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THE EFFECT OF DIVIDEND POLICY AND LEVERAGE ON FIRM VALUE: THE MODERATING ROLE OF AUDIT QUALITY

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Abstract

This study analyzes the effects of dividend policy and leverage on firm value, with audit quality as a moderating variable. The sample includes manufacturing firms listed on the Indonesia Stock Exchange from 2015 to 2024. Using a quantitative panel data approach and the random effects model on 67 firm-year observations, the study employs multiple regression and moderation analyses to examine direct and interaction effects. Results show that both dividend policy and leverage positively and significantly affect firm value, highlighting the importance of financial signaling and optimal capital structure in emerging markets. Importantly, audit quality, proxied by Big Four auditor engagement, strengthens the positive link between dividend policy and firm value. This underscores the role of high-quality audits in enhancing financial signal credibility and reducing information asymmetry. However, audit quality does not significantly moderate the leverage-firm value relationship, indicating complexities in managing debt risk. This research advances prior literature by combining financial policies and audit quality in one framework within an underexplored emerging market. The findings offer practical guidance for managers and regulators to leverage audit quality as a strategic means to increase investor confidence and firm valuation in developing economies.

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INTRODUCTION

The assessment of firm value represents a central theme in corporate finance literature, reflecting management's effectiveness in maximizing shareholder wealth (Ammer & Pantamee, 2024). Within this framework, dividend policy and capital structure emerge as foundational elements, not only do they affect cash flow distribution and risk exposure, but they also serve as important signals to investors regarding firm prospects and the quality of corporate governance (Fathihani et al., 2023; Siladjaja et al., 2022). Transparent and stable dividend policies are widely recognized for their role in reducing information asymmetry between firms and the market, thereby supporting enhanced firm valuation (Bakri, 2021). Conversely, leverage can yield tax advantages and improve firm competitiveness, but excessive reliance on debt increases financial distress risk and can undermine firm value if not managed appropriately (Ammer & Pantamee, 2024).

Firm value represents the overall market perception of a company's future prospects, historical performance, and managerial capabilities in creating wealth for shareholders, substantially influencing investor assessments and resource allocation decisions. As a key indicator of shareholder financial welfare, firm value not only captures the ultimate outcomes of operational strategies and financial policies but also serves as a benchmark for a firm's success in optimizing resources and maximizing long-term returns (Meira & Dodik, 2024). Within the context of increasingly intense and dynamic business competition, enhancing firm value becomes a strategic imperative for firms aiming to maintain investor trust and strengthen their positions within capital markets (Hamidah & Ramdani, 2023). Various internal and external factors influence firm value, among which dividend policy and capital structure, particularly leverage, play central roles.

Dividend policy constitutes a fundamental financial management decision that reflects a company's strategic choice to either distribute profits to shareholders or retain them as internal funding to support future investment and growth. The theoretical perspective of signaling theory posits that dividend policy functions as a communication tool to bridge asymmetric information between management and investors: an increase in dividend payments is typically interpreted by the market as a positive signal indicating profitability prospects and financial stability. However, empirical findings regarding the influence of dividend policy on firm value are mixed, shaped by institutional contexts, firm attributes, and capital market maturity. International research, nonetheless, largely supports a positive effect of dividend policy on firm value, with this relationship often amplified by accounting standard harmonization, such as IFRS adoption, and supportive capital market regulations that elevate transparency and information comparability (Fathihani et al., 2023).

The role of leverage, the use of external debt financing, in shaping firm value warrants equal attention. Leverage potentially enhances shareholder returns by exploiting tax shields on debt interest and optimizing capital costs; however, it simultaneously increases financial risk and insolvency probabilities if leveraged excessively. Trade-off theory emphasizes the managerial challenge in balancing these opposing effects: firms must weigh the tax benefits of debt against bankruptcy and financial distress costs (Frank & Sanati, 2021). Determining the optimal capital structure thus becomes crucial for maximizing firm value while minimizing risks associated with excessive debt, including agency costs and financial instability.

Numerous studies corroborate the nuanced influence of leverage on firm value. Empirical evidence indicates that moderate leverage can positively impact firm valuation, provided firms maintain sound financial conditions and effective risk management (Ammer & Pantamee, 2024) Conversely, excessive leverage may erode firm value by escalating costs of financial distress and constraining managerial flexibility. Given these complexities, the contextual examination of leverage's impact in emerging markets like Indonesia is particularly valuable, as such markets experience ongoing evolution in regulatory frameworks and corporate governance practices.

Beyond these internal financial policies, external governance mechanisms such as audit quality hold pivotal roles in influencing firm value. High-quality audits enhance the credibility and reliability of financial statements, thereby reducing information asymmetry and reinforcing investor confidence in the company's disclosures. Acting as an external monitoring mechanism, audit quality can strengthen the relationship between financial policies, such as dividend distribution and leverage, and firm value by mitigating the potential for misleading information, earnings management, and opportunistic behavior. Prior research demonstrates that high audit quality reduces agency costs through improved transparency and accuracy in disclosures, which subsequently enhances the positive effects of dividend policy and leverage on firm valuation (Bakri, 2021). However, some empirical results reveal inconsistency and context sensitivity, with audit quality's moderating effect varying across different settings and occasionally reporting non-significant or negative interactions (Nuansa-ard et al., 2024).

Empirical investigations in emerging markets reinforce the significant positive association between dividend policy and firm value. Fathihani et al. (2023), examining Turkey's financial sector, and Bakri (2021), analyzing Malaysian public firms, consistently find evidence supporting this relationship. Bakri (2021) importantly draws attention to the moderating role of audit quality, the presence of high-quality audits mitigates information asymmetry, boosts investor confidence, and thereby fortifies the signaling effectiveness of dividend policies. Supporting this notion, Zahid et al. (2022) highlight the critical role of audit quality, particularly through engagement by Big Four auditors, in enhancing the credibility of both financial and nonfinancial disclosures, consequently shaping investor responses to dividend announcements. Nevertheless, research exploring audit quality's moderating influence on the leverage–firm value nexus remains scarce, especially within Indonesia's manufacturing sector and under its unique regulatory challenges (Siladjaja et al., 2022; Nuansa-Ard et al., 2024).

High-quality auditing serves as a crucial external governance mechanism, reinforcing investor trust through credible financial reporting and minimizing the risk of financial misrepresentation (Abraham et al., 2024; Abu Afifa et al., 2025). Thus, audit quality not only provides assurance on the fairness of financial statements but also amplifies the impact of financial signals, including dividends, on market perceptions of firm value (Bakri, 2021). Despite these advances, there is a noticeable lack of integrated empirical evidence examining the simultaneous roles of dividend policy, leverage, and audit quality as a moderating variable in Indonesia's capital markets, notably in the manufacturing sector, which holds both economic prominence and faces evolving regulatory oversight (Siladjaja et al., 2022; Santosa et al., 2023).

Addressing this research gap, the present study undertakes a comprehensive empirical analysis of the effects of dividend policy and leverage on firm value, explicitly incorporating audit quality as a moderating factor. Utilizing panel data from manufacturing firms listed on the Indonesia Stock Exchange over the 2015–2024 period, the empirical approach employs the Random Effect Model, as justified through preliminary diagnostic tests. This research aims to broaden theoretical discourse on financial policy and governance interactions while providing practical insights for corporate managers, investors, and policymakers. By emphasizing the interrelation between internal financial decisions and external audit quality, the study strives to contribute toward enhancing both market trust and sustainable firm value in emerging economies.

Dividend policy has long been recognized as a fundamental corporate finance decision with important implications for firm value, as it reflects not only the allocation of earnings but also serves as a critical communication mechanism between management and the capital market. Signaling theory posits that dividend distributions convey managerial confidence in the firm's future profitability and financial stability. Investors interpret increases in dividend payouts as credible signals of sustainable earnings capacity, which can enhance investor trust and firm valuation (Fathihani et al., 2023).

Empirical evidence supports this positive association, particularly in emerging markets where information asymmetry tends to be pronounced. Fathihani et al. (2023) document a statistically significant positive relationship between dividend policy and firm value among financial firms in Turkey, with this relationship amplified by the adoption of IFRS accounting standards, improving transparency and comparability. Similarly, Siladjaja et al. (2022), analyzing the Indonesian market, show that a disciplined dividend payout strategy, especially when paired with high earnings quality, diminishes opportunistic managerial behavior and enhances market confidence. Bakri (2021), in a study of Malaysian firms, further highlights audit quality as a crucial moderating factor that strengthens the signaling role of dividend policy by mitigating information asymmetry between managers and investors.

Despite the predominance of evidence indicating a positive dividend policy effect, some studies reveal mixed or context-dependent results. Sholikhah et al. (2023) argue that institutional environments, firm-specific attributes, and regulatory frameworks can attenuate or even reverse the impact of dividend distributions on firm value. In the Indonesian context, found a negative effect of dividend policy on firm value in the consumer goods sector, possibly reflecting investors' preference for reinvestment or liquidity constraints. Nonetheless, the overall theoretical and empirical consensus suggests that a sound dividend policy typically functions as a value-enhancing mechanism. Given this background, the first hypothesis is formulated as follows:

H₁: Dividend policy has a positive effect on firm value.

Leverage, as a critical component of capital structure, influences firm value by shifting the balance between tax benefits and the risks of financial distress (Maknun & Sasanti, 2025). Trade-off theory (Frank & Sanati, 2021) explains that debt financing creates value through tax shields but introduces potential costs such as bankruptcy risk, agency conflicts, and financial flexibility constraints. Managers therefore confront the challenge of determining optimal debt levels to maximize firm valuation.

Recent empirical studies across emerging economies provide evidence of the significant impact of leverage on firm value. Ammer & Pantamee (2024) find in Saudi Arabian manufacturing firms that leverage significantly affects firm value, with its effect being partly mediated by earnings management practices and moderated by governance quality. In Indonesia, Sholikhah et al. (2023) confirm that well-managed leverage optimizes firm value by balancing cost advantages and risk exposure.

However, the impact of leverage is often nuanced and context-dependent. Excessive debt jeopardizes firm value due to increased insolvency risk and reduced managerial discretion, particularly in firms with weak governance or volatile environments. Hence, controlled leverage strategies aligned with specific firm and market contexts serve as key determinants of firm valuation. In light of these considerations, the current study proposes:

H₂: Leverage has a positive effect on firm value.

Audit quality is increasingly recognized as a vital external governance mechanism that enhances the integrity of financial reporting and reduces information asymmetry between management and investors (Abraham et al., 2024). High-quality audits assure stakeholders regarding the fairness and accuracy of financial statements, thereby reinforcing confidence in reported financial policies such as dividend distribution and capital structure (Bakri, 2021).

Regarding dividend policy, audit quality can moderate and often strengthen the positive relationship with firm value. Bakri (2021) demonstrates that Malaysian firms audited by Big Four auditors experience greater investor trust in dividend signals, which reduces the adverse effects sometimes associated with dividend distributions. Similarly, Zadeh (2022) reports that in environments with high information asymmetry, superior audit quality significantly enhances the linkage between payout policy and firm valuation. Zahid *et al.* (2022) find that for European firms,

audit quality amplifies the credibility of both financial and nonfinancial disclosures, leading to stronger market responses to dividend announcements.

Audit quality's role is grounded in its capacity to independently verify earnings, ensuring dividends are distributed from real profits rather than earnings manipulation (Zahid et al., 2022). This assurance is particularly critical in emerging markets where effective external monitoring remains challenging, and managerial opportunism is more likely (Bakri, 2021; Siladjaja et al., 2022). Hence, this study hypothesizes:

H₃: Audit quality moderates the effect of dividend policy on firm value.

The moderating influence of audit quality on the leverage—firm value nexus has garnered growing interest but remains empirically mixed. Theoretically, audit quality enhances transparency regarding capital structure decisions and debt-related risks, promoting investor confidence and enabling a more accurate assessment of firm risk (Wayan & Gerianta, 2024). Superior audits can also mitigate earnings management attempts prevalent in highly leveraged firms, thus fostering more trustworthy disclosures and potentially strengthening the positive impact of leverage on firm value (Bakri, 2021).

Empirical investigations present diverse findings. Ammer and Pantamee (2024) find that audit quality affects firm value indirectly via earnings management in Saudi Arabian firms, either amplifying or diminishing leverage's impact depending on firm characteristics. Nuansa-Ard et al. (2024), studying firms with strong governance mechanisms, observe that audit quality and institutional ownership individually enhance firm value, yet the interactive effect between audit quality and leverage demonstrates inconsistent significance, suggesting market and firm-specific contingencies. Similarly, Soda et al. (2023) show that in emerging markets audit quality supports better monitoring of capital structure but the actual moderating effect differs according to institutional maturity.

In Indonesia's manufacturing sector, characterized by evolving regulations and legal enforcement, high-quality audit oversight plays a critical dual role: validating prudent leverage policies to protect creditworthiness and mitigating risks of earnings manipulation or financial distress (Siladjaja et al., 2022; Nuansa-Ard et al., 2024). Thus, analyzing audit quality's moderating effect on leverage and firm value is vital to understanding external governance efficacy in capital market development. Accordingly, the final hypothesis is stated:

H₄: Audit quality moderates the effect of leverage on firm value. Firm Size (Control Variable)

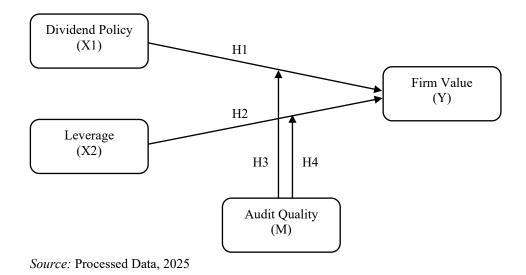


Figure 1. Research Model

RESEARCH METHODS

This study employs a quantitative research design with an associative explanatory approach to investigate the effects of dividend policy and leverage on firm value, while simultaneously examining the moderating role of audit quality. The choice of a quantitative methodology is justified by its capability for objective measurement and hypothesis testing via statistical analysis, thus enhancing the reliability, replicability, and generalizability of findings. The associative approach is particularly suitable as it facilitates the exploration of causal relationships and interaction effects between key variables such as dividend policy, leverage, audit quality, and firm value.

The research focuses on manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2015 to 2024. This sector was selected due to its substantial contribution to Indonesia's economic growth, employment, and capital market activity, alongside its characteristic high capital intensity and heterogeneous financial policies, especially regarding dividend payouts and leverage (Prihatini et al., 2023; Darwis et al., 2023). The manufacturing firms' diversity in financial strategy provides an ideal context for analyzing how dividend and capital structure decisions affect firm valuation. The study population encompasses all manufacturing companies continuously listed during the observation window to ensure consistency in panel data analysis.

Sample selection applied a purposive sampling technique, which entailed selecting firms based on specific inclusion criteria to maximize data relevance and accuracy. These criteria included (i) being consistently listed on the IDX from 2015 to 2024, (ii) availability of complete and audited annual financial reports across the period, (iii) payment of cash dividends to common shareholders, and (iv) verifiable disclosure of the external auditor's identity classified as either a Big Four or non-Big Four accounting firm. This rigorous selection guarantees that the sample firms possess comprehensive data on dividend policy, leverage, audit quality, and firm value, crucial for the empirical tests conducted.

The study relies exclusively on secondary data obtained from audited published financial statements, the IDX official database, and the Indonesian Capital Market Directory (ICMD). These sources provide quantitative data on dividends paid, total debt, market valuation metrics, and auditor classifications, ensuring both the validity and transparency of the dataset utilized (Fathihani et al., 2023; Ammer & Pantamee, 2024).

Operational definitions of the principal variables conform to internationally recognized standards, drawing on recent high-quality empirical studies. Dividend policy is measured using the Dividend Payout Ratio (DPR), defined as cash dividends divided by net income, a widely accepted proxy for dividend distribution intensity (Fathihani et al., 2023). Leverage is operationalized as the Debt to Equity Ratio (DER), calculated by dividing total debt by total equity, capturing the firm's reliance on external financing (Ammer & Pantamee, 2024; Nawawi, 2025). Firm value is proxied by Price to Book Value (PBV), the ratio of market price per share to book value per share, reflecting market perceptions relative to accounting equity (Daromes *et al.*, 2022; Nawawi, 2025). Audit quality is represented by a binary variable, coded 1 if audited by one of the Big Four accounting firms and 0 otherwise, acknowledging auditor reputation and presumed audit rigor (Bakri, 2021; Zahid et al., 2022). Firm size, included as a control variable due to its known influence on valuation and financial policies, is measured as the natural logarithm of total assets (Daromes et al., 2022).

The analytical framework employs multiple linear regression models supplemented by Moderated Regression Analysis (MRA) to simultaneously assess the direct effects of dividend policy and leverage on firm value and to detect audit quality's moderating influence on these relationships. The panel data structure, comprising firm-year observations, requires appropriate model selection to address unobserved heterogeneity and ensure efficient estimation. Following a sequence of diagnostic tests, including the Chow test for fixed versus pooled effect adequacy, the Hausman test to distinguish

fixed and random effects suitability, and the Lagrange Multiplier (LM) test for random effects relevance, the random effects model was selected as the most statistically robust and efficient estimator for this dataset (Baltagi, 2021).

Classical linear regression assumptions were rigorously evaluated prior to hypothesis testing to comply with Best Linear Unbiased Estimator (BLUE) conditions. Multicollinearity was checked using Variance Inflation Factor (VIF) metrics, ensuring no predictor variables were excessively correlated (Ghozali, 2021). Heteroscedasticity testing via the Glejser test confirmed homogeneity of residual variance, while the Durbin-Watson statistic was applied to detect potential autocorrelation issues across panel units and time periods.

Hypothesis evaluation involved testing the individual predictor significance through t-statistics and the overall model significance via F-tests. The coefficient of determination (R^2) quantified the model's explanatory power. Crucially, moderation by audit quality was investigated through interaction terms, constructed by multiplying audit quality with dividend policy and leverage variables. Statistically significant coefficients on these interaction terms (p < 0.05) would demonstrate the presence of moderation, indicating that audit quality materially influences the strength or direction of dividend policy and leverage effects on firm value. The empirical modeling equation applied is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + \beta_4 (X_1 \times Z) + \beta_5 (X_2 \times Z) + \beta_6 Size + \epsilon. \tag{1}$$

Where Y represents firm value, X_1 denotes dividend policy, and X_2 corresponds to leverage. The variable Z indicates audit quality, while the terms $X_1 \times Z$ and $X_2 \times Z$ capture the interaction effects between dividend policy and audit quality, as well as leverage and audit quality, respectively, which are included to test the moderating role of audit quality. The constant term is represented by α , with β_1 through β_5 representing the regression coefficients associated with each variable. Firm size is included as a control variable, denoted as Size, and ϵ stands for the error term or residual capturing unexplained variation in the model.

All analyses were executed using EViews version 12, a software well-suited for handling complex panel datasets and conducting moderation analyses, ensuring precision and robustness in hypothesis testing and inference (Baltagi, 2021).

RESULTS AND DISCUSSION

The descriptive statistics, presented in Table 1, illustrate the data distribution and variability across all variables included in this study. The dataset comprises 67 observations covering manufacturing firms listed on the Indonesia Stock Exchange during 2015–2024. Firm value (Y), measured as the natural logarithm of the price-to-book value ratio, has a mean of -0,125 and a moderate standard deviation of 0,827, with a range spanning from -1,349 to 2,164. This indicates a reasonable dispersion of firm value across firms and over time, reflective of varying market perceptions and financial performance, consistent with findings from Siladjaja et al. (2022) and (Fathihani et al., 2023) that highlight heterogeneity in firm valuation in emerging markets.

Dividend policy (X₁), proxied by the logarithm of the dividend payout ratio, displays a negative average of -0,322 but with considerable variance (standard deviation 0,872), revealing divergent dividend strategies within the sample. Leverage (X₂), represented by the logged debt-to-equity ratio, shows a positive mean of 0,627 with wider dispersion, suggesting varying capital structures among the firms. Audit quality (Z), represented as a binary indicator of Big Four auditor presence, has a mean of 0,657, indicating nearly two-thirds of the observations relate to firms audited by Big Four firms, a proportion aligned with studies by Bakri (2021) and Zahid et al. (2022), emphasizing the prevalence of high-quality audits in emerging markets. Interaction terms between dividend policy and

audit quality (X_1Z) and leverage and audit quality (X_2Z) demonstrate substantial variation, supporting the exploration of moderating effects in regression analysis. Firm size (Size), measured as the natural logarithm of total assets, ranges from 5,92 to 9,20, capturing a broad cross-section of firm scales.

Table 1.
Descriptive Statistics

Variabel	Mean	Std. Dev	Min	Max	Observ.
Firm Value (Y)	-0,125	0,827	-1,349	2,164	67
Dividend Policy (X ₁)	-0,322	0,872	-2,128	2,927	67
Leverage (X_2)	0,627	0,757	0,003	5,690	67
Audit Quality (Z)	0,657	0,478	0	1	67
Dividend Policy \times Audit Quality (X_1Z)	2,336	2,321	0	8,900	67
Leverage \times Audit Quality (X_2Z)	1,023	1,663	0	9,478	67
Firm Size (Size)	7,432	0,823	5,920	9,200	67

Source: Processed Data, 2025

Model selection diagnostics, summarized in Table 2, reflect that the random effects model is most appropriate for the panel data analysis. The Chow test, with p = 0.899, indicates no advantage for the fixed effects model over the pooled model. The Hausman test corroborates this by showing no significant relationship between individual effects and regressors (p = 0.581), favoring the random effects model for unbiased estimates. Importantly, the Lagrange Multiplier test decisively rejects the pooled model (p = 0.000), indicating that accounting for unobserved heterogeneity improves estimation accuracy. These results conform with (Baltagi, 2021), reinforcing that the REM suitably captures firm and time-specific noise in this panel context.

Model diagnostics in Table 3 provide assurance regarding the quality of regression estimates and inferences. The Variance Inflation Factor (VIF) for all variables is below the critical threshold of 10, confirming that multicollinearity does not distort coefficients. Audit quality exhibits the highest VIF around 2,96, a typical consequence of its interaction terms, but remains within acceptable limits (Ghozali, 2021). Tests for heteroscedasticity show no evidence of non-constant error variance with p-values exceeding 0,75 (Glejser test). Furthermore, the Durbin-Watson test result of 1,59 indicates no serious autocorrelation issues, supporting the robustness of standard errors under the panel structure.

Table 2.
Panel Model Selection Tests

Test	p-value	Selected Model
Chow Test	0,899	Common Effect Model
Hausman Test	0,581	Random Effect Model
LM Test	0,000	Random Effect Model

Source: Processed Data, 2025

Table 3.
Multicollinearity, Heteroscedasticity, and Autocorrelation Tests

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
X1	0,002	1,020	1,020
X2	0,000	1,670	1,435
Z	0,010	2,963	1,335
Size	0,000	2,106	1,341
Test Type	Statistic		p-value
Glejser Heteroscedasticity	0,754		>0,05
Durbin-Watson Statistic	1,588		

Source: Processed Data, 2025

The regression outputs, consolidated in Table 4, confirm several key results. The model explains 4,36 percent of the variation in firm value ($R^2 = 0.043$), a modest but statistically significant explanatory power (F = 3.81, p = 0.002), suggesting that dividend policy, leverage, audit quality, and firm size contribute systematically to firm valuation within Indonesia's manufacturing sector.

Dividend policy exhibits a positive and statistically significant coefficient ($\beta = 0.119$, p = 0.008), confirming the hypothesized beneficial impact on firm value in line with signaling theory empirical findings in emerging markets (Bakri, 2021; Fathihani et al., 2023). Leverage similarly shows a positive and significant association ($\beta = 0.056$, p = 0.006), reflecting the tax shield advantages and capital structure optimization consistent with trade-off theory (Ammer & Pantamee, 2024).

The interaction term between dividend policy and audit quality (X_1Z) is positive and significant $(\beta=0.003,\ p=0.030)$, demonstrating that high-quality audits amplify the positive influence of dividends on firm valuation. This finding underscores the critical role of audit quality as an external governance mechanism that enhances market confidence in dividend signals (Bakri, 2021; Zahid et al., 2022). Conversely, the interaction between leverage and audit quality (X_2Z) is negative but statistically insignificant $(\beta=-0.002,\ p=0.144)$, suggesting no discernible moderating effect of audit quality on the leverage-firm value relationship in this sample, echoing the mixed results reported internationally (Nuansa-Ard et al., 2024).

Firm size, included as a control variable, displays a positive yet statistically insignificant coefficient (β = 0,012, p = 0,215), indicating a limited direct effect on market valuation controlling for other factors, consistent with prior empirical observations that size exerts indirect influences.

Coefficient Std. Error p-value Variable t-Statistic Dividend Policy (X1) 0,119 0,045 2,636 0,008 Leverage (X2) 0,056 0,020 2,743 0,006 Dividend Policy*Audit Quality (X1Z)0.003 0.001 2,167 0.030 Leverage*Audit Quality (X2Z) -0,0020,002 -1,4620,144 0,012 Firm Size (Size) 0,009 1,429 0,215 \mathbb{R}^2 0,043 F-statistic 3,812 0,002

Table 4. Regression Results

Source: Processed Data, 2025

The findings provide nuanced empirical insights into how financial policies and governance mechanisms shape firm valuation in an emerging market manufacturing context. Firstly, the positive association between dividend policy and firm value is consistent with accumulated evidence affirming dividend payouts as a credible signaling device signaling firm profitability, soundness, and governance (Siladjaja et al., 2022; Fathihani et al., 2023). The significant moderating effect of audit quality further accentuates the importance of reliable and high-profile external monitoring, particularly Big Four audits, in enhancing investor trust in dividend information. This supports the notion that audit quality is pivotal in emerging capital markets where information asymmetry and agency problems are prevalent (Bakri, 2021; Zahid et al., 2022). High-quality audits provide assurance that dividends are sustainable, reducing skepticism arising from earnings manipulation risk and augmenting valuation premiums.

The leverage relationship reiterates conventional trade-off theory benefits, where strategic use of debt creates tax shields and aligns managerial incentives. The positive effect observed matches studies from similar emerging economies affirming that moderate debt increases value, provided firms avoid excessive risk-taking (Ammer & Pantamee, 2024). The insignificance of audit quality's

moderating role here aligns with the view that leverage's effect on valuation depends more critically on firm risk profiles and governance beyond audit reputation alone (Nuansa-Ard et al., 2024).

Interestingly, the relatively low R² reflects the complexity and multifaceted nature of firm value determination. Other factors, such as profitability, market conditions, governance other than audit, and macroeconomic influences, likely contribute substantially, indicating integration of additional contextual variables could enhance explanatory power in future research (Al-Omari et al., 2024).

The insignificant effect of firm size could be explained by heterogeneous firm scales and strategies reducing a straightforward size-value link or by industry specific factors where operational efficiency or innovation play larger roles than sheer scale. Moreover, control inclusion maintains robustness by mitigating omitted variable bias.

Practically, the results underscore the value of integrating financial policy decisions with strong external audit governance. For managers and boards, optimizing dividend policies while aligning with audit quality standards signals transparency and stable earnings, crucial in building market confidence and enhancing firm valuation. Regulators should continue incentivizing high audit quality and enforce stringent auditor independence to strengthen market functions. Investors may consider audit quality as a lens for evaluating dividend sustainability but may need to weigh leverage effects with additional risk metrics beyond auditor reputation.

The research contributes to the growing literature emphasizing the interactive roles of financial policies and governance mechanisms in emerging markets (Bakri, 2021; Fathihani et al., 2023; Ammer & Pantamee, 2024), while addressing a pertinent gap in Indonesia's manufacturing sector characterized by evolving regulatory frameworks and financial reporting quality (Siladjaja et al., 2022; Santosa et al., 2023). Future research is encouraged to incorporate other governance dimensions, firm specific risk indicators, and macroeconomic variables to unravel the comprehensive determinants of firm valuation.

CONCLUSIONS AND RECOMMENDATIONS

This study empirically confirms that dividend policy and leverage significantly and positively affect firm value in manufacturing companies listed on the Indonesia Stock Exchange during 2015–2024. Dividend policy acts as a credible signal of financial stability to investors, while leverage contributes to optimizing capital structure in line with trade-off theory. Furthermore, audit quality is found to strengthen the positive relationship between dividend policy and firm value for firms audited by Big Four auditors, highlighting its role in enhancing investor trust. However, audit quality does not significantly moderate the effect of leverage on firm value, suggesting that other factors may shape the leverage value nexus in the Indonesian context.

Despite these findings, this study has limitations, particularly the use of Big Four affiliation as a proxy for audit quality, the restricted sample of consistently listed manufacturing firms, and reliance on secondary financial data. Future research is suggested to incorporate broader firm-specific characteristics such as profitability or ownership structure, employ alternative measures of audit quality, and expand the scope to other industries or countries.

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