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THE DYNAMICS OF CORPORATE GOVERNANCE, EARNINGS MANAGEMENT, AND MARKET RISK IN ENHANCING CORPORATE VALUE: EVIDENCE FROM INDONESIAN SHARIA CAPITAL MARKET

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Abstract

This study aims to examine and analyse the factors influencing the value of companies in the Indonesian Sharia capital market, including corporate governance, earnings management, market risk, investment decisions, and dividend policy. Using secondary data from the Annual Report, Factbook IDX, and ICMD, and descriptive analysis using SPSS 28 and PLS–SEM, the study focuses on 71 sample companies from the Indonesian Sharia Stock Index (ISSI) during 2017–2022. The findings indicate that dividend policy and investment decisions significantly influence the mediating role of corporate governance on firm value, with a negative impact on firm value when corporate governance is high. Dividend policy does not significantly moderate the impact of earnings management and market risk on firm value, and investment decisions do not moderate the impact of earnings management. However, investment decisions significantly mediate the impact of market risk on firm value, with risk–orientated investors increasing firm value through short–term transactions, providing a new perspective on the relationship between investment decisions and firm value.

Penelitian ini bertujuan untuk menguji dan menganalisis faktor–faktor yang memengaruhi nilai perusahaan di pasar modal syariah Indonesia, termasuk tata kelola perusahaan, manajemen laba, risiko pasar, keputusan investasi, dan kebijakan dividen. Dengan menggunakan data sekunder dari Laporan Tahunan, Factbook IDX, dan ICMD, serta analisis deskriptif menggunakan SPSS 28 dan PLS–SEM, penelitian ini fokus pada 71 sampel perusahaan dari Indeks Saham Syariah Indonesia (ISSI) selama 2017–2022. Temuan menunjukkan bahwa kebijakan dividen dan keputusan investasi secara signifikan mempengaruhi peran mediasi tata kelola perusahaan terhadap nilai perusahaan, dengan dampak negatif pada nilai perusahaan ketika tata kelola perusahaan tinggi. Kebijakan dividen tidak secara signifikan memediasi pengaruh manajemen laba dan risiko pasar terhadap nilai perusahaan, dan keputusan investasi tidak memediasi pengaruh manajemen laba. Namun, keputusan investasi berperan signifikan dalam memediasi dampak risiko pasar terhadap nilai perusahaan, dengan investor berorientasi risiko meningkatkan nilai perusahaan melalui transaksi jangka pendek, memberikan perspektif baru tentang hubungan antara keputusan investasi dan nilai perusahaan.

INTRODUCTION

In general, the main goal of companies in the capital market is to increase the welfare of the company's shareholders by enhancing corporate value. Corporate value reflects the wealth of the company's shareholders through decisions made by management related to investments and asset management to maximize profit and company growth in order to sustain its existence. The company's existence can be seen through the values upheld by the company. Corporate value is reflected in the stock price in the capital market, so maximizing shareholder value means maximizing the stock price (Murinda et al., 2021).

Factors influencing corporate value in this study refer to several previous studies, including corporate governance (Handayani & Ibrani, 2023; Karimah et al., 2024; Manurung, 2022; Murinda et al., 2021; Nazar, 2021; Wijaya et al., 2023), earnings management (Abbas & Ayub, 2019; Aspirandi & Varisa, 2021; Fajri et al., 2023; Hernawati, Ghozali, Yuyetta, et al., 2021; Nanda et al., 2022; Phuong Hong & Khanh Linh, 2020; Pranesti & Kusuma, 2021), market risk (Giovanni et al., 2022; Ma'sum et al., 2024; Munawaroh & Munandar, 2024), investment decisions (Dama et al., 2020; Sa'diyah, 2021), and dividend policy (Syahri & Robiyanto, 2020).

One of the factors that may significantly influence corporate value is corporate governance. This governance serves as a monitoring mechanism designed to enhance a company's overall corporate value (Wijaya et al., 2023). The implementation of good corporate governance is a consideration for investors in making their investment decisions. Most investors are willing to pay a higher rate for companies that implement good corporate governance. Consequently, organisations must acknowledge the expectations of shareholders, prospective investors, and other market stakeholders concerning the adoption of corporate governance practices (Al−Ahdal et al., 2020). Neglecting the interests of minority shareholders can affect stock value on the stock exchange .

Corporate governance in Islamic financial markets emphasises ethical principles inherent to Islam, such as justice, honesty, transparency, and social responsibility (Wani & Dar, 2022). Sharia−based governance goes beyond mere regulatory compliance, ensuring that practices align with Sharia principles, which include prohibitions on riba (usury), gharar (excessive uncertainty), and non−halal activities (Adelina et al., 2020). Effective Sharia governance protects the interests of stakeholders through the establishment of Sharia Supervisory Boards (SSB) and the implementation of Sharia−compliant financial reporting standards (Elhalaby et al., 2023). Sharia governance mechanisms differ from conventional systems due to the ethical considerations and Sharia compliance that they enforce, aiming to ensure social justice and equitable wealth distribution (Faizi & Bin Shuib, 2024). For instance, SSBs are responsible for issuing fatwas and monitoring company activities, which directly affect investor confidence and enhance corporate value (Adelina et al., 2020). Empirically, Sharia corporate governance plays a critical role in Indonesia's Sharia capital market, where effective Sharia governance successfully attracts value−based investments (Munifatussa'idah, 2021). Research indicates that well−implemented Sharia governance in Indonesia boosts investor trust and attracts a diverse investor base, including global investors seeking ethical finance instruments (Adelina et al., 2020). Sharia governance focuses on Islamic ethical principles, ensuring adherence to Sharia, safeguarding stakeholders' interests, and enhancing corporate value by building investor confidence and attracting ethical investments.

Several studies have shown that corporate governance significantly influences a company's value through dividend policies and investment decisions (Damayanti & Palinggi, 2023; Karimah et al., 2024; Wijaya et al., 2023). However, other research has found that governance does not mediate or moderate these relationships significantly (Handayani & Ibrani, 2023; Murinda et al., 2021; Nurdin & Yunus Kasim, 2018). Independent directors and financial performance influence a company's value, with financial performance as a mediator (Manurung, 2022). Meanwhile, other studies emphasize the impact of governance on investment decisions and profitability (Nazar, 2021; Wahyudi & Chairunesia, 2019).

The practice of earnings management in financial reporting can mislead investors in making decisions related to profit assessment (Brigham & Houston, 2019, p. 125). While earnings management is not a significant mediator in dividend policy and does not directly affect company value (Aspirandi & Varisa, 2021; Fajri et al., 2023), it can enhance the company's value through income and corporate management (Hernawati, Ghozali, Yuyetta, et al., 2021; Pranesti & Kusuma, 2021). Earnings management also has a positive relationship with company value, although its impact varies between accruals and real earnings (Abbas & Ayub, 2019; Nanda et al., 2022) and increases the likelihood of investors buying stocks (Phuong Hong & Khanh Linh, 2020).

The other factor that influences a company's value in this study is market risk, which arises from the difference between expected and actual returns (Widyasari, 2019). Business risk has a negative impact on investment decisions, while efficiency has a positive impact and affects company value through dividend policies (Giovanni et al., 2022). Market and business risks also affect stock returns, which are related to dividend policies and company value (Ma'sum et al., 2024). Investment decisions can have a negative impact on company value, but profitability can reduce this impact (Munawaroh & Munandar, 2024). The variance—covariance model is effective in measuring market risk that affects investment decisions and company value (Sumaji et al., 2017).

Other factors that also influence corporate value are company policies. According to Mansoer, Saci, and Khalifa, company policies are classified into three categories: dividend policy, investment decisions, and financing policy (Mansour et al., 2019). In this study, the researcher will include dividend policy and investment decisions as intervening variables in corporate value. The financing policy is not included because the explanatory variables in this study already represent the capital structure, which includes indicators for the financing policy. Partially, a company's investment decisions have an impact on corporate value (Monica & Achmadi, 2017; Nurlela et al., 2019). Additionally, dividend policy also has a positive and significant impact on corporate value (Anwer et al., 2021; Hairudin & Desmon, 2020; Hamid & Anwar, 2019; Naveed, 2021).

Based on the background above, the research problems can be formulated as follows: First, how does corporate governance influence corporate value through dividend policy and investment decisions? Second, how does earning management influence corporate value through dividend policy and investment decisions? Third, how does market risk influence corporate value through dividend policy and investment decisions? Therefore, this research is titled: "The Dynamics of Corporate Governance, Earnings Management, and Market Risk in Enhancing Corporate Value: Evidence from the Indonesian Shariah Capital Market."

Hypothesis Development

The Relationship of corporate governance on corporate value through dividend policy and investment decisions

The relationship between corporate governance and firm value via dividend policy varies significantly. Corporate governance negatively impacts the Dividend Pay Out Ratio (Damayanti & Palinggi, 2023). Dividend policy does not mediate the impact of corporate governance on firm value (Handayani & Ibrani, 2023). However, corporate governance affects firm value directly without influencing dividend policy (Karimah et al., 2024). Dividend policy does not significantly affect firm value or mediate financial performance (Nurdin & Yunus Kasim, 2018). Nevertheless, corporate governance influences firm value, with dividend policy as a determining factor (Wijaya et al., 2023). The first hypothesis is formulated as follows:

H_1 : Corporate governance affects corporate value through dividend policy.

The relationship between corporate governance and firm value through investment decisions varies. The board positively impacts firm value but not financial performance (Manurung, 2022). Good Corporate Governance is significant for firm value but does not affect investment decisions or profitability (Murinda et al., 2021). Managerial ownership influences investment decisions, unlike board size (Nazar, 2021). Managerial and institutional ownership affect firm value via investment decisions (Wahyudi & Chairunesia, 2019). The second hypothesis is as follows:

H_2 : Corporate governance has less impact on corporate value through investment decisions.

The Relationship of earnings management on corporate value through dividend policies and investment decisions.

Earnings management significantly impacts dividend policy and company value, but its mediating role is inconsistent (Aspirandi & Varisa, 2021). It does not mediate dividend policy, with managerial ownership and free cash flow having a stronger influence (Aspirandi & Varisa, 2021). Earnings management reduces company value by diminishing earnings quality and investor trust (Fajri et al., 2023). It is also used opportunistically to transfer wealth, negatively affecting company value (Hernawati, Ghozali, Yuyetta, et al., 2021). Conversely, in well‒governed companies, combining earnings management with dividend policy can attract foreign investors and enhance company value (Pranesti & Kusuma, 2021). The third hypothesis is as follows:

H$_3$: Earnings management influences corporate value through dividend policy

Earnings management positively affects firm value but is opportunistic in distressed firms (Abbas & Ayub, 2019). Managerial overconfidence influences earnings management, moderated by corporate governance (Nanda et al., 2022). High earnings management increases investment likelihood but may also alert investors (Phuong Hong & Khanh Linh, 2020). Thus, the impact of earnings management on investment decisions and firm value varies by context and governance (Abbas & Ayub, 2019; Nanda et al., 2022; Phuong Hong & Khanh Linh, 2020). The fourth hypothesis is as follows:

H$_4$: Earnings management influences corporate value through investment decisions

The Relationship of Market Risk on Corporate value through Dividend Policy and Investment Decisions

Market risk negatively impacts stock returns and firm value (Ma'sum et al., 2024). Dividend policy does not significantly mediate this relationship (Nugroho & Halik, 2021). Investment decisions based on market risk and efficiency harm firm value, though leverage and firm size can mitigate this effect (Giovanni et al., 2022; Munawaroh & Munandar, 2024). Comprehensive evaluation of market risk, dividend policy, and investment decisions is crucial for assessing firm value (Sumaji et al., 2017). The fifth and sixth hypotheses are as follows:

H$_5$: Market risk affects corporate value through dividend policy

H$_6$: Market risk affects corporate value through investment decisions

Based on the formulation of the hypothesis, the theoretical framework is described as follows

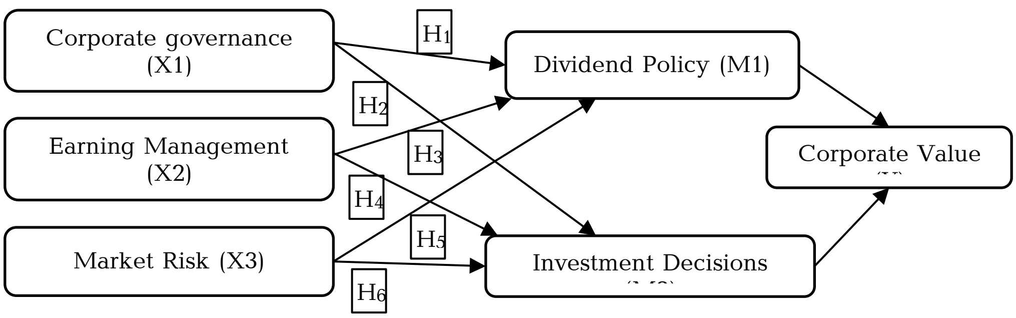

Figure 1. *Theoretical Thinking Framework*

METHOD

This study is explanatory, using secondary data to explain the influence of latent variables. It focuses on empirical testing of theories and analysis of variable relationships using statistical techniques, quantitative approaches, and Partial Least Square‒Structural Equation Models (PLS‒SEM).

Data collection

This research utilized the documentation method from annual reports published on the company's website, which had been audited for the period of 2017–2022. The period from 2017 to 2022 was selected to analyze both stability and disruption, including the dynamics before and after COVID–19. This timeframe allows for an examination of changes in corporate governance, earnings management, and market risk, as well as their effects on company value during economic uncertainties. Additionally, this period reflects significant regulatory changes, providing insights into the evolving practices of dividend policies, investment decisions, and sharia corporate governance.

The study examined five variables: corporate governance, earnings management, market risk (independent variables), company value (dependent variable), as well as dividend policy and investment decisions (intervening variables). Operational definitions and variable measurements can be found in Appendix 2.

Population

The research population consists of companies listed on the Indonesia Stock Exchange and included in the Indonesia Sharia Stock Index (ISSI), with good reputation and stable performance, as reflected in consistent dividend policies between 2017 and 2022. The average number of companies in this population is about 369, as shown in Table 1.

Table 1. Number of Population in Research

Period I	Amount	Period II	Amount	Average
December 2016 – May 2017	316	June – November 2017	313	314,5
December 2017 – May 2018	315	June – November 2018	306	310,5
December 2018 – May 2019	331	June – November 2019	335	333,0
December 2019 – May 2020	331	June – November 2020	371	351,0
December 2020 – May 2021	406	June – November 2021	413	409,5
December 2021 – May 2022	441	Agus – November 2022	451	446,0
December 2022 – May 2023	421			421,0
Average population size for the period 2017 – 2022				**369,4**

Source: *Indonesian Stock Exchange, period 2017 - 2022, processed.*

Sample

The study employs a purposive sampling method (Sugiyono, 2019, p. 79), with samples chosen based on specific criteria established by the researcher (Appendix 1). The sample selection process was designed to ensure both relevance and compliance with sharia principles. Initially, all companies listed on the Indonesia Sharia Stock Index (ISSI) that submitted consistent annual reports from 2017 to 2022 were included, totalling 369 companies. This number was then narrowed down to 169 companies by selecting only those that were consistently listed on the Sharia Securities List (DES) and met the ISSI criteria. Additionally, firms with unsustainable dividend practices were excluded, resulting in a final sample of 71 companies with stable financial performance. These criteria ensure transparency and align the sample with the study's focus on governance practices and financial performance in sharia–compliant firms. These selection criteria are detailed in Table 2.

Table 2. Sample Selection Procedure

Sample Criteria	**Amount**
All companies listed on IDX are part of the ISSI index, regulated by the OJK, and regularly publish annual reports during the 2017 to 2022 period.	369
Companies that are included in the Sharia Issuer category, are part of ISSI, and remain on the Sharia Securities List (DES) during the 2017 – 2022 period.	169
Sharia issuers that distribute dividends unsustainably during the 2017 – 2022 period	(98)
Companies that continuously distribute dividends during the 2017 to 2022 period.	71

Source: *Indonesian Stock Exchange, period 2017 - 2022, processed*

Analysis method

This research utilized the partial least squares (PLS) method with descriptive analysis using SPSS 28 and SEM PLS analysis using SmartPLS version 4. PLS is an approach within structural equation modeling (SEM) that focuses on variance analysis, designed to address challenges in covariance–based SEM (Latan & Ghozali, 2012).

Test the *measurement* model (outer model)

External model testing includes validity and reliability. Convergent validity is assessed with factor loading approaching 1 and AVE > 0.50, while discriminant validity is evaluated with cross loading > 0.70. Reliability testing uses Cronbach's alpha and composite reliability, with the latter being preferred to have a value > 0.70. (Hair et al., 2021; Latan & Ghozali, 2012).

Test the structural *model* (inner model)

A structural model estimates the influence between latent variables through path coefficients, with improved accuracy using bootstrapping (Hamid & Anwar, 2019, p. 57). The model's predictive power is evaluated using RÄ, where scores of 0.67, 0.33, and 0.19 indicate substantial, moderate, and weak predictions, respectively (Chin, 2010). The impact of exogenous variables on endogenous ones is assessed using the fÄ effect, with values of 0.02, 0.15, and 0.35 indicating small, moderate, and large effects, respectively (Cohen, 1988, p. 43). Model predictions are evaluated using qÄ and QÄ effect sizes (Hair et al., 2021). The significance of path coefficients is assessed through bootstrapping using t–test values such as 1.65 (10%), 1.96 (5%), and 2.58 (1%) (Chin, 2010).

Test *mediation* effects

Baron and Kenny's mediation test, as outlined by Ghozali and Latan, involves three key steps: 1) Assess the impact of the independent variable on the dependent variable (a t–statistic greater than 1.96). 2) Analyze the effect of the independent variable on the mediator (also a t–statistic greater than 1.96). 3) Evaluate the simultaneous effects of both the independent variable and the mediator on the dependent variable. Mediation is considered full if the independent variable does not have a significant effect on the dependent variable, while the mediator does. Conversely, mediation is partial if both the independent variable and the mediator significantly affect the dependent variable. (Latan & Ghozali, 2012, p. 173).

RESULT AND DISCUSSION

RESULT

The descriptive analysis (Table 3) shows that the corporate governance data is stable, with average values ranging from 2.08 to 2.32 and small fluctuations, indicating moderate variation in corporate governance practices. Earnings management consistently shows a negative average, indicating practices that tend to reduce profits with significant fluctuations. Market risk is relatively stable with positive averages (0.56–0.98) and variation in the market risk faced by the company. Corporate value has decreased from 3.62 to 2.26, reflecting a decrease in the volatility of the company's value despite the wide range of values. Dividend policy fluctuates, with the highest average in 2020, and the standard deviation sharply increasing in 2022, indicating instability in dividend distribution and potential financial problems. Investment decisions have decreased from 5.18 to 2.77 with a decrease in standard deviation, reflecting reduced variation in investment decisions and the company's highest investment decline.

Table 3. Results of Descriptive Analysis of Research Variables

Year	Variable	Sample	Minimum	Maximum	Mean	Std. Deviation
2017	Corporate Governance (X1)	71	0,00	8,00	2,08	1,57
2018		71	0,00	6,00	2,11	1,37
2019		71	0,00	8,00	2,32	1,64
2020		71	0,00	6,00	2,20	1,47
2021		71	0,00	7,00	2,08	1,79
2022		71	0,00	8,00	2,07	2,05
Avg. Amount		71	0,00	7,17	2,15	1,65
2017	Earning management (X2)	71	−930,08	183,71	−23,92	140,93
2018		71	−770,17	633,13	−14,81	156,89
2019		71	−360,91	611,97	−2,96	103,59
2020		71	−401,86	170,58	−4,34	66,00
2021		71	−311,58	265,17	−6,15	89,61
2022		71	−654,55	253,19	−13,36	109,76
Avg. Amount		71	−571,53	352,96	−10,92	111,13
2017	Market Risk (X3)	71	−2,22	2,89	0,72	0,96
2018		71	−4,40	6,70	0,78	1,37
2019		71	−4,21	4,69	0,56	1,46
2020		71	−0,98	4,90	0,87	1,11
2021		71	−1,76	5,05	0,87	1,19
2022		71	−0,50	3,69	0,98	0,95
Avg. Amount		71	−2,35	4,65	0,80	1,17
2017	Corporate value (Y)	71	0,52	60,66	3,62	8,80
2018		71	0,54	79,89	3,23	9,52
2019		71	0,51	48,62	2,73	6,19
2020		71	0,46	41,07	2,34	5,13
2021		71	0,38	50,37	2,33	6,10
2022		71	0,39	44,65	2,26	5,43
Avg. Amount		71	0,47	54,21	2,75	6,86
2017	Dividend Policy (M1)	71	−22,22	181,60	42,98	38,10
2018		71	3,95	134,81	35,20	27,83
2019		71	1,82	175,35	40,14	30,72
2020		71	5,69	337,46	50,61	47,21
2021		71	4,20	176,95	50,48	36,04
2022		71	−313,18	171,22	50,31	60,95
Avg. Amount		71	−53,29	196,23	44,95	40,14
2017	Investment Decisions (M2)	71	0,27	131,28	5,18	16,76
2018		71	0,34	62,93	3,31	7,46
2019		71	0,39	82,44	3,31	9,68
2020		71	0,22	46,91	2,50	5,53
2021		71	0,23	60,67	2,48	7,10
2022		71	0,26	56,80	2,77	6,84
Avg. Amount		71	0,29	73,51	3,26	8,90

Source: *Results of data processing using the SPSS 28 application*

Test the measurement model (outer model)

SmartPLS version 4 is used to measure the validity and reliability of latent variable indicators, including convergent and discriminant validity. Convergent validity is proven if the factor loading > 0.7, as seen in Figures 2 and 3.

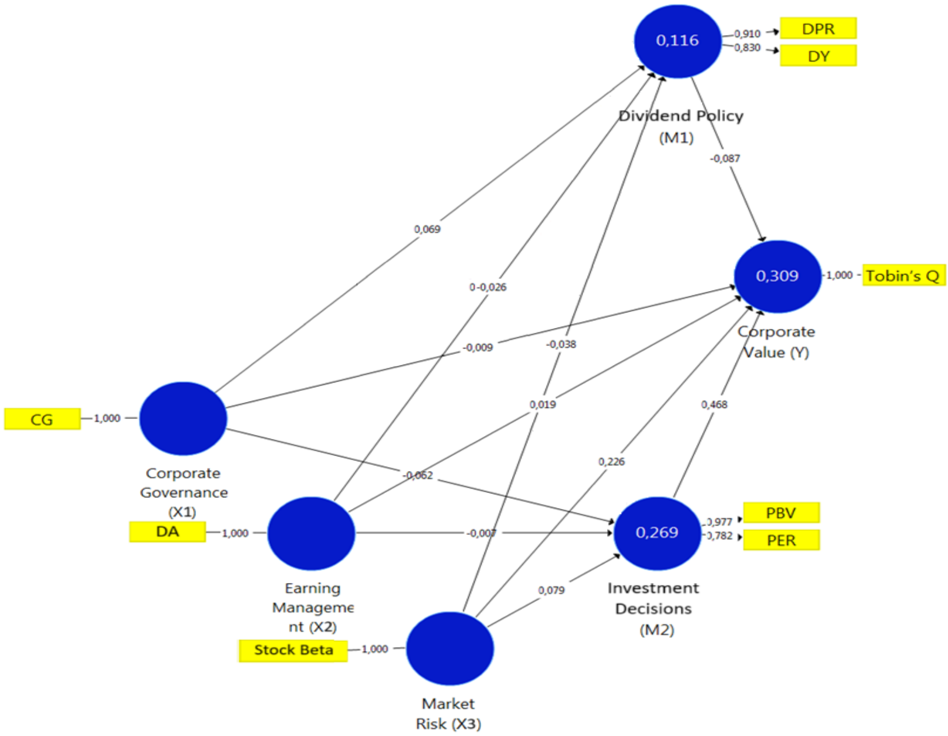

Figure 2. *Initial path diagram with loading factor*

Figure 2 display six latent variables with seven indicators, each having their own factor loadings. The indicators for corporate governance (X1), earnings management (X2), and market risk (X3) exhibit high validity (factor loading = 1.000). Conversely, dividend policy (M1), investment decisions (X2), and firm value (Y) demonstrate moderate validity (factor loading 0.380 to 1.000). However, the dividend yield (DY) indicator is not valid (factor loading < 0.7).

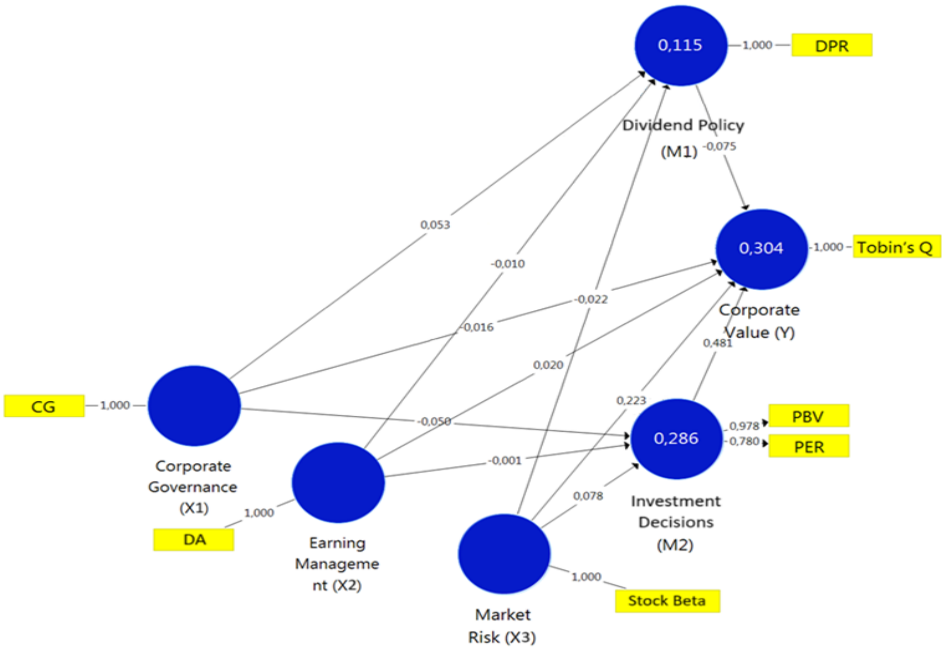

Figure 3. *Path Diagram with Indicator Elimination and Factor Loading*

In Figure 3, it is shown that the CG indicator (X1), discretionary accruals (DA, X2), stock beta (X3), dividend payout ratio (DPR, M1), price−earnings ratio (PER), price−to−book value (PBV, M2), and Tobin's Q (Y) are valid for advanced modeling, with load factors above 0.70 and AVE greater than 0.50. Indicators with lower load factors are excluded due to high error variance.

Table. List of Average Variance Extracted (AVE) Values

Latent Variables	**(AVE)**
Corporate Governance (X1)	1,000
Earning management (X2)	41,000
Market Risk (X3)	1,000
Kebijakan Dividen (M1)	1,000
Keputusan Investasi (M2)	0,783
Corporate value (Y)	1,000

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

In Table 4, invalid indicators have been removed based on the loading factor. All latent variables have AVE values above 0.50, confirming their validity. Discriminant validity is confirmed if the square root of AVE is greater than the correlation with other constructs. Detailed results can be found in Table 5.

Table 5. Square Root of AVE and Correlation of Latent Variables

Latent Variables	**X1**	**X2**	**X3**	**M1**	**M2**	**Y**	**AVE**	**AVE Square Root**
X1	1,000	0,012	0,082	0,030	−0,066	−0,074	1,000	1,000
X2	0,012	1,000	0,076	−0,020	−0,017	0,033	1,000	1,000
X3	0,082	0,076	1,000	−0,062	0,009	0,143	1,000	1,000
M1	0,030	−0,020	−0,062	1,000	0,135	−0,022	1,000	1,000
M2	−0,066	−0,017	0,009	0,135	1,000	0,471	0,783	0,885
Y	−0,074	0,033	0,143	−0,022	0,471	1,000	1,000	1,000

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

Tabel 5 shows that the correlation between X1 and other variables is lower than the square root of AVE, confirming the validity of all six constructs. Reliability tests also indicate Cronbach's alpha value and composite reliability above 0.70.

Table 6. Cronbach's alpha and Composite reliability values

	Cronbach's Alpha	**Reliability** Composite
Corporate Governance (X_1)	1,000	1,000
Earning management (X_2)	1,000	1,000
Market Risk (X_3)	1,000	1,000
Dividend Policy (M1)	1,000	1,000
Investment Decisions (M2)	0,776	0,877
Corporate value (Y)	1,000	1,000

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

Tabel 6 confirms the construct reliability of X1, X2, X3, M1, M2, and Y with composite reliability values and Cronbach's alpha all above 0.70.

Test the structural model (inner model)

The structural model uses bootstrapping to analyze the relationship between hidden variables (Hamid & Anwar, 2019, p. 97). Figure 4 shows the bootstrapping results from SmartPLS version 4, and Table 7 displays the R2 model values, which measure the predictive strength of variables with classifications of 0.67 (substantial), 0.33 (moderate), and 0.19 (weak) (Chin, 2010).

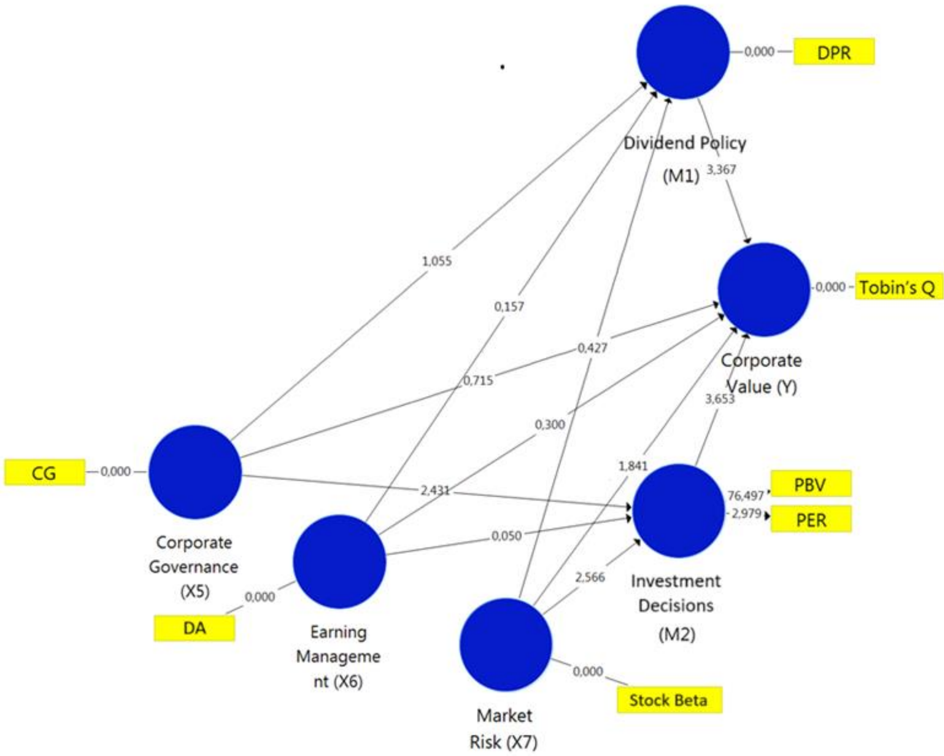

Figure 4. *Structural Model After Bootstrapping*

Table 7. R Square Value

	R Square	Adjusted R^2
Corporate value (Y)	0,304	0,289
Dividend Policy (M1)	0,115	0,101
Investment Decisions (M2)	0,286	0,275

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

Table 7 shows the Adjusted R2 values for each as 0.289 for company performance (Y), 0.101 for dividend policy (M1), and 0.275 for investment decisions (M2), indicating small to very small influences. Table 8 also presents the f2 values, with 0.02 representing a small influence, 0.15 a moderate influence, and 0.35 a large influence.

Table 8. f – Square values

	(Y)	(M_1)	(M_2)
Corporate Governance (X_1)	0,000	0,003	0,003
Earning management (X_2)	0,001	0,000	0,000
Market Risk (X_3)	0,060	0,000	0,007
Dividend Policy (M1)	0,007		
Investment Decisions (M2)	0,236		
Corporate value (Y)			

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

Table 8 shows the f−square values as follows: 0.236 for M2 on Y, 0.336 for X3 on M2, and 0.061 for X1 on Y. Moderate influence is also noted for X3 on Y (0.060) and X3 on M1 (0.057), while other exogenous variables show small influences, ranging from 0.000 to 0.012. Table 9 confirms that endogenous variables can be predicted if the q−square value exceeds 0.

Table 9. Effect Size q^2 value

	Qİ
Corporate value (Y)	0,160
Dividend Policy (M1)	0,082
Investment Decisions (M2)	0,140

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

Tabel 9 shows the q^2 values of 0.160 for Y, 0.082 for M1, and 0.140 for M2, indicating the predictive accuracy of the model.

Mediation Effect Test

The mediating effect was tested using the Baron and Kenny method and bootstrapping. The results indicate that X1 significantly influences M1 and M2, and X3 influences M2, with t−statistic > 1.96. Furthermore, indirect effects were analyzed to assess the combined impact of the independent variables and mediation on the dependent variable.

Table 10. Specific Indirect Effect Values

	Original Sample	**Std. Deviation**	**T-Statistics**	**P-Values**
X1 toward M1 toward Y	−0,012	0,006	2,157	0,046
X1 toward M2 toward Y	−0,029	0,014	2,032	0,041
X2 toward M1 toward Y	0,001	0,005	0,153	**0,878**
X2 toward M2 toward Y	−0,001	0,011	0,055	**0,956**
X3 toward M1 toward Y	0,002	0,004	0,436	**0,663**
X3 toward M2 toward Y	0,037	0,018	2,078	0,038

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

Tables 10 show that M1 and M2 mediate the relationship between X1 and Y, with a t−statistic > 1.96 and a p−value < 0.05. Corporate governance plays a mediating role between dividend policy and firm value (t−statistic 2.157, p−value 0.046) as well as between investment decisions and firm value (t−statistic 2.032, p−value 0.041). Partial mediation is also observed for market risk through investment decisions on firm value (t−statistic 2.078, p−value 0.038).

DISCUSSION

This research aims to test and analyze the factors that affect the valuation of companies listed on the Indonesia Sharia Stock Index (ISSI) from 2017 to 2022. The factors to be examined include corporate governance, earnings management, market risk, dividend policy, and investment decisions.

The study found that dividend policy has a significant negative impact on the mediating role of corporate governance on firm value, with high corporate governance decreasing firm value through dividend policy. This finding emphasizes the importance of dividend policy in mediating the relationship between corporate governance and firm value, even though it may decrease firm value. This contradicts previous findings that dividend policy is not significant in mediating the relationship between corporate governance and firm value (Handayani & Ibrani, 2023; Nurdin & Yunus Kasim, 2018). Previous research also noted that corporate governance does not significantly influence dividend policy (Damayanti & Palinggi, 2023; Karimah et al., 2024), while this study shows that poor governance and ineffective board members can harm firm value. Therefore, these findings highlight the need to reconsider the impact of dividend policy in the context of better corporate governance, and to focus on the effectiveness of the board of commissioners and directors in enhancing firm value.

The investment decisions have a significant negative impact on the role of corporate governance mediation in firm value, with high corporate governance potentially lowering firm value through investment decisions, highlighting the importance of investment decisions despite their low role. This finding is consistent with previous research (Nazar, 2021) showing that various corporate governance factors affect investment decisions, although board size is not significant. However, this research expands understanding by emphasizing that the quality of board and commissioner performance, rather than quantity, affects firm value (Manurung, 2022; Wahyudi & Chairunesia, 2019). In contrast, this finding differs from other research (Murinda et al., 2021) which found that corporate governance does not significantly influence firm value, and the research by (Nurdin & Yunus Kasim, 2018) showing that dividend policy does not mediate the relationship between financial performance and firm value. Thus, this research provides a new perspective on how investment decisions and board performance affect the relationship between corporate governance and firm value.

The dividend policy does not significantly mediate the influence of earnings management on firm value, unlike previous findings that considered earnings management as a mediating variable. This suggests that changes in earnings management do not affect firm value through dividend distribution. These findings contradict studies that found that earnings management does not mediate dividend policy (Aspirandi & Varisa, 2021; Fajri et al., 2023), indicating that earnings management does not significantly affect firm value. However, these results support the view that earnings management can be an opportunistic behaviour to enhance financial reporting without directly affecting firm value (Hernawati, Ghozali, Yuyetta, et al., 2021). This research introduces a new perspective by affirming that accrual earnings management is not always related to firm value or dividend policy, offering new insights into the relationship between these variables.

The decision to invest doesn't significantly mediate the influence of earnings management on firm value, so changes in earnings management do not affect firm value through investment decisions. This finding introduces a new perspective in the research literature that has not been supported by previous results. Corporate governance mechanisms moderate the relationship between managerial overconfidence and earnings management, but do not link earnings management to investment decisions or firm value (Nanda et al., 2022). Consistent with this finding, although earnings management affects investor decisions, the focus is on individual investment decisions, not its impact on firm value through collective investment decisions (Phuong Hong & Khanh Linh, 2020). Conversely, earnings management can have a positive impact on firm value when used efficiently, weakening the finding that earnings management does not significantly affect firm value through investment decisions (Abbas & Ayub, 2019). This finding reveals that even though earnings management is commonly used, it does not directly affect firm value through investment decisions, especially among large investors who are aware of this technique, providing new insights into the dynamics between earnings management, investment decisions, and firm value.

The dividend policy does not significantly mediate the influence of market risk on firm value, indicating that the level of risk does not affect firm value when dividends are distributed. This finding adds a new perspective to the literature as it is not supported by previous research. Systematic risk does not significantly affect profitability and firm value, which is consistent with the finding that dividend policy does not mediate the influence of market risk on firm value (Nugroho & Halik, 2021). The finding strengthens the idea that systematic risk does not affect firm value in the context of a stable dividend policy, but it does not support the hypothesis that dividend policy plays a role in mediating the relationship between market risk and firm value (Nugroho & Halik, 2021). Thus, even though dividend policy does not mediate the influence of market risk on firm value, and systematic risk also does not show a significant influence on firm value, it emphasizes that other factors, such as diverse investment strategies, have a greater impact on this relationship.

Investment decision plays a significant mediating role in the impact of market risk on firm value, given that risk–oriented investors tend to engage in short–term transactions that can enhance firm value. This finding expands insights into the relationship between investment decisions and firm value. Meanwhile, business risk negatively affects the quality of investment decisions, with efficiency having a positive impact, supporting these findings by emphasizing the importance of risk in investment decisions (Giovanni et al., 2022). Market risk contributes negatively to stock returns, while business risk has a positive impact, supporting these findings by highlighting the crucial role of business risk in investment decisions (Ma'sum et al., 2024). Although investment decisions can have a negative impact on firm value, profitability can mitigate this effect, showing that investment decisions act as a mediation between market risk and firm value (Munawaroh & Munandar, 2024). The characteristics of high risk–high return stocks indicate that risk–oriented investors influence firm value through investment decisions (Sumaji et al., 2017). In conclusion, this research supports and expands previous findings by highlighting the mediating role of investment decisions in the relationship between market risk and firm value.

CONCLUSION

The research concludes that dividend policy and investment decisions significantly affect the mediating role of corporate governance on firm value. Dividend policy and investment decisions each show a negative impact on firm value when corporate governance is high. This finding emphasizes that dividend policy does not significantly mediate the influence of earnings management and market risk on firm value, while investment decisions do not mediate the influence of earnings management, adding a new perspective to the literature. Conversely, investment decisions play a significant role in mediating the impact of market risk on firm value, as risk–oriented investors tend to increase firm value through short–term transactions, expanding insights into the relationship between investment decisions and firm value.

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