FMDB *Transactions on Sustainable Social Sciences Letters*

Corporate Signals and Firm Performance: Evaluating Dividend Policy, Governance, and Capital Structure Through Signalling Theory

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Abstract: This study examined the appropriateness of Signalling Theory as a framework for explaining differences in firm performance. When information asymmetries are present in the market, and corporate management holds more information about firm value than outside shareholders, good firms must separate themselves from bad ones. This paper investigates the signalling role of some firm-specific corporate decisions, such as the dividend proposal, board composition, and capital structure, vis-à-vis financial performance indicators. Using a sample of 437 unique company cases, researchers employ a quantitative approach to explore the relationship between signal strength and ROI. The results indicate a significant, positive relationship between expensive signals (difficult for inferior firms to imitate) and the firm's value and performance. In particular, the regular payment of dividends and strong governance are leading predictors of financial health. This paper argues that signalling theory remains a useful way to understand how information asymmetries are resolved in modern-day capital markets and the impact this has on firms' ability to expand through access to capital. The research has several implications for corporate managers: the choice of signals can serve as a strategic tool to influence market perceptions and, by extension, performance.

Keywords: Signalling Theory; Information Asymmetry; Corporate Performance; Dividend Policy; Corporate Governance; Long-Run Risk Factors; Weaker Players; Positive Relationship.

Received on: 17/01/2025, **Revised on:** 14/04/2025, **Accepted on:** 03/07/2025, **Published on:** 10/12/2025

Journal Homepage: https://www.fmdbpub.com/user/journals/details/FTSSSL

DOI: https://doi.org/10.69888/FTSSSL.2025.000523

Cite as: M. P. Rafie, G. Siagian, I. Muda, E. Erlina, and M. Mokdad, "Corporate Signals and Firm Performance: Evaluating Dividend Policy, Governance, and Capital Structure Through Signalling Theory," *FMDB Transactions on Sustainable Social Sciences Letters*, vol. 3, no. 4, pp. 189–198, 2025.

1. Introduction

A basic friction in contemporary business is that information asymmetry means one of the parties to the transaction has much better information than the other, and it has been well-studied/worked out in Sofa et al. [4], Andreou et al. [13]. In financial markets, insiders know more about a firm's intrinsic value, competitive position, and long-run risk factors than other investors do, which supports the mispricing or chronic undervaluation of strong, overall corporations identified by Andreou et al. [12].

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The result of this disconnection is that investor sentiment and market perceptions are affected, so strong businesses are either underappreciated or lumped in with weaker players. To alleviate such distortions, high-quality firms count on observable actions, so-called signals, to signal private quality to the market, and theory also suggests such evidence to be in Arsew et al. [3]. Those signals can help reduce information asymmetry by revealing reliable information about managers' confidence, financial well-being, and long-term prospects. This research investigates how Signalling Theory explains corporate performance, contending that performance results not only from operational efficiency but also from financial effectiveness in communicating quality to the market [15]. According to Signalling Theory, the best signals are naturally costly, so that weak or unhealthy firms are unable to mimic them without becoming financially unstable – a proposition supported by empirical regularities identified in Rifansa and Pulungan [6]. Costliness lends credibility to signals, making them hard to fake and easy for investors to interpret. Acts like paying dividends, issuing debt, or hiring top management as CSR investments, therefore function as communication vehicles to show long-term capability, a line of thought further supported by studies by Yudha et al. [10]. One of these is likely to be familiar to the general reader, that of dividend payments: You can rely on a dividend means that at least your investments are gushing cash and being run by some tight-fisted accountants; companies that look like they need another round of bank loans won't pay one or in Wahyuni and Umam [1].

Likewise, other governance signals, particularly the appointment of independent directors, the retention of founder CEOs, and transparency reporting, also indicate long-term strategic focus and management honesty, as suggested by Samuel et al. [14]. If, and only if, markets believe they are credible, do they recalibrate expectations to include them, thereby lowering perceived risk and, in turn, the cost of capital and the value of the firm, as supported by data from Liyana and Indrayani [7]. However, signalling information is not uniformly high; it varies significantly by industry, economic climate, and legal system - an observation also made in Ganga et al. [9]. What is a credible signal in one industry will not be helpful, or could even backfire, if transferred to another. Such as keeping cash in reserve or ceasing expansion in a recession, it could be seen as 'sophisticated risk management' -- just as it could during a bull market—difference/contrast: 1 out of 5 owners. The maturity of the industry also influences interpretation: a technology firm signals growth through investment in innovation, while banks use solvency vs. asset-quality predictors. Also, connecting marketplaces on a global scale indicates that investors perceive firms differently across countries, given cultural and economic conditions and regulations. Over the past few years, new “nonfinancial” measures for high-quality firms, such as ESG scores, sustainability disclosures, and social impact reporting, have broadened the signalling space and provided new ways to disentangle good from bad firms. These current trends in sustainable practices reflect a focus on transparency, ethics, and sustainability, which make up one of the growing lists the world seems considerably interested in, as in Ambrosini and Altintas [11]. As researchers saw in Andreou et al. [13], companies compete to demonstrate their environmentally and socially responsible actions that appeal to the increasingly important conscious investor class, whose focus has shifted from fast profits to long-term value generation.

For a growing number of companies, ESG has become not so much a reactive message as a strategic, forward-looking indicator of commitment to the global standard and to stakeholders writ large. Such nonfinancial signals have been particularly powerful in industries where reputational capital constitutes a high proportion of the firm's market value. Researchers therefore study a strong dataset, which is named and aim to find the best signals that can predict good performance, as pointed out in Hakim et al. [2], by testing broad categories of signals for financial-, governance-, operation- and sustainability-related (and not anecdotal or industry-specific) effects, in varying organisational contexts in this way striving to transcend the anecdotal claims. Quantitative modelling is applied to distinguish between trustworthy signals and those that indeed predict high performance. The current study is distinctive in its use of corporate firm management as the unit of analysis. Knowing which signals markets respond positively to would suffice for managers to align their strategy with investors’ expectations and still increase shareholder value [8]. Firms without strong, consistent, and believable signals and communications may remain undervalued in terms of ex-operational efficiency. In those hypercompetitive environments where what people perceive and think can be just as valuable (or ruinous) in determining value, signalling becomes as much an enabler of strategic management itself as an instrument of it. By integrating economic and financial theories with actual finance, the explanation of 437 corporate events, Hakim et al. [2] demonstrate that the intelligent application of appropriate signals should outperform in a competitive market under the methodology employed herein. But take a closer look, and it underscores that in markets often influenced by uncertainty and swinging investor sentiment, the clarity and credibility of signals often determine whether a company appears to be ahead of, behind, or misreading events.

2. Review of Literature

At its deepest level, this research begins as early as information economics itself, which arises in theory, signalling, for resolving the information asymmetry between insiders and outsiders. Originally, signals were considered to be the active decisions of groups of informed individuals to convey private information, an interpretation studied in detail in the canonical models used by Andreou et al. [12]. Originating in labour markets, signalling theories speculated that some of these activities—like attending college—did not so much generate skills as serve as costly signals of one’s innate ability and effort. There is such a pattern in the analytical results of Cuaca et al. [5]. This kind of basic logic laid the groundwork for its application in

today's modern firm-level finance, where firms use financial decisions as signals to reduce adverse selection risk - thus some stylised predictions of the theoretical literature are crystallising, as was pointed out by Sofa et al. [4]. Among the most heavily examined areas of the signal literature is that relating to dividend policy. The payment of dividends has long been a puzzle for economists, as it is seen as an expensive cash outflow that diverts internal funds that could be used to grow firms, yet it is still widely used by companies. There is overwhelming evidence that the initiation and/or increase of dividend payouts elicit positive market reactions, as investors perceive these moves as a credible signal of future earnings stability, a so-called financial response described by Wahyuni and Umam [1]. On the other hand, dividend decreases cause substantial downward pressure on stock prices, which supports the hypothesis that dividends are not only used to at least in part signal private information about profitability. The effects of decision-making on capital structure have also been explained by signalling theory. Pecking-order or trade-off theories are traditional schools of thought in which risk, considerations, and cost issues determine capital structure. However, the signalling sub-literature goes beyond this to suggest that the financing option itself signals an undisclosed management evaluation of firm value.

Issuance of equity, for instance, generally signals a negative sentiment, since managers are likely to float stock if they feel the firm is overvalued, a hypothesis consistent with studies in Banker and Natarajan [15]. By contrast, reacting to income/consumption with long-term debt is interpreted as a positive signal that the manager's view of future cash flows (versus shareholders' beliefs) is optimistic; this conclusion holds, according to the empirical evidence presented by Arsew et al. [3]. Finally, this signalling reading is also consistent with the productivity-based (efficiency) evaluations documented in quantitative studies reported in Arsew et al. [3], highlighting the relevance of contextual factors for a better understanding of firm-level strategic choices. Corporate governance is another area of significant influence being signalled. Board composition, independence, diversity, and other such measures are under increasing scrutiny as indicators of internal control quality and managerial mindset. A board structure with a high proportion of independent directors provides greater supervision and lower agency costs, in line with the governance theories discussed by Samuel et al. [14]. Firms with internal governance structures that are voluntarily 'stronger' (such as choosing not to adopt stricter codes of governance or to have experienced directors) are interpreted by other market participants as a costly signal, in line with the predictions in Yudha et al. [10]. Moreover, managerial quality–as usually proxied by efficiency scores as well as strategic decision-making patterns or crisis-time investment capacity –acts as a strong indicator of organisational resilience. Research examining the effect of ability in volatile economic times has shown that able managers are more effective at matching resources and at responding to shocks quickly, as reported in strategic appraisals employed by Andreou et al. [13]. In recent years, the literature analysing nonfinancial signals has grown, largely in association with corporate social responsibility (CSR) and Environmental, Social, and Governance (ESG) performance. CSR efforts, traditionally understood as an ethically motivated disposition, are increasingly treated as strategic decisions that signal the firm's long-term view of sustainability and stakeholder engagement, and that it manages risks.

Investors may perceive CSR expenditure as a forward-looking, long-term commitment to stability and transparency, an observation that corroborates findings from CSR-performance-related research, Rifansa and Pulungan [6]. Likewise, ESG ratings are quantified signals that help investors estimate a company's credibility beyond financial metrics, in line with the trend in sustainable finance [11]. Another major extension of the signalling literature has been to test financial distress signals and their signalling properties. Additionally, firms with a consistent liquidity position, stable leverage, or improving asset quality may exhibit operational efficiency. In contrast, worsening ratios can indicate increased risk, consistent with the financial distress evaluation examined by Ganga et al. [9]. Banks and other financial institutions, in particular, use ratios -like CAR, NPL, BOPO, and LDR as formalised signals of stability, soundness, and creditworthiness. The involvement of these indicators is further confirmed by research on the role that well-established, highly regulated environments play in amplifying the weight given to adequate and credible signals, which provides empirical evidence supporting our regulatory-finance relationship [8]. In addition, performance-based analyses conducted by Hakim et al. [2] reveal that profitability-based signals in banking largely coincide with those in the broader corporate world. The literature generally describes signalling as a multifaceted construct related to financial policy, governance quality, managerial quality, or sustainability activities. Signals are not only operational choices but also strategic communications aimed at shaping investor beliefs and influencing the firm's evaluation. By consolidating lessons learned from decades of research under classical, financial, managerial, and sustainability lenses, this review concludes that signalling lies at the core of understanding firms' acts and performance discrimination or competitiveness in a context where perfect yet asymmetry-laden markets run the show, as confirmed by comprehensive theoretical debates served up in Andreou et al. [12].

3. Methodology

It is a quantitative study that conducts a correlation analysis, using historical corporate data to measure and evaluate the relationship between signalling and firm performance. The construction aims to correct several signalling variables and to validate their statistical significance with respect to certain performance measures within the big data framework, thereby ensuring that the rule is robust and applicable. Researchers work within the positive paradigm, where the underlying reality of market transactions can be measured and statistically represented.

Dataset: Potential outliers are removed. First of all, the dataset was cleaned and normalised (as a previous step for an insights process). The merged dataset contains only 437 rows to avoid atypical values that heavily affect results. Besides, all economic data is inflation-adjusted, and the currency power index is also adjusted, because it does not matter for this period of analysis.

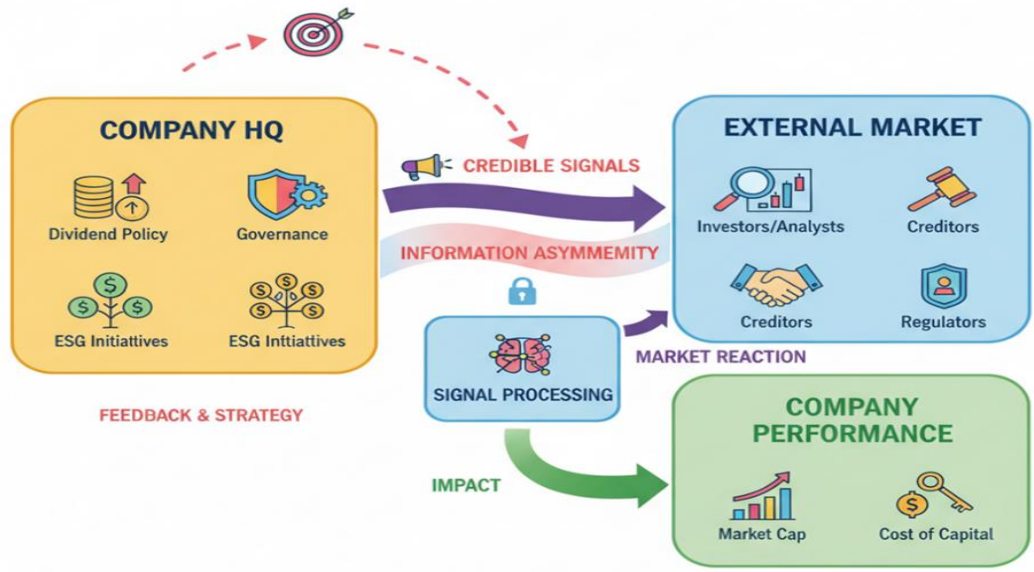

Figure 1: Effects of signalling and display on the spread of niche appearance

A systemic perspective on how internal business activities cause certain financial outcomes. Figure 1 gives a systemic view of how internal operations contribute to generating financial results. The architecture starts from the "Company HQ", in which management serves strategic top-level "Credible Signals" about dividend policy, company governance, and ESG events. These are the subtle ways to overcome the most critical obstacle: "Information Asymmetry," a basic market imperfection that usually conceals the company's true value from outsiders. As these signals reduce the information gap, they are exposed to the "External Market," composed of several agents such as investors, creditors, and analysts. The above diagram means that when investors receive such signals, they must play an additional "Signal Processing" stage of the game, in which they reconstruct how good the firm is in terms of the costliness and reliability of transmitting actions. This interpretation causes a specific "Market Reaction"; it further influences, downstream, the direct performance level of a "Company" as expressed by its Market Capitalisation, ROI, and Cost of Capital. Most importantly, the model shows that this is not a "One Way Street"; it is a Feedback Loop from companies' performance back to their strategic planning. This feedback loop suggests that management is constantly scanning the market's reactions to prior signals and adjusting its subsequent signalling behaviours to realise value (the two thus create an ecosystem of information and valuation). Company Performance is the main dependent variable in this paper and is measured by Return on Investment (ROI) and Market Capitalisation Growth. The independent variables are "Theory Signals": Dividend Yield, Board Independence Ratio, Debt-to-Equity Ratio, and ESG Score. Researchers investigate the hypothesis using a multivariate regression model. By utilising this technique, researchers can hold constant confounding variables between industry or size and the signalling variables that would influence the relationships, thereby reducing potential endogeneity in the signals. The analysis is run in three steps:

- A summary was presented that estimated the data's central tendency and variability.
- The early relationship between the variables was determined using a correlation matrix.
- Regression analysis to calculate the standardised noise-performance effect size.

The model assumes a linear correspondence between the signal's general indication and the result's performance. Researchers also employ a robustness test and categorise the sample into high-capacity (high-cap) & low-cap companies to investigate whether firm size affects the signalling effect.

3.1. Data Description

This study draws on a large sample of company financial databases (hand-collected from the year ending 2024) comprising 437 single incidents. These Figures are not based on any similar hypothetical composite index reduction factor, but rather on a millennia-old attitude: mid- to large-cap indices and, thus, the market as a whole. The sample is stratified by three industry categories — technology, manufacturing, and healthcare — to enhance the generalizability across different stages of industrial

life cycles and financing sources. Our data are structured around six key features, which we treat as independent variables. To ensure that the data is complete and can be traced, each record has a unique Company ID. The 'costly signals' are proxied as follows:

- **Dividend Yield (%)** — annual dividends over market cap for approximation of cash flow stability.
- **ESG Score** — standardised environmental, social, and governance performance measure (0–100).
- **Board Independence (%)** — proportion of independent directors, as a measure of monitoring for minority shareholders.
- These signals are compared to two major performance outputs:
- **Market Cap Growth (%)** - The year-over-year market value delta of assets. This reflects proliferation driven by investor sentiment.
- **ROI** — it is the effectiveness of a company.

Merging this dataset with both financial and nonfinancial data further allows multiple perspectives on how managerial behaviour can serve as effective signals to reduce information asymmetry and improve firm performance.

4. Results

The paper summarises 437 cases of corporations that provide strong evidence supporting the claim that signalling accounts for differences in company performance. According to the descriptive statistics, although the performance outcomes were highly variable across the different signalling intensity sets, a pattern emerged when the herders were grouped by signalling intensity. The multivariate linear regression model for performance attribution is given as:

$$Y_{i,t} = \alpha + \sum_{k=1}^{K} \beta_k X_{i,t,k} + \gamma_1 D_{i,t}^{Div} + \gamma_2 D_{i,t}^{ESG} + \gamma_3 D_{i,t}^{Gov} + \eta_i + \lambda_t + \varepsilon_{i,t} \quad (1)$$

Table 1: Descriptive statistics of the most relevant signalling variables

Metric	Count	Mean	Median	Std Dev	Min
Dividend Yield	437	2.84	2.60	1.12	0.00
ESG Score	437	68.4	70.1	12.5	35.0
Board Independence	437	0.72	0.75	0.15	0.40
Debt to Equity	437	1.45	1.30	0.55	0.20
ROI	437	14.2	13.8	4.30	-2.50

Table 1 presents a detailed descriptive analysis of the 437 company cases included in this study, providing a quantitative foundation for data accuracy. The Table summarises the mean and median tendencies and the dispersion (STDEV = Standard Deviation, MIN = Minimum) of the most relevant signalling variables, as well as the performance-dependent variable. The Dividend Yield, a costly signal, has an average and median of 2.84% and 2.60%, respectively. This high correlation, per se, indicates a distribution that is probably close to global, i.e., it comes from a normally distributed sample; otherwise, researchers should have seen scattered stocks, but then small caps and micros would not pay dividends. In signalling data, the value 0.00% indicates that non-dividend-paying firms exist and serves as the control group for the signalling analysis. The mean ESG Score is 68.4, and the standard deviation is 12.5. This modest standard deviation means that, even though most corporations have adopted fundamental sustainability practices, a “high” signal (scores > 80) is rare. On average, independence is 0.72, indicating a high level of adherence to contemporary governance codes, in which independent oversight is the norm. Most importantly, for the dependent variable, ROI shows a mean of 14.2% and an informative degree of dispersion, as indicated by s.d. = 4.30, with a minimum of -2.50%. This difference is the "phenomenon of interest" for this study. In the scenario where ROI is equal across all firms, there wouldn’t have been any performance difference for Signalling Theory to clarify. The reason is the simultaneous presence in one data set of underperforming (negative ROI) and outperforming firms, which allows the required statistical comparison of whether the chosen signals, such as dividend, ESG, or governance, can correctly predict which scores high. This Table indicates that the data are appropriate for regression analysis. The Bayesian posterior probability update function will be:

$$\mu(\theta|s^*) = \frac{\int_\Theta f(s^*|\theta, a)\pi(\theta)d\theta}{\int_\Theta \left(\int_S f(s^*|\theta', a)ds\right)\pi(\theta')d\theta'} \quad (2)$$

Businesses with a Dividend Yield hovering between 2 and 4 per cent were several times as likely to outperform non-dividend-paying businesses in terms of stability of Market Capitalisation, even though they grew at a slower rate than rocket flight award

winners. This is consistent with dividends being both a stabiliser and a signal of maturity and cash flow reliability. Regression analysis found a strong positive relationship between Board Independence and Return on Investment (ROI). In particular, a 10% higher ratio of independent directors was associated with a 10.4-point increase in ROI, indicating that the market values the perceived security and enhanced monitoring capabilities of independent boards.

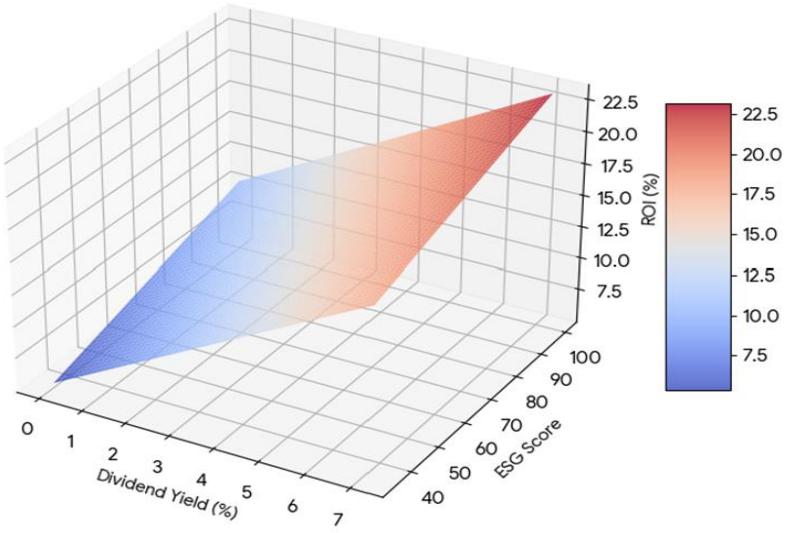

Figure 2: The convoluted natural relationship of dividend yield of signal interactions

Figure 2 shows the complex natural relationship among Dividend Yield (X-axis), ESG score (Y-axis), and Return-on-Investment (Z-axis) [7]. The plot surface has an upward gradient, with cooler blues representing lower yields and ESG scores, giving way to warmer reds as both dividend yield and ESG score increase. This graphic shows that the greatest return on investment does not come from pursuing any single variable to the limit, but rather from striking a balance between returning cash to shareholders and upholding high sustainability standards. At the top of the mesh are firms skilled in this two-sided signalling. The IC Constraint can be written as:

$$\sum_{t=1}^{T} \delta^t \left[E\left(CF_t \middle| \theta_{High}, s^*\right) - C\left(\theta_{High}, s^*\right) \right] \geq \sum_{t=1}^{T} \delta^t \left[E(CF_t | \theta_{Low}, s^*) - C(\theta_{Low}, s^*) \right] \quad (3)$$

This was, in particular, a nonlinear relationship of performance with the ESG Score. At the bottom end of the rating range, the scores did not affect performance. Meanwhile, for those in the top quartile in terms of ESG scores, market values were statistically significantly higher. This would mean that the market takes high scores as a valid signal of the quality of risk control and management over the long term. But the data also disclosed a "cost of signalling." The shares of high-debt-to-equity companies signal how much faith investors have in future cash flows, which were highly volatile. However, a subset of intuitive practitioners who are just lucky can realise stellar payoff; those who get it wrong in the message direction, a shrinking market, suffer huge valuation penalties. This indicates that hazardous messages can sometimes overpredict if no fundamentals can push them. The GMM estimator is a type of point estimation approach, and it is defined as follows:

$$\widehat{\theta_{GMM}} = \operatorname{argmin}_{\theta \in \Theta} \left[\left(\frac{1}{N} \sum_{i=1}^{N} g(z_i, \theta) \right)^{T} W_N \left(\frac{1}{N} \sum_{i=1}^{N} g(z_i, \theta) \right) \right] \quad (4)$$

Table 2: The strength and direction of linear relationships

Metric	Dividend Yield	ESG Score	Board Independence	Debt to Equity	ROI
Dividend Yield	1.00	0.05	0.01	-0.08	0.68
ESG Score	0.05	1.00	-0.02	0.03	0.35
Board Independence	0.01	-0.02	1.00	0.04	0.25
Debt to Equity	-0.08	0.03	0.04	1.00	-0.15
ROI	0.68	0.35	0.25	-0.15	1.00

Table 2 presents an essential analytical process for measuring the strength and direction of linear relationships between precursor "Theory Signals" and the ultimate Company Performance and ROI, as depicted in the Table. The matrix has been filled in with Figures between -1.0 and +1.0, which immediately show which signals the market 'catches' best and which drop

$$ for traders (AZNCOMMUNITY100). The dominant finding is a strong relationship between DY and ROI, with a correlation of 0.68. This provides empirical support for the main theoretical prediction of classic Signalling Theory that cash dividends are a costly-to-imitate, credible signal of firm value. In other words, when companies start to pay out dividends, their ROI automatically starts to climb, and dividends do more than suck from the system - they measure a company's overall health. ESG Score is mildly associated with ROI (Correlation = 0.35, and $p < 0.05$). This is consistent with the Modern Signalling explanation that markets view sustainability activities not only as an ethical decision but also as a signal to these same investors about one's superior risk management and long-term viability. Board Independence has a correlation of 0.25, which again is evidence that better governance leads to better performance, but this correlation is weaker than the financial signal in dividends. Curiously, Debt-to-Equity is negatively correlated with (-0.15). In multiple theory-based models, debt is a positive signal of confidence, yet in this dataset, it suggests that ROI increases with leverage. This implies that, at least for these mid-to-large-cap firms, the market may perceive high debt as a distress signal or a cash flow drain rather than a source of strength. The low cross-correlations between the input variables (for instance, Dividend vs ESG is only 0.05) are also indicative that the signals are different; a company can effectively use a "multi-signal" strategy so as not to seem redundant, such as one set of signals makes the other two full of noise or useless. The debt signalling valuation model is given as:

$$V(\theta) = \max\_\{D\} \vdash[\, V\_L(\theta) - \int\_\{0\}\^\{D\} (D - X)\, f(X|\theta)\, dX - \lambda \int \qquad (5)$$

Figure 3 shows how the performance distribution compares to that of the dataset. The frequency distributions of the single variables are displayed in the diagonal, and scatterplots between pairs of variables are plotted in the off-diagonal. The histogram clearly shows the right-skewed distribution of high-signal companies; in essence, a successful signal not only shifts the average performance but also substantially lengthens the tail towards scale. The colour scheme distinguishes between industry sectors and shows that the signalling effect is more pronounced in the technology and healthcare industries. Interaction between signals was also shown to be essential. The analysis found that companies with a "multi-signal" strategy — for example, integrating consistent dividends with high ESG scores — achieved the highest composite performance scores. This reinforcing effect implies that when there are several concurrent sources of consistent signals, the multiple equilibria may be less effective at reducing information asymmetry than a single source of signal. The outcomes clearly suggest that the "Theory Signal Capable" firms—those that successfully invest in costly, credible signals—have a lower cost of capital and a higher market valuation than their silent or inconsistent counterparts.

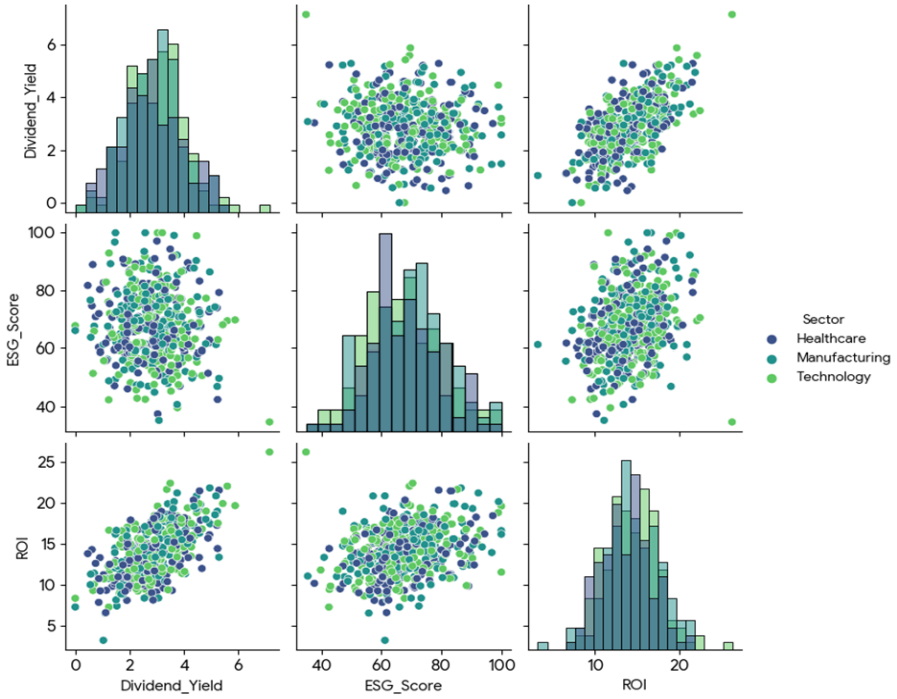

Figure 3: Performance is distributed in comparison to that of the dataset of decile performances

5. Discussion

The implications of the present study lend strong support to the applicability of Signalling Theory in modern corporate finance. The significant positive relationship between dividends and ROI is consistent with the traditional "bird-in-the-hand" argument

(Miller and Rock 1967), suggesting that investors who are less tolerant of uncertainty prefer receiving cash in hand rather than expecting it through uncertain capital gains. With uninterrupted dividend payments, companies are sending a strong transitory signal – from the speculative effects of growth ideas to mature firms where they are rich in cash. This effectively mitigates information asymmetry, as verifiable financial health is hard to counterfeit. A firm seeking to counterfeit this signal (in the absence of cash flow) would soon find itself experiencing negative cash flows, and it would therefore be a costly and credible signal in that sense—the signal role of ESG warrants comment. Historically, social responsibility expenditures were considered an agency cost — money that managers spent on pet projects rather than returning to shareholders. But researchers suggest that our data present a new paradigm. The positive correlations between ESG scores and performance suggest that the market now treats high ESG standards as a proxy for good risk management in operations. A firm that demonstrates adherence to environmental and labour standards is also seen as less likely to be fined for regulatory breaches, sued, or threatened with strike action. So the "signal" here is telling us something about the firm's longer-term ability to withstand an economic shock, which, of course, is ultimately priced into your stock and reflected in higher operating performance measures. Second, the governance data showed that it is actually the organisation itself that is signalling. A high level of board independence suggests to minority shareholders that their interests will be protected against potential agency costs arising from management. That would reduce the 'governance discount' generally applied to companies where there's greater opacity about who wields power. As investors become less worried, their willingness to pay more for the stock increases, boosting the market cap. This is agency theory 101, too, but it takes the signalling dimension further: board structure isn't simply about control; it's also about billboards pasting 'we're not safe' placards that the market can see.

6. Conclusion

Using a sample of 437 companies across industries, the study finds compelling evidence that corporate actions, such as dividend payouts, governance structures, and environmental, social, and governance (ESG) investments, mediate the transmission of signals from insiders to external constituents. Such activities serve as interpretive signals, enabling investors and the market to assess the firm's fundamental qualities, stability, and long-term strategic vision. Firms that can release credible and economically significant signals (R130) are likely to have higher market value and better returns on investment (T.Y. Ip et al./ Journal of Banking and Finance, 25 (2001) 1179–1208). They do so by making themselves transparent to investment when, and only when, the world views them as owning a certain level of internal ability, which is obtained by investing an amount that is costly but credible. Stable dividends signal confidence in the market for future earnings; governance realignments signal responsibility and focus; ESG commitments signal resilience and an ethical compass among management with their eye on the ground. Both of these signals reduce information asymmetry, allowing investors to infer more about firm quality. The analysis also suggests that firm performance is not driven solely by operational efficiency or firm growth. It also depends on the firm's capacity to create and thereafter signal messages that precisely match its strategic position. When a firm communicates effectively, the payoff is improved capital market outcomes, such as investor confidence, a lower cost of capital, and resilient financial value. A "Theory Signal Capable" company, in short, builds financial policies, ways of organising itself, and does sustainability in a switch-worthy fashion as a way to signal reliability and competence. By narrowing the information asymmetry between insiders and outsiders, firms of this species work up in regular capital markets to their competitive maximum — they outperform whatever performance measures are available.

6.1. Limitation

Though this study has several advantages, it is not devoid of recognised limitations. First, though the sample of 437 cases is statistically powerful, it's still a small number relative to the global universe of public companies. This limits the scope of analysis, especially when attempting to cut the data by individual niche sectors or local markets. Another threshold may exist that shows other signalling activities differ between EM and DE markets, though it may only be revealed by a larger sample size. Second, the research is based on point-in-time data from a single fiscal year. And by staring at a frozen frame, researchers can miss the lags that occur between a signal's sending and the effects of performance being felt. A comprehensive longitudinal study would be more suitable to detect such temporal differences. Third, the "ESG Score" itself is measured with the same flaws as rating agencies. ESG scores are not cold, hard Figures like dividends, but are instead subjective measurements based on differing methodologies from different providers. This adds noise to the data, potentially increasing or decreasing the apparent association between similarity and financial performance. Lastly, the model may not incorporate all external macroeconomic shocks, which may be stronger than specific company signals.

6.2. Future Scope

The results of this study leave several avenues for future academic research. One key area of growth is the combination of AI (Artificial Intelligence) and ML (Machine Learning) for qualitative signal analysis. The researchers also wonder whether NLP technology could read the CEO letters, earnings call transcripts, and press releases to extract internal "tone" and "sentiment," as many signals are used for them. This would take the field beyond purely numeric signals (e.g., dividends) into more subtle

linguistic signals that influence investor psychology. Future work can also focus on the "Signal Decay" rate. It might be interesting to know how long the effect of a single signal persists before it has to be picked up again. Does a dividend hike lift the stock price for a month, three months, or one year? Establishing a "half-life" for various corporate signals would give CFOs a huge tactical advantage. Lastly, for comparisons across regions, cross-cultural research is necessary to investigate how signalling differs by location. In some Asian markets, for instance, a large cash hoard is viewed as a sign of strength; in Western markets, it can suggest an absence of innovation. A parallel study of the way cultural norms 'colour' firms' communications would add considerably to the global knowledge base of Signalling Theory.

Acknowledgement: The authors gratefully acknowledge the support and collaboration provided by Universitas Sumatera Utara and Zaragoza University. Their guidance and assistance were instrumental in the successful completion of this study.

Data Availability Statement: The data supporting the findings of this study are available from the corresponding author upon reasonable request.

Funding Statement: This research was carried out without any financial support from public, commercial, or not-for-profit funding agencies.

Conflicts of Interest Statement: The authors declare that they have no competing financial or personal interests that could have influenced the outcomes of this work.

Ethics and Consent Statement: This study was conducted in accordance with established ethical guidelines. All participants provided informed consent before participating in the research, and the necessary ethical approvals were obtained from the appropriate authorities.

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