



Investment Decision, Funding Decisions and Dividend Policies on Firm Value: Empirical Evidence From Emerging Country

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ABSTRACT

The research investigates the impact of investment decisions, funding decisions, and dividend policies on the value of non-financial companies listed on the Indonesia Stock Exchange from 2019 to 2023. The population consists of all non-financial firms on the exchange, with samples selected through purposive sampling based on criteria including consistent financial reporting, cash dividend distribution, and data completeness throughout the observation period. Secondary data, derived from annual financial statements available on the official Indonesia Stock Exchange website, were analyzed using multiple linear regression via the Ordinary Least Squares method in SPSS version 26. Findings indicate that funding decisions, investment decisions and dividend policies collectively exert a significant influence on firm value, supported by a model with satisfactory explanatory power. The research offers theoretical contributions by reinforcing signaling theory and trade-off theory, managerial insights emphasizing the importance of maintaining stable dividend policies, and regulatory recommendations advocating for enhanced transparency in the disclosure of financial policies among public companies in the Indonesian capital market.

INTRODUCTION

Firm value represents the market's perception of a company's past performance, future prospects, and management's capacity to sustainably enhance shareholder wealth (Meira & Dodik, 2024). As a key indicator of shareholders' financial well-being, firm value also serves as a measure of the company's success in resource optimization and maximizing long-term returns. In a highly competitive business landscape, enhancing firm value is a strategic necessity for

companies aiming to sustain investor confidence and reinforce their standing in the capital market (Hamidah & Ramdani, 2023). Empirical evidence reveals a decline in the average value of non-financial firms listed on the Indonesia Stock Exchange between 2021 and 2023, suggesting that financial decisions have not fully succeeded in maintaining an optimal market valuation.

The three principal financial decisions extensively examined in financial management literature are investment decisions, funding decisions, and dividend policies. Investment decisions involve allocating funds to projects anticipated to yield optimal future returns (Purba et al., 2021). Funding decisions determine the capital structure balance between debt and equity, directly influencing the company's cost of capital and risk profile (Romano et al., 2001; Frank & Sanati, 2021). Dividend policy reflects the proportion of profits distributed to shareholders and functions as a communication tool between management and investors regarding profit stability and growth expectations (Fathihani et al.; Siladjaja et al., 2022). Collectively, these decisions shape investors' perceptions of intrinsic firm value and are fundamental determinants of long-term capital market performance (Georgewil, 2021; Arduni et al., 2024).

According to signaling theory, every financial decision conveys information that the market interprets and incorporates into stock prices (Fathihani et al., 2023). Effective investment decisions elevate expectations of future cash flows and signal the company's growth potential positively (Triani & Tarmidi, 2019; Aprianto et al., 2022). Optimal funding decisions reduce capital costs by leveraging debt tax benefits while managing bankruptcy risk within acceptable limits, as described by trade-off theory (Frank & Sanati, 2021). These mechanisms operate synergistically to influence firm value, making an understanding of their interplay essential for sound financial decision-making.

Empirical research examining the effects of these variables on firm value has produced mixed results. Triani and Tarmidi (2019) identified a significant impact of investment decisions on firm value, whereas the influence of funding decisions and dividend policies appeared to vary by industry context. Anwer et al. (2021) demonstrated that dividend policy in sharia-based companies acts as a strong signal to investors, thereby affecting firm value. Saiftri et al. (2022) found a positive association between profitability, dividend policy, and firm value, though governance effects were inconsistent. Shoumi and Wardana (2024) reported that dividend policy can serve both as a mediator and moderator linking financial factors with firm value. Niza and Nafiati (2025) observed that dividend and leverage policies positively and significantly affect the value of non-financial companies listed on the Indonesia Stock Exchange during 2015–2024. Safani et al. (2023) confirmed that investment and funding decisions exert positive and significant effects on the value of sharia non-financial firms listed on the Indonesian sharia stock index. The inconsistency of these empirical findings indicates that the direct influence of investment decisions, funding decisions, and dividend policies on the value of companies has not been adequately generalized, especially in the context of emerging markets with a high level of information acidity. Most previous studies have placed dividend policy as a mediating or moderation variable, rather than as an independent variable that is directly tested alongside investment decisions and funding decisions in one integrated model (Shoumi & Wardana, 2024; Anwer et al., 2021). Research that specifically integrates these three variables simultaneously with standardized proxies on non finance companies on the Indonesia Stock Exchange is still limited, even though the non finance contributes significantly to the national economy and has a high heterogeneity of financial strategies (Apriyani, et al , 2022).

The research directly investigates the impact of investment decisions, funding decisions, and dividend policies on the value of non-financial companies listed on the Indonesia Stock Exchange. The analysis employs panel data regression on these companies, focusing exclusively on the direct effects of the three financial variables on firm value within an integrated model framework, without incorporating mediation or moderation variables. Contributions arise in three key areas. Theoretically, the research reinforces signaling theory and trade-off theory by elucidating the direct mechanisms through which financial decisions affect firm value in emerging markets. Empirically, it provides evidence from the non-financial sector of the

Indonesia Stock Exchange regarding the simultaneous direct influence of investment, funding, and dividend policies on firm value, addressing empirical gaps left by earlier studies. Practically, the findings offer valuable guidance for corporate management, investors, and regulators in formulating financial policies that sustainably enhance firm value.

LITERATURE REVIEW

Signaling Theory

Signaling theory, introduced by Spence (1973), is based on the premise that information asymmetry exists between company management and investors in capital markets. Management possesses more comprehensive internal knowledge about the company's condition and future prospects, whereas investors rely on signals conveyed through the company's financial decisions. The core of value theory assumes that every financial action undertaken by a company contains information that the market interprets as an indicator of the company's quality and future outlook.

Within this context, the three primary variables function as distinct yet complementary signaling mechanisms. Increased investment decisions send a positive message to the market, indicating management's confidence in the availability of profitable growth opportunities, which prompts the market to raise the company's share valuation (Triani & Tarmidi, 2019; Purba et al., 2021). A well-structured funding decision signals management's ability to manage capital risk prudently, thereby enhancing investor confidence in the company's operational stability (Wahyuni & Amanati, 2019). A consistent and rising dividend policy provides the most direct signal to investors, demonstrating that the company generates genuine and sustainable profits rather than profits derived from accounting manipulation (Fathihani et al., 2023; Bakri, 2021). Together, these signals shape the market's perception of the company's intrinsic value, with the strength of the signals influencing the level of market valuation.

Trade-off theory

Trade-off theory, originally developed by Modigliani and Miller and later refined by various scholars, explains that a company's capital structure decision results from a careful balance between the benefits and costs of debt usage (Frank & Sanati, 2021). The theory is grounded in the principle of equilibrium, where each additional unit of debt provides tax savings through tax shields but also incurs costs related to increased bankruptcy risk and financial distress. Companies that successfully identify the optimal balance between these opposing effects maximize their market value.

In this framework, trade-off theory elucidates how each variable influences firm value through a related but distinct equilibrium logic. Optimal investment decisions reflect a balance between allocating funds to projects with returns exceeding the cost of capital and avoiding speculative or excessive investments, thus maintaining capital allocation efficiency to enhance firm value (Romano et al., 2001). Appropriate funding decisions balance the tax advantages of debt against bankruptcy risk, with an optimal capital structure minimizing the cost of capital and maximizing firm value (Frank & Sanati, 2021). Dividend policy, from the trade-off perspective, balances the need for internal financing to support growth with the obligation to provide shareholders with direct returns. Firms that maintain this balance are perceived by the market as prudently managed entities focused on long-term value creation (Brigham & Houston, 2015; Romano et al., 2001).

Investment Decisions and Firm value

Signaling theory posits that every financial decision made by a company conveys information that the market interprets and incorporates into stock prices (Spence, 1973). Among these, investment decisions serve as the most direct signals to the market, as allocating funds to productive projects indicates management's confidence in the company's future growth potential (Triani & Tarmidi, 2019). Efficient allocation of resources to productive assets demonstrates the company's capacity to generate higher future cash flows, thereby raising investors' expectations regarding returns on their investments. Empirical findings consistently show that investment decisions positively influence firm value, as the market perceives increased investment as evidence

of strong managerial ability to identify and exploit growth opportunities (Purba et al., 2021; Santoso, 2019; Sa'diyah, 2021; Aprianto et al., 2022). Based on these theoretical and empirical foundations, the proposition is that more optimal investment decisions lead to higher market valuation of the company. Hence, the first hypothesis is formulated as follows:

H1: Investment decision has a positive and significant effect on firm value.

Funding decision and firm value.

Trade-off theory explains that the capital structure composition between debt and equity balances the tax advantages of debt against the costs associated with bankruptcy risk, so that an optimal capital structure maximizes firm value (Frank & Sanati, 2021). Companies making prudent funding decisions benefit from tax shields provided by debt interest payments, which reduce tax liabilities, while maintaining financial distress risk at manageable levels, thereby enhancing investor perception of the company's stability and justifying a higher market valuation (Romano et al., 2010). Signaling theory complements this by suggesting that well-structured funding decisions communicate management's discipline in capital risk management, boosting investor confidence and promoting firm value appreciation (Wahyuni & Amanati, 2019; Suherlan, 2024; Odufisan et al., 2025). Empirical evidence confirms that companies with efficient funding decisions are regarded by the market as financially robust entities. Accordingly, the proposition is that higher-quality funding decisions correspond to increased firm value. Therefore, the second hypothesis is stated as:

H2: Funding decision has a positive and significant effect on firm value.

Dividend policies and firm value.

Signaling theory highlights dividend policy as a key communication channel between management and investors amid information asymmetry, where increases in dividend payments are interpreted as credible signals of profit stability and management's confidence in future prospects (Fathihani et al., 2023). Investors view consistent and rising dividends as proof that the company generates sufficient cash flows and is not concealing financial deterioration, which enhances investor confidence and drives up stock prices (Bakri, 2021). Trade-off theory further explains that an appropriate dividend policy balances the need for internal reinvestment to support growth with the obligation to provide direct returns to shareholders, a balance to which the market responds favorably (Brigham & Houston, 2015). Empirical studies demonstrate that stable and increasing dividend policies positively affect firm value by reinforcing investor confidence in profit sustainability (Santosa et al., 2020; Adiputra & Hermawan, 2020). Based on these theoretical insights and empirical findings, the proposition is that better dividend policies result in higher market valuation. Thus, the third hypothesis is:

H3: Dividend policies has a positive and significant effect on firm value.

METHODS

Types and Approaches to Research

A quantitative approach with a causality research design is employed to analyze the direct effects of investment decisions, funding decisions, and dividend policies on firm value (Creswell & Creswell, 2018). The quantitative method is selected to systematically measure relationships among variables through objective and reflective statistical analysis (Hair et al., 2019). The data consist of annual secondary data sourced from the official Indonesia Stock Exchange website via www.idx.co.id. The research population comprises all non-financial and real estate sector companies listed on the Indonesia Stock Exchange from 2019 to 2023. Samples were selected using purposive sampling based on stringent criteria to ensure data quality and consistency (Sekaran & Bougie, 2019). The criteria include: the company must be listed on the Indonesia Stock Exchange throughout the entire observation period; publish complete annual financial statements for 2019–2023; distribute cash dividends at least once during the observation period; report financials in rupiah; and have no negative values in the studied variables that could potentially distort estimation results.

Four primary variables are utilized. Firm value, the dependent variable, is measured using the Price to Book Value (PBV), which compares stock market prices and is considered a comprehensive reflection of market assessment of the company's prospects (Subramanyam & Wild, 2010). Investment decisions, the first independent variable, are measured by the Price Earnings Ratio (PER), reflecting market expectations of future corporate profit growth (Purba et al., 2021). Funding decisions, the second independent variable, are captured by the Debt to Equity Ratio (DER), indicating the proportion of debt financing relative to equity in the capital structure (Romano et al., 2001). Dividend policy, the third independent variable, is measured by the Dividend Payout Ratio (DPR), representing the proportion of net profit distributed to shareholders (Brigham & Houston, 2015).

Data analysis is conducted using the Ordinary Least Squares (OLS) method with SPSS version 26. OLS is chosen for its ability to produce the Best Linear Unbiased Estimator (BLUE) when classical assumptions are met (Gujarati & Porter, 2009). Prior to hypothesis testing, classical assumption tests are performed, including normality testing via Kolmogorov-Smirnov, multicollinearity assessment using the Variance Inflation Factor, heteroscedasticity testing through the Glejser method, and autocorrelation testing with the Durbin-Watson statistic (Hair et al., 2019). Meeting these assumptions ensures that regression coefficient estimates are consistent and unbiased.

Hypothesis testing proceeds in three stages: the F test evaluates the simultaneous effect of all independent variables on the dependent variable; the t-test assesses the partial effect of each independent variable on firm value at a 5% significance level; and the adjusted coefficient of determination (adjusted R²) measures the proportion of variation in firm value explained collectively by the three independent variables (Gujarati & Porter, 2009). The estimated regression equation model is as follows:

$$PBV = \alpha + \beta_1 PER + \beta_2 DER + \beta_3 DPR + \varepsilon.$$

Remarks: PBV is Price to Book Value as a proxy for the company's value; PER is the Price to Earnings Ratio as a proxy for investment decisions; DER is a Debt to Equity ratio as a proxy for funding decisions; The DPR is the Dividend Payout Ratio as a proxy for the dividend policy; α is a constant; β_1 β_2 β_3 is the estimated coefficient of regression of the variables; and ε is an error term.

RESULTS

Table 1 Statistical Analysis Results
Descriptive Statistics

Variable	N	Minimum	Maximum	Average	Std. Deviation
PER	348	-4,61	9,65	-0,7618	1,66668
DER	348	0.82	9.43	2.7257	1.24128
DPR	348	-0.60	3.44	2.0585	0.75005
PBV	348	-2.12	3.80	0.5299	1.08220

Source: Processed secondary data, 2026

Table 1 presents the descriptive statistics for the four research variables, revealing diverse data distributions. The Investment Decision variable, represented by the Price Earnings Ratio (PER), has a mean value of -0.7618 and a standard deviation of 1.66668. The standard deviation exceeding the mean indicates considerable variability in investment decision data, reflecting heterogeneous investment strategies among the sampled non-financial companies during the 2019–2023 period (Purba et al., 2021).

The Funding Decision variable, proxied by the Debt to Equity Ratio (DER), shows a mean of 2.7257 with a standard deviation of 1.24128. The standard deviation being smaller than the mean suggests relative homogeneity in funding decisions, implying that the sampled non-financial

companies tend to maintain capital structures within a similar range (Romano et al., 2001; Frank & Sanati, 2021).

The Dividend Policy variable, measured by the Dividend Payout Ratio (DPR), records a mean of 0.20585 and a standard deviation of 0.75005. The standard deviation being less than the mean indicates minimal dispersion in dividend policy data. Meanwhile, Firm Value, proxied by the Price to Book Value (PBV), has a mean of 0.5299 and a standard deviation of 1.08220. The standard deviation surpassing the mean reflects substantial variability in market perceptions of the value of the sampled non-financial firms (Brigham & Houston, 2015).

Table 2. Normality Test Results

Remarks	One-Sample Smirnov Test	Kolmogorov- Smirnov	Unstandardized Residual
N			348
Mean			0.0000000
Std. Deviation			0.64016173
Absolute (Kolmogorov- Smirnov)			0.048
Asymp. Sig. (2-tailed)			0.200

Source: Processed secondary data, 2026

Residual normality testing was performed using the KolmogorovSmirnov test of one sample. Based on Table 2, the Kolmogorov-Smirnov statistical value obtained is 0.048 with an Asymp value. Sig. (2-tailed) of 0.200 which is greater than the significance level of 0.05. These results show that the residual regression model is normally distributed, so that the assumption of normality is fulfilled and subsequent hypothesis testing can be legitimately performed (Hair et al., 2019; Gujarati & Porter, 2009).

Table 3. Multicollinearity Test Results

Variable	Tolerance	VIF
PER	0.368	2.718
DER	0.364	2.745
DPR	0.982	1.018

Source: Processed secondary data, 2026

Based on Table 3, all independent variables show a tolerance value greater than 0.10 and a Variance Inflation Factor (VIF) value of less than 10. PER has a tolerance value of 0.368 and VIF 2.718; DER has a tolerance value of 0.364 and VIF 2.745; and DPR has a tolerance value of 0.982 and VIF 1.018. Thus, it can be concluded that there is no problem of multicollinearity among the independent variables in this study model, so the estimated regression coefficient is unbiased (Gujarati & Porter, 2009).

Table 4. Autocorrelation Test Results (Durbin-Watson)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.806	0.650	0.641	0.64798	2.015

Source: Processed secondary data, 2026

Autocorrelation testing was performed using the Durbin-Watson test. Based on Table 4, the DW value obtained is 2.015. With a sample size of 348 observations, three independent variables, and a confidence level of 5%, the lower limit value (di) is 1.6608 and the upper limit value (dU) is 1.7582. The DW value of 2.015 is between dU and 4-du ($1.7582 < 2.015 < 2.2418$), so it can be concluded that there are no autocorrelation problems in this regression model (Hair et al., 2019).

Table 5. Results of Heteroscedasticity Test (Glejser Test)

Variable	T	Sig.
(Konstanta)	1.409	0.161
PER	1.099	0.274
DER	1.415	0.160
DPR	1.268	0.207

Dependent variable: Residual absolute value (Abs_RES)

Source: Processed secondary data, 2026

Based on Table 5, the results of the Glejser test show that all independent variables have a significance value greater than 0.05. PER have a significance value of 0.274:DER have a significance value of 0.160:DPR has a significance value of 0.207. Thus, there is no heteroscedasticity problem in the regression model, which means that the residual variants are homogeneous across the entire range of independent variable values (Gujaratii & Porter, 2009).

Table 6 Results of Multiple Linear Regression Test and t-Test (Partial)

Variable	B	Std. Error	Beta	T	Sig.
(Konstanta)	3.344	0.316		-10.566	0,000
PER	-0.265	0.057	0.408	1.621	0,062
DER	0.506	0.077	0.580	6.536	0,000
DPR	0.805	0.078	0.772	14.291	0,000

Dependent variable: Firm value (PBV)

Source: Processed secondary data, 2026

Based on Table 6, the regression equations formed are as follows:

$$PBV = 3,344 - 0,265 \text{ PER} + 0,506 \text{ DER} + 0.805 \text{ DPR} + \epsilon$$

A constant value of 3.334 indicates that if all independent variables are zero, the value of the firm proxied with PBV is 3.334. The PER coefficient of -0.265 indicates the direction of negative influence, which means that every increase in one unit of PER will be followed by a decrease in PBV of 0.265 assuming other variables are constant. The DER coefficient of 0.506 indicates a positive direction, meaning that every increase in one unit of DER will increase PBV by

0.506. The DPR coefficient of 0.805 shows the strongest positive influence, where every increase of one unit of DPR will increase the PBV by 0.805 (Frank & Sanati, 2021).

Table 7. Test F Results (Simultaneous)

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	95.170	3	31.723	75.552	0.000
Residual	51.226	122	0.420		
Total	146.396	125			

Dependent variable: Firm value (PBV)

Source: Processed secondary data, 2026

Based on Table 7, the F-value of the calculation obtained is 75.552 with a significance value of 0.000 which is smaller than 0.05. These results show that simultaneously, PER, DER, and DPR have a significant effect on PBV. In other words, the regression model that is built as a whole is suitable to explain the variation in firm values in non finance companies listed on the Indonesia Stock Exchange for the 2019-2023 period (Hair et al., 2019).

Table 8. Determination Coefficient (R^2) Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.806	0.650	0.641	0.64798

Dependent variable: Firm value (PBV)

Source: Processed secondary data, 2026

Based on Table 8, the Adjusted R Square value obtained is 0.641, which means that 64.14 percent of PBV can be explained together by PER, DER, and DPR. Meanwhile, the remaining 35.94 were explained by other factors that were not included in this study model. The Adjusted R Square value of 64.1 & indicates that this research model has sufficient explanatory power for the context of empins financial management research (Gujarati & Porter, 2009).

DISCUSSION

The effect of PER on firm value (PBV) reveals that the Price Earnings Ratio (PER) has a negative and significant impact on firm value, as measured by PBV, with a coefficient of -0.265 and a significance level of 0.000, leading to the rejection of the first hypothesis. From the perspective of signaling theory, a high PER does not necessarily convey a positive signal regarding a company's growth prospects. In emerging markets like Indonesia, an elevated PER may indicate overly optimistic market expectations, causing stock prices to surpass their fundamental values and subsequently suppressing the PBV ratio (Spence, 1973; Fathihani et al., 2023).

These findings align with prior research indicating that, under certain market conditions, a high PER reflects stock overvaluation, which can negatively affect long-term market valuation. This supports the trade-off theory's assertion that investments failing to yield returns exceeding the cost of capital diminish firm value (Romano et al., 2001). However, these results contrast with Santoso (2019) and Sa'diyah (2021), who found a positive effect of investment decisions on firm value, likely due to differences in proxy measurements and sample characteristics.

Regarding the effect of DER on PBV, the Debt to Equity Ratio (DER) exhibits a positive and significant influence on PBV, with a coefficient of 0.506 and a significance level of 0.000, confirming the acceptance of the second hypothesis. This outcome aligns with trade-off theory, which posits that appropriate debt usage yields tax shield benefits that reduce the company's tax burden, enhancing its market attractiveness compared to firms relying solely on equity financing (Frank & Sanati, 2021; Romano et al., 2001).

Signaling theory further corroborates these findings by indicating that well-structured funding decisions signal management's discipline in capital risk management, thereby boosting investor confidence in the company's operational stability (Wahyuni & Amanati, 2019). Similar results were reported by Suherlan (2024) and Odufisan et al. (2025), who confirmed that firms with efficient funding decisions are perceived as financially robust, resulting in higher market valuations.

The effect of Dividend Payout Ratio (DPR) on PBV indicates a positive and significant relationship, with a coefficient of 0.805 and a significance value of 0.000, leading to acceptance of the third hypothesis. The coefficient is the largest among the independent variables, suggesting that dividend policy exerts the most substantial influence on the value of non-financial firms in the sample. These results are consistent with signaling theory, which holds that consistent and

increasing dividend payments are the clearest signals to investors that the company generates genuine and sustainable profits rather than accounting manipulations (Spence, 1973; Bakri, 2021).

Trade-off theory complements this by asserting that an appropriate dividend policy balances the need for reinvestment to support growth with the obligation to provide direct returns to shareholders, a balance positively received by the market (Brigham & Houston, 2015). These findings align with Santosa et al. (2020) and Adiputra and Hermawan (2020), who demonstrated that stable and increasing dividends enhance investor confidence in profit sustainability. Furthermore, Siladjaja et al. (2022) and Anwer et al. (2021) confirmed a positive relationship between dividend policy and firm value across various market contexts.

CONCLUSION

The analysis investigates the direct effects of Price Earnings Ratio (PER), Debt to Equity Ratio (DER), and dividend policies on the value of non-financial companies listed on the Indonesia Stock Exchange from 2019 to 2023, employing multiple linear regression through the Ordinary Least Squares method on all observations meeting purposive sampling criteria. The results show that PER has a negative and statistically insignificant impact on Price to Book Value (PBV).

These outcomes suggest that elevated PER values during the observation period primarily indicate stock overvaluation rather than genuine investment potential, resulting in a market response characterized by a decline in the PBV ratio.

Conversely, DER exhibits a positive and significant influence on firm value, confirming the acceptance of the second hypothesis. This finding supports the notion that non-financial companies optimizing their debt proportions benefit from tax savings that lower the effective cost of capital, thereby enhancing market valuation. Furthermore, the Dividend Payout Ratio (DPR) demonstrates a positive and significant effect on firm value, with the largest coefficient among the independent variables, validating the third hypothesis and establishing dividend policy as the most influential determinant of firm value within the sample.

SUGGESTION

Four limitations should be acknowledged when interpreting the findings. Each variable is represented by a single proxy, which may not fully capture all dimensions of the constructs under investigation. The sample is restricted to companies that consistently distribute cash dividends, limiting the generalizability of the results to all non-financial firms, particularly those undergoing aggressive growth phases.

The observation period includes the effects of the Covid-19 pandemic, which substantially altered corporate financial behavior, necessitating cautious interpretation of the estimated coefficients in different economic contexts. Additionally, the analysis excludes mediation and moderation variables, preventing identification of indirect mechanisms linking the independent variables to firm value through the applied model.

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