although sometimes with delayed effects. These results reinforce the interpretation of dividends as a credible communication channel used by firms to mitigate uncertainty and reinforce investor confidence.

Moreover, the findings are consistent with Zainudin et al. (2018), who notes that greater dividend distributions are linked to reduced fluctuations in stock prices. This implies that the market perceives dividends not only as a financial reward but also as an indicator of operational consistency and earnings quality. Kang et al. (2019) further notes that dividend yield positively influences stock returns, particularly in firms that have yet to establish a dividend reputation, suggesting that dividend signals carry incremental informational value in such contexts.

### 3.5. Effect of Investment Opportunities on Market Reaction Mediated by Dividend Policy

The empirical findings demonstrate a statistically significant negative mediating effect of dividend policy on the relationship between investment opportunities and market reaction, with a t-statistic of -2.055057 and a p-value of 0.0399. This suggests that firms with higher investment opportunities tend to reduce dividend payouts, which in turn leads to a less favorable reaction from the capital market.

This result aligns with the life cycle theory, which posits that growth-stage firms prefer to retain earnings to fund future expansion rather than distribute dividends to shareholders (Dixit et al., 2020; Louziri and Oubal, 2022). When firms prioritize reinvestment over dividend distribution, it may reflect sound managerial strategy. However, from the market's perspective, a decline in dividends may be interpreted as a signal of uncertainty or reduced shareholder orientation, particularly in the absence of clear strategic communication (Hartono et al., 2021).

According to the signaling theory, function as reliable signals of a company's financial stability and managerial confidence (Amal, 2023; Prakash and Yogesh, 2021). Consequently, reduced dividend payouts—although potentially justified by investment needs—may be perceived

negatively by investors who interpret dividends as a reflection of sustainable earnings and stability. Al-Najjar and Kilincarslan (2019) and Ozo and Arun (2019) further confirm that dividend reductions often trigger unfavorable market responses, especially under conditions of information asymmetry.

The outcomes of the analysis point to the significant influence of dividend policy as a transmission mechanism between strategic investment decisions and investor sentiment. While investment opportunities require internal financing that may necessitate dividend cuts, such actions could backfire in capital markets if not managed alongside effective signaling. As such, firms must balance growth-oriented financial strategies with the market's expectations for consistent and transparent dividend behavior to mitigate adverse investor reactions.

### 3.6. Effect of Leverage on Market Reaction Mediated by Dividend Policy

The findings of this study indicate that dividend policy does not significantly mediate the relationship between leverage and market reaction, as evidenced by a t-statistic of 0.421146 and a p-value of 0.6736. This result implies that changes in a firm's leverage level do not exert an indirect influence on investor response through dividend distribution. While leverage is often assumed to restrict dividend payouts due to increased debt servicing obligations, this study suggests that such financial constraints do not consistently shape capital market reactions.

This result aligns with previous empirical evidence showing an inconsistent or insignificant relationship between leverage and dividend decisions. Louziri and Oubal (2022) argue that leverage is not the primary determinant of dividend policy, as firms often prioritize profitability, firm maturity, and signaling motives. Similarly, Mauris and Rizal (2021) finds that both highly leveraged and less-leveraged firms may choose to distribute dividends based on strategic communication with the market rather than financing constraints. Widodo et al. (2021) further supports this view by highlighting the role of dividends as a mechanism to manage agency conflicts, suggesting that even indebted firms may pay dividends to reduce tensions between managers, shareholders, and creditors.

From a signaling perspective, dividend announcements are often used to communicate financial stability and future earnings prospects Prakash and Yogesh (2021). However, if dividend policy is maintained independently of leverage levels, then leverage may not function as a key antecedent to market-perceived signals. This aligns with the empirical evidence reported by Hou et al. (2025), who show that the capital market tends to respond more strongly to dividend changes when they reflect managerial ability and firm performance, rather than internal capital structure indicators such as leverage.

Furthermore, this study reaffirms the significant direct effect of dividend policy on market reaction, which has been extensively supported in literature (Amal, 2023; Zainudin et al., 2018). However, the absence of a significant mediating effect from leverage implies that leverage is not a meaningful channel through which dividend policy shapes investor sentiment. It is possible that dividend decisions in some firms are decoupled from their capital structure and are driven instead by reputational considerations or efforts to maintain market discipline (Hartono and Raya, 2022).

### 3.7. Effect of Foreign Ownership on Market Reaction Mediated by Dividend Policy

This study reveals that dividend policy significantly and positively mediates the relationship between foreign ownership and market reaction, as reflected by a t-statistic of 2.020810 and a p-value of 0.0433. The results indicate that firms with greater foreign equity participation are more likely to implement robust dividend policies, which in turn elicit more favorable reactions from investors in the capital market.

The results support the agency theory and the outcome hypothesis, which argue that foreign shareholders—due to their geographical distance and limited access to internal corporate information—rely more heavily on the distribution of dividends acts as a disciplinary measure to reduce agency problems and monitor managerial behavior (Choi and Park, 2019; Farooq et al., 2024). By distributing higher dividends, firms signal commitment to transparency and governance, thereby enhancing investor confidence. This signaling effect appears to be well-received by the market, which perceives dividend payments as credible indicators of firm stability and earnings quality (Amal, 2023; Prakash and Yogesh, 2021).

Moreover, this finding aligns with the assertion that in emerging markets with relatively weaker investor protection, foreign investors often demand higher dividends to safeguard their investments from potential expropriation by insiders (Boshnak, 2023). Dividend payments thus function as a substitute for direct oversight and serve as an assurance mechanism, particularly in firms where managerial control is concentrated and external monitoring is weak. The positive market reaction to such dividends further reinforces their role as a strategic tool to manage investor perceptions and reduce uncertainty (Hartono and Raya, 2022; Zainudin et al., 2018).

In sectors where transparency and governance gaps exist, dividend policy becomes a crucial channel through which foreign ownership indirectly influences capital market behaviour. The mediating role observed here confirms that dividend payments are not merely financial decisions but also serve a communicative function in aligning the interests of foreign shareholders with corporate management. Firms with higher foreign ownership stakes may benefit from maintaining consistent dividend payouts to enhance investor trust, reduce informational asymmetries, and attract long-term capital.

### 3.8. Coefficient of Determination

**Table 6.** Coefficient of determination

| Pathway   | R-squared (Adjusted / Corrected) |
|---|----------------------------------|
| Independent Variables → Mediating Variable (Dividend Policy)                              | 0.733058                         |
| Mediating Variable (Dividend Policy) → Dependent Variable (Market Reaction)               | 0.035283                         |
| Independent Variables → Dependent Variable (Market Reaction), mediated by Dividend Policy | 0.792223                         |

Source: EViews 13 and calculations using the Cao (2023) approach

The coefficient of determination results provides valuable insight into the explanatory power of the tested regression models. The adjusted R-squared value of 0.733058 for the relationship between the independent variables (investment opportunities, leverage, and foreign ownership) and the mediating variable (dividend policy) indicates that approximately 73.3% of the variability in dividend policy is accounted for by these three predictors. This high proportion underscores the critical role of firm-level financial and ownership structures in shaping dividend decisions. As previously discussed, foreign ownership significantly and positively influences dividend policy,

consistent with agency theory and outcome hypotheses (Choi and Park, 2019; Farooq et al., 2024), while investment opportunities show a significant negative effect supporting the propositions of the firm life cycle framework (Dixit et al., 2020; Louziri and Oubal, 2022). Leverage, however, was found to be statistically insignificant, suggesting that its influence on dividend policy may be moderated by other factors.

In contrast, the adjusted R-squared of 0.035283 for the regression of dividend policy on market reaction reveals that dividend policy alone explains only 3.5% of the variation in market reaction. This modest explanatory power suggests that while dividend announcements do signal information to the market—confirmed by the significant positive direct effect found in this study—their ability to independently drive investor response is limited. Market reaction is likely influenced by a broader array of variables, including firm performance, macroeconomic context, and investor sentiment, which are beyond the scope of dividend metrics alone.

Notably, when evaluating the overall explanatory power of the mediation model using the corrected R-squared from Cao et al. (2023), the value reaches 0.792223, indicating that approximately 79.2% of the fluctuations in market reaction are explained by the explanatory variables through the mediating effect of dividend policy. This result affirms the theoretical justification for modeling dividend policy functions as a mediating variable that transmits the effects of critical corporate governance and financial structure indicators to the capital market. The significant positive mediating effect of foreign ownership through dividend policy supports this interpretation, demonstrating that dividend payments serve as a credible communication mechanism in aligning firm actions with investor expectations.

#### 4. CONCLUSION

This study examines the mediating role of dividend policy in the relationship between investment opportunities, leverage, and foreign ownership on market reaction in Indonesia's energy and basic materials sectors. Empirical findings indicate that investment opportunities have a significant negative impact on dividend policy, while foreign ownership exerts a significant positive effect. Leverage, however, shows no significant influence. In line with signaling theory, dividend policy significantly and positively affects market reaction. Mediation analysis confirms that dividend policy mediates the effects of investment opportunities (negatively) and foreign ownership (positively) on market reaction, whereas no mediating effect is observed for leverage. These results highlight the strategic role of dividend policy in linking firm-level factors to investor responses.

This research contributes to the literature by introducing a robust mediation framework, supported by a high adjusted R-squared value (0.792223), indicating strong explanatory power. Unlike prior studies that often overlook indirect effects, this study provides a more nuanced understanding of dividend policy's intermediary role. Nonetheless, its sector-specific focus and reliance on secondary data limit the generalizability of the findings. Future studies are encouraged to incorporate moderating variables such as corporate governance or information disclosure, and to expand the sample across industries or time periods to capture broader market dynamics.

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