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The Serial Mediation Role of Dividend Policy and Capital Structure in the Relationship Between Financial Flexibility and Financial Performance

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ABSTRACT

This research aimed to investigate the serial mediation role of dividend policy and capital structure in the relationship between financial flexibility and financial performance. The population of this research consists of property and real estate companies listed on the Indonesia Stock Exchange (IDX) over the 13 years (2010 to 2022). Purposive sampling was used. Based on the determined criteria, six companies were chosen as the sample of this research. Data were collected from financial reports on the IDX website to obtain proxies for each variable used. The data analysis used descriptive and inferential statistics, including Path Analysis and the Sobel test, to examine mediation. The results show that of the 10 proposed hypotheses, four are not significant: financial flexibility does not significantly affect financial performance, either directly or through capital structure, or through the serial mediation of dividend policy and capital structure. Financial flexibility also does not directly affect capital structure. This provides empirical evidence that managing cash holdings alone, as a risk-free asset, is insufficient to mitigate risk and improve financial performance, given that property and real estate companies require large capital expenditures due to their inherent characteristics.

INTRODUCTION

The property industry in Indonesia has shown positive growth over the past few decades. This sector's growth is driven by rapid economic expansion and infrastructure development, shifts in public attitudes, and rising demand for housing and commercial facilities. As a leading sector, the property sector contributed 9.43% to GDP in the second quarter of 2023, and the real estate sector 2.40%. However, this

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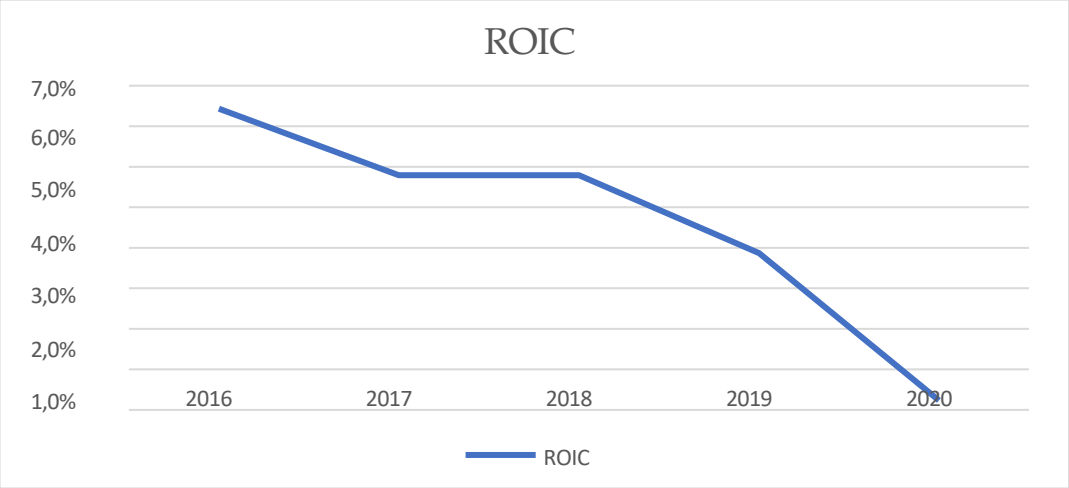
significant growth contrasts with the financial performance of property companies, as indicated by their Return on Investment Capital (ROIC), which has actually declined over several years, as visualized in Figure 1.

Figure 1. ROIC of Property Companies



Source: BEI, processed (2024)

This decline in financial performance is influenced by several factors, including financial flexibility, or the company's ability to obtain financing to fund investment opportunities and unexpected expenses that significantly impact company management decisions (Kumar & Alert, 2020); and the company's ability to prevent underinvestment and financial distress (Bonaimé, Öztekin, & Warr, 2014; Denis, 2011; Graham & Harvey, 2001). Financially flexible companies perform well and can raise external funds. Conversely, the less flexible a company's finances, the more vulnerable it is to declining cash flow. Financial flexibility is proxied by the level of basic cash holdings (Chen, Harford, & Lin, 2017; Hoberg, Phillips, & Prabhala, 2014). This is because cash is a company's financial resource that contributes to performance and the creation of long-term competitive advantage. Financial flexibility also significantly affects decisions on capital structure and dividend payments (Abdulkadir, Abdurraheem, & Siyanbola, 2017; Alipour, Mohammadi, & Derakhshan, 2015; Bancel, 2004; Brounen, Jong, & Koedijk, 2005).

Previous research has yielded inconsistent results. Research by Almomani (2023), Choe, Kim, & Moon (2022), Ma & Jin (2016), Nouri & S.M. Jafari (2016), and Wu, Le, Shi, & Alkaraan (2024) found that financial flexibility positively affects

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corporate performance. Meanwhile, research by Agha & Faff (2014), Byoun (2016), Cherkasova & Kuzmin (2018), and Gu & Yuan (2020) showed conflicting results. Kumar & Alert's (2020) study found that financial flexibility influences dividend policy. Izadinia, Saadatnia, & Hajiannejad (2021) also found that financial flexibility influences dividend policy, but in the opposite direction. Putri & Isbanah (2020) found that financial flexibility significantly influences capital structure. Conversely, Faulkender et al. (2006) and Clark (2010) found that financial flexibility does not significantly impact capital structure. Furthermore, Monono (2022) explained that dividends significantly influence capital structure. Furthermore, Narsaiah (2020), Nini, Patrisia, & Nurofik (2020), and Rao, Hamed, Al-Yahyaee, & Syed (2007) noted that capital structure has a significant negative effect on a company's financial performance. Meanwhile, a significant positive influence of capital structure on a company's financial performance is evident in the findings of Dinh & Pham (2020), Fosu (2013), Rajesh, Nanthini, Sivaranjani, Prakash, & Gokulanathan (2021), and Shyu (2013). Several previous studies have shown that dividend payout policy and capital structure can also affect a company's financial performance (Farrukh & Asad, 2017; Kanakriyah, 2020; Khan, Naz, Khan, Khan, & Ahmad, 2013; Njoku & Lee, 2024; Wijekoon & Senevirathna, 2019; Yegon et al., 2014). Meanwhile, Nguyen et al. (2021) stated that dividend policy negatively affects financial performance. Research by Adeiza, Sabo, and Abiola (2020) found that the dividend payout ratio negatively affects financial performance but does not significantly affect corporate financial performance.

Inconsistencies in previous research findings provide an opportunity for further research related to the variables of financial flexibility and capital structure. Therefore, this study was conducted to investigate the impact of financial flexibility on financial performance through dividend policy and capital structure. Furthermore, this study also investigates the serial mediation role of dividend policy and capital structure. This is novel because existing research generally focuses only on direct effects (Almomani, 2023; Byoun, 2016; Cherkasova & Kuzmin, 2018; Choe et al., 2022; Gu & Yuan, 2020; Ma & Jin, 2016; Nouri & S.M. Jafari, 2016).

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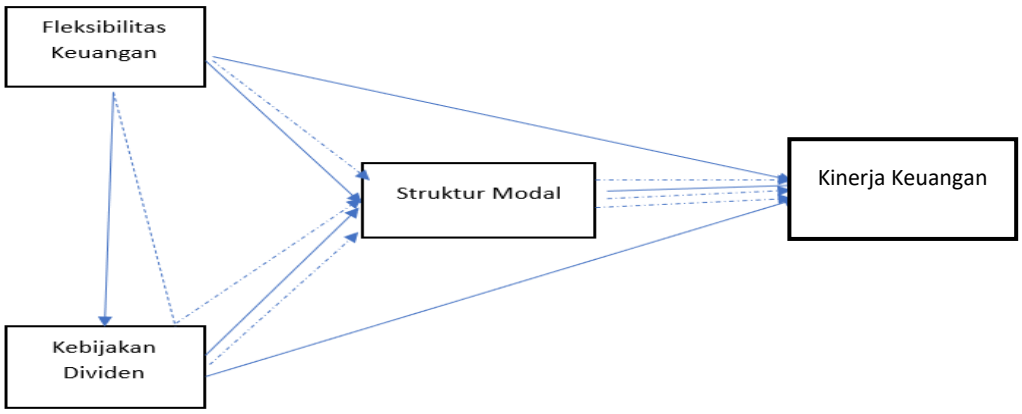
The research framework is explained in Figure 2:

Figure 2. Framework of Thinking



Source: Primary Data Processed, (2025)

This study proposes the following hypotheses:

H1: Financial flexibility has a significant effect on financial performance

H2: Financial flexibility has a significant effect on capital structure

H3: Financial flexibility has a significant effect on dividend policy

H4: Dividend policy has a significant effect on financial performance

H5: Financial flexibility has a significant effect on financial performance through capital structure

H6: Capital structure has a significant effect on financial performance

H7: Financial flexibility has a significant effect on financial performance through capital structure

H8: Financial flexibility has a significant effect on financial performance through dividend policy

H9: Dividend policy has a significant effect on financial performance through capital structure

H10: Financial flexibility has a significant effect on financial performance through the serial mediation of dividend policy and capital structure

METHODS

This research is an explanatory study of property and real estate companies listed on the Indonesia Stock Exchange (IDX). The sample was drawn using a purposive sampling technique, with the following criteria: 1) Property and real estate companies listed on the IDX until 2022; 2) Property and real estate companies that were not delisted from the IDX during the study period; 3) Property and real estate

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companies that provided complete data for the years 2010-2022, according to the proxy required for this study; 4) Companies that did not have negative retained earnings; and 5) Companies that distributed cash dividends during the study period. Companies that met all criteria were selected for the study sample; therefore, the sampling technique used was saturated (census) sampling.

This study utilized secondary data collected from the IDX website (www.idx.id). Data analysis consisted of descriptive and inferential statistics. Path analysis was used to test for mediation.

The operational definitions of the variables in this study are explained as follows:

Financial Flexibility (X1) is the level of cash holdings as a risk-free asset to generate financial performance. Financial flexibility is measured using cash holdings, using the formula from Lie (2005):

Basic Cash Holdings = (Cash + Short-term investment) / Total assets

Dividend policy (X2) is the company's policy for distributing profits generated during a period as dividends to shareholders. The formula for measuring dividend policy follows Kamran, Lamrani, & Khalid (2019):

Dividend Policy = (Cash dividends) / (Total net profit)

Capital structure (Z) is the source of financing chosen by the company to finance operational activities. The Debt-to-Equity Ratio is used as a proxy for capital structure. The DER formula from Rovolis & Feidakis (2014):

DER = (Total long-term debt)/(Total equity)

Company financial performance (Y) is a company's capability to generate profits from the use of capital invested in the company. Return on Investment Capital (ROIC) is chosen as a proxy to assess a company's financial performance. ROIC is formulated using the following formula (Qureshi & Siddiqui, 2021):

ROIC = (Net income) / (shareholders' equity + short-term debt + long-term debt) × 100

Company size (control variable) refers to all assets owned by the company, measured using the formula from Kwaltommai, Enemali, Duna, & Ahmed (2019): Company size = Ln Total assets.

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RESULTS

The research subjects observed comprised six real estate and property companies in Indonesia, yielding a total of 178 observations. The data comes from the 2011 to 2023 Annual Reports, so this study uses panel data. The descriptive statistics are presented in Table 1:

Table 1. Descriptive Test Results

Variabel	N	Mean	SD	Min	Max
Fleksibilitas Keuangan	78	0.158	0.058	0.06	0.275
Kebijakan Dividen	78	0.204	0.092	0.03	0.43
Struktur Modal	78	0.749	0.435	0.22	1.74
Kinerja Keuangan	78	0.074	0.033	0.01	0.15
Ukuran Perusahaan	78	29.906	0.822	28.18	31.42

Source: Processed Research Data (2024)

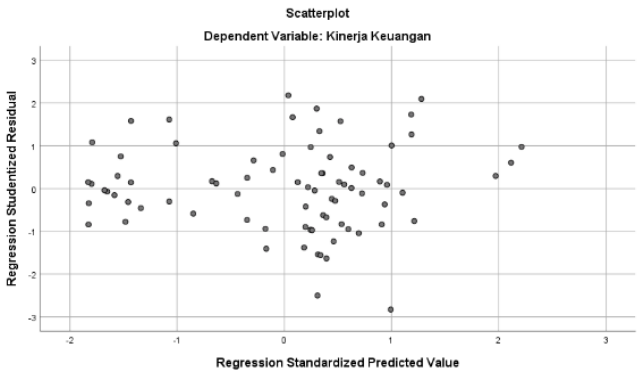
Table 2. Normality Test Results

Residual Variabel	p	Syarat	Ket.
Kinerja Keuangan	0.200	>0.05	Terpenuhi

Source: Processed Research Data (2024)

The residual normality test with the Kolmogorov-Smirnov statistic shows a p-value of 0.200 ($p > 0.05$), indicating that the residuals are normally distributed.

Figure 3. Heteroscedasticity



Source: Processed Research Data (2024)

The results of the heteroscedasticity test indicate that no specific pattern was found, and that all plot points are randomly distributed, thus meeting the heteroscedasticity assumption.

Multicollinearity Test

Table 3. Multicollinearity Test

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Variabel	VIF	Syarat	Ket.
Fleksibilitas Keuangan	1.244	<10	Terpenuhi
Kebijakan Dividen	1.334	<10	Terpenuhi
Struktur Modal	1.471	<10	Terpenuhi
Ukuran Perusahaan	1.431	<10	Terpenuhi

Source: Processed Research Data (2024)

The multicollinearity test shows a VIF value of less than 10 (VIF < 10), thus meeting the multicollinearity assumption.

Autocorrelation Test

Table 4. Autocorrelation Test

Variabel	DW	dU	4-dU	Ket.
Kinerja Keuangan	2.007	1.741	2.259	Terpenuhi

Source: Processed Research Data (2024)

The Durbin-Watson autocorrelation test yielded a DW value of 2.007. This result indicates that the DW value lies between dU and 4-dU (dU < DW < 4-dU), thus meeting the autocorrelation assumption.

Path Test

The path test examined the effect of financial flexibility on financial performance, with dividend policy and capital structure as mediators. The test results are shown in Figure 4.

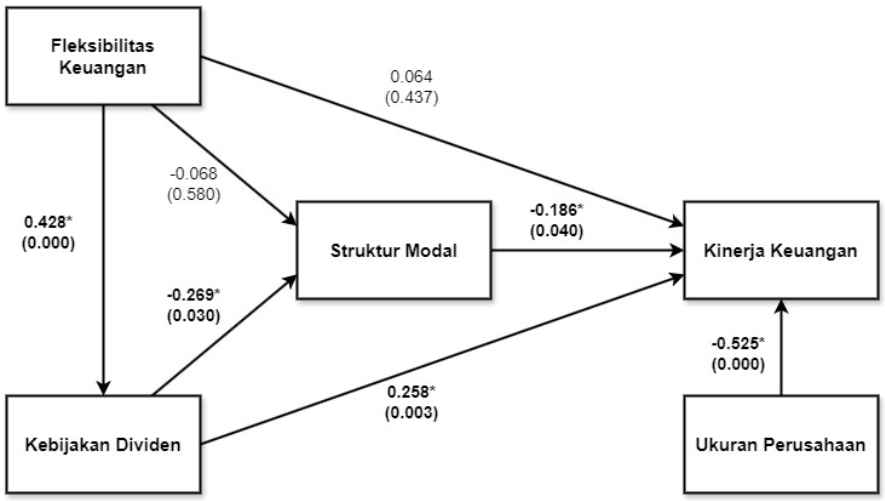

Figure 4. Path Diagram
Source: Processed Research Data (2024)

The results of the hypothesis testing are shown in Table 5:

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Table 5. Hypothesis Test Results

No	Pengaruh	Koef. Jalur	t	p	Ket.
1	X1 → Y	0.064	0.781	0.437	Tidak
2	X1 → Z	-0.068	-0.556	0.580	Tidak
3	X1 → X2	0.428	4.132	0.000	Signifikan
4	X2 → Y	0.258	3.039	0.003	Signifikan
5	X2 → Z	-0.269	-2.213	0.030	Signifikan
6	Z → Y	-0.186	-2.087	0.040	Signifikan
7	X1 → Z → Y	0.013	0.489	0.626	Tidak
8	X1 → X2 → Y	0.110	2.397	0.019	Signifikan
9	X2 → Z → Y	-0.115	-2.276	0.026	Signifikan
10	X1 → X2 → Z → Y	0.021	1.465	0.147	Tidak

Source: Processed Research Data (2024)

The results and discussion of the hypothesis testing are outlined as follows:

1. The Effect of Financial Flexibility on Financial Performance

The findings indicate that financial flexibility has no strong effect on financial performance; thus, H1 is rejected. This finding contradicts previous findings (Almomani, 2023; Arslan-Ayaydin et al., 2014; Choe et al., 2022; Ma & Jin, 2016; Nouri & S.M. Jafari, 2016; Rapp et al., 2014; Wu et al., 2024) and is consistent with research (Agha & Faff, 2014; Byoun, 2016; Cherkasova & Kuzmin, 2018; Gu & Yuan, 2020; Meier et al., 2013). If a company has excessive cash, it can trigger excessive investment, which then takes a long time to generate expected returns. This has the potential to degrade a company's financial performance (Agha & Faff, 2014). Furthermore, Gu & Yuan (2020) explain that excessive cash reserves can lead to decreased performance. This means that the greater the cash reserves, the greater the potential for unproductive cash flow mismanagement.

Furthermore, companies in the property and real estate sector also have unique characteristics. This sector is classified as a multi-purpose sector (Lilia, Situmeang, Varawaty, & Hartanto, 2020) and generally uses bank loans as the primary source of funds (Purnamasari & Hendrawati, 2015). This sector also does not have high cash holdings (Meier et al., 2013). The small cash holdings in this sector are based on their ability to utilize assets such as land and buildings as collateral to obtain bank loans (Lilia et al., 2020). Therefore, financial flexibility is not a primary factor affecting financial performance. The results of this study also cannot confirm the RBT, particularly regarding physical assets (physical capital) in the form of cash, which is a crucial financial resource for a company to achieve competitive advantage and generate financial performance.

2. The Effect of Financial Flexibility on Capital Structure

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The test results indicate that financial flexibility does not affect capital structure. Therefore, Hypothesis 2 is not proven correct. The property and real estate sector is also labor-intensive and capital-intensive (Detik Finance, 04/07/22). This means that this sector requires significant capital to support business activities and continue to grow. Therefore, companies in this sector must determine an appropriate capital structure. Although research by Alipour et al. (2015), Bancel (2004), Brounen et al. (2005), and Graham & Harvey (2001) suggests that financial flexibility is a determining factor in capital structure, this finding supports the findings of Faulkender et al. (2006) and Clark (2010). This explains that although financial flexibility is crucial, it is not a dominant factor in determining how a company finances its operational activities. Several factors influence a company's capital structure decisions, such as interest rates, banking policies, industry growth, project risk levels, and applicable regulations. The results of this study failed to confirm the RBT theory regarding the use of a company's internal resources, specifically cash as a component of physical capital.

3. The Effect of Financial Flexibility on Dividend Policy

The findings indicate that financial flexibility significantly influences dividend policy. Thus, Hypothesis 3 is confirmed. This finding indicates that financial flexibility also impacts decisions regarding dividend distribution (Nur, Mukhzarudfa, & Yudi, 2021). Financial flexibility influences dividend payment decisions and the amount of dividends paid (Abdulkadir et al., 2017). These findings also align with previous research (Kumar & Alert, 2020). With greater financial flexibility, companies can more easily adjust their dividend policies in response to market and financial conditions. According to Kumar & Alert (2020), a company with strong financial flexibility is more able to pay dividends. Conversely, if a company's cash flow is low, it may respond by reducing dividend payments. The results of this study confirm dividend policy theories, particularly "The Bird in the Hand" and Signaling Theory, which posit that dividends signal future cash flows and earnings.

4. The Effect of Dividend Policy on Financial Performance

The findings demonstrate that dividend policy significantly impacts financial performance. Therefore, Hypothesis 4 is confirmed. This finding aligns with previous research (Farrukh & Asad, 2017; Kanakriyah, 2020; Khan et al., 2013; Njoku & Lee, 2024; Wijekoon & Senevirathna, 2019; Yegon et al., 2014). High dividend payments are important to investors because they can be perceived as a positive signal of a company's financial well-being (Nguyen et al., 2021). Dividends can also determine shareholder well-being (Nur et al., 2021). Kanakriyah's (2020) research also indicates that dividend policy can impact stock market prices. With a consistent and profitable dividend policy, a company can enhance its positive

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image and investor confidence. Increased investor confidence can drive increased stock demand. An increase will then follow this in the company's share price and financial performance. The results of this study confirm the performance theories used as indicators of business success, namely The Bird-in-the-Hand Theory and Signaling Theory, which state that companies that pay dividends are well-managed.

5. The Effect of Dividend Policy on Capital Structure

The findings demonstrate that dividend policy significantly influences capital structure, thus confirming Hypothesis 5. This finding reinforces Monono's (2022) finding that dividend policy has a significant effect on the debt-to-equity ratio, dividend per share, and ROE. Through dividend policy, companies can determine the proportion of retained earnings and dividends. In some circumstances, companies do not always pay large dividends to their shareholders. Companies prefer to retain their profits and reinvest them rather than distribute them in large dividends (Nguyen et al., 2021). Retained earnings can be a source of internal capital that companies can utilize. This can alter the amount of debt and the composition of the capital structure. Furthermore, this study successfully confirmed the "Bird in the Hand Theory," which posits that investors prefer dividends to stock investments because dividends are more certain. Furthermore, this study confirmed the Trade-off Theory, which aligns with the characteristics of the property and real estate sector, whose financing policies tend toward higher debt than equity. This is evident from the descriptive analysis, which showed that, on average, 74.9% of the sample companies had a capital structure consisting solely of external debt.

6. The Effect of Capital Structure on Financial Performance

The findings illustrate that capital structure has a strong influence on financial performance. Thus, H6 was confirmed. This finding supports previous research by Narsaiah (2020), Nini et al. (2020), and Rao et al. (2007). Initially, a company's low debt level can improve its performance by providing tax protection (Le & Phan, 2017). However, as debt levels increase, this can actually decrease company performance because the benefits of debt outweigh its costs. If a company's debt level increases, interest costs also increase. This high-interest cost can negatively impact a company's financial performance. Excessive debt also creates financial distress costs and higher agency costs between shareholders and creditors (Nini et al., 2020), which ultimately impact a company's financial performance. Furthermore, high levels of debt can increase a company's financial risk, erode investor confidence, depress stock prices, and ultimately affect financial performance.

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This study demonstrates that capital structure theory, specifically the Trade-Off Theory, aligns with the characteristics of the property and real estate sector, which relies heavily on external debt financing to produce houses and other properties. This study also indicates that although the company pays cash dividends, the amount is very small, around 20.4%. Dividend payments, even though small, are still positively responded to by investors because they indicate a company's good performance. Therefore, this study also supports Signaling Theory.

7. The Effect of Financial Flexibility on Financial Performance with Capital Structure as a Mediator

The findings demonstrate that flexibility does not influence financial performance through capital structure. Therefore, Hypothesis 7 is rejected. This finding indicates that capital structure cannot bridge the gap between financial flexibility and financial performance. In this case, financial flexibility cannot influence capital structure, which, in turn, does not significantly affect a company's financial performance. Financial flexibility is not the most important factor influencing a company's capital structure. The capital structure of property and real estate companies is largely shaped by external conditions and the companies' own circumstances (Priyadi, 2023). Interest rates are a contributing external factor because when interest rates are high, the cost of debt increases (Priyadi, 2023). This is because the capital structure of property and real estate companies relies more heavily on external sources of capital and does not require high cash flexibility. Therefore, the operational activities of property and real estate companies do not depend entirely on the existence of large amounts of cash as a proxy for financial flexibility, but rather on the availability of substantial access to external funding sources.

This result is also evident in the descriptive analysis, which shows that the highest capital structure for property and real estate companies was 1.74. Generally, this high capital structure negatively impacts company performance because increased debt results in high interest payments and reduces company profits. However, because property and real estate companies are capital-intensive, sound management will improve their financial performance. This research confirms the financial flexibility theory, the trade-off theory, and the financial performance theory.

8. The Effect of Financial Flexibility on Financial Performance with Dividend Policy as Mediator

The test results indicate a significant effect of financial flexibility on financial performance, with dividend policy as a mediator. Thus, Hypothesis 8 was confirmed. The

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resulting mediation model exhibited full mediation. The results of this mediation test demonstrate that dividend policy can serve as an important mediator in the relationship between financial flexibility and financial performance. As a company's financial flexibility improves, it becomes easier to determine its dividend policy, which in turn can enhance its positive image and investor confidence. Dividend policy is also known to positively impact stock market prices (Kanakriyah, 2020), ultimately improving the company's financial performance. This finding successfully supports the Bird in the Hand Theory, which posits that investors prefer dividends. This means that when a company has high cash availability, it will be more able to pay dividends to its shareholders. In other words, the amount of dividends paid can be adjusted to the company's cash flow. Regular, large dividend payments can reflect strong company performance. Therefore, this finding also supports signaling theory.

9. The Effect of Dividend Policy on Financial Performance with Capital Structure as the Mediator

The findings demonstrate that dividend policy has a strong impact on financial performance, with capital structure mediating this effect. Therefore, Hypothesis 9 is confirmed. The resulting mediation is partial. The results of this mediation test indicate that capital structure is a significant factor linking dividend policy to financial performance. Company profits can be distributed as dividends to shareholders or not distributed as retained earnings. Utilizing additional internal capital from retained earnings can change the amount of debt, thereby altering the composition of the company's capital structure. Conversely, if a company pays higher dividends, the remaining profits available for reinvestment decline, so the company may need to seek external funding, such as debt, to meet investment needs. This can lead to increased leverage and changes in the company's capital structure, which ultimately impact financial performance. These findings support the pecking order theory, which holds that companies prioritize using internal funds—retained earnings — rather than directly using external funds. A company's dividend policy influences the amount of retained earnings: when it reduces dividend payments, retained earnings increase; conversely, when it increases dividend payments, retained earnings decrease. This decision affects the company's capital structure, which, in turn, influences its performance.

10. The Effect of Financial Flexibility on Financial Performance with Mediators of Dividend Policy and Capital Structure

The test results indicate no significant effect of financial flexibility on financial performance with serial mediators of dividend policy and capital structure. Therefore,

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Hypothesis 10 is rejected. This finding confirms that dividend policy and capital structure are ineffective mediators of the effect of financial flexibility on financial performance. Although financial flexibility can facilitate companies' adjustments to their dividend policies, its impact on capital structure and financial performance is insignificant. This means that flexibility alone is not sufficient to reduce risk and achieve good financial performance. Furthermore, other factors are more important in influencing financial performance. This finding fails to support the RBT theory, which posits that the use of internal resources, such as cash, can drive strong performance and competitive advantage. However, research findings show that even with financial flexibility, it is insufficient to achieve significant financial performance through dividend policy and capital structure.

CONCLUSION

Based on the research findings, four of the 10 proposed hypotheses were found to be insignificant. Financial flexibility did not significantly affect financial performance, either directly or through capital structure and dividend policy, or through a serial mediation of dividend policy and capital structure. Financial flexibility also had no direct effect on capital structure. This indicates that the financial performance of property and real estate companies cannot be determined solely by financial flexibility. While financial flexibility is important, it is not sufficient to mitigate risk and generate financial performance. This research provides practical implications for property and real estate companies seeking optimal financial performance, stating that they need to maintain financial flexibility and make appropriate capital structure and dividend decisions.

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