



## FINANCIAL DECISIONS AND PROFITABILITY IN THE FORMATION OF FIRM VALUE

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### ARTICLE INFO

Volume 3, Issue 1  
November 2025 –  
February 2026  
286 - 292  
E-ISSN 3047-6968

#### Received Date

February 15, 2025

#### Received in Revised

February 27, 2026

#### Available Online

February 28, 2026

#### Keywords

Firm Value;  
Profitability; Dividend  
Policy; Capital  
Structure; Investment  
Decisions.

### ABSTRACT

**Research Objectives** - This study aims to analyze the effect of investment decisions, debt policy, dividend policy, and profitability on firm value in manufacturing companies within the food and beverage subsector listed on the Indonesia Stock Exchange during the 2021–2024 period.

**Method** - This research employs a quantitative approach with an explanatory design based on secondary data derived from annual financial statements. The analysis utilizes multiple linear regression, accompanied by classical assumption tests, t-tests, F-tests, and the coefficient of determination ( $R^2$ ).

**Research Findings** - The empirical results indicate that profitability and dividend policy have a positive and significant effect on firm value. Investment decisions and debt policy also demonstrate a positive influence, although with a more moderate level of significance. These findings suggest that investors respond more strongly to earnings-generating capability and dividend consistency than to leverage policy alone.

**Theory and Practical Implications** - The findings reinforce the relevance of Signaling Theory and Trade-Off Theory within the context of a post-pandemic emerging market. From a policy perspective, management should prioritize enhancing profitability and maintaining dividend stability to strengthen market perceptions of firm value.

**Novelty** - This study offers a simultaneous integration of PER, DER, DPR, and ROA within a single sectoral empirical model during the economic recovery period of 2021–2024.

## INTRODUCTION

The development of global and domestic capital markets in recent years has exhibited increasingly complex dynamics, particularly in the post-COVID-19 pandemic era, which has altered consumption patterns, cost structures, and corporate financing strategies. In Indonesia, manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange constitute a strategic sector due to their significant contribution to the national economy and the essential nature of their products. In this context, firm value—commonly proxied by Price to Book Value (PBV)—reflects market perceptions of future cash flow prospects and the quality of managerial decision-making (Brigham & Houston, 2021). Several Scopus-indexed studies indicate that internal factors such as investment decisions, capital structure, dividend policy, and profitability are closely associated with firm value (Fama & French, 1998; Baker & Wurgler, 2004; Myers, 2001). However, the economic volatility during the 2021–2024 period necessitates more up-to-date and contextual empirical examination.

Although numerous studies have investigated the determinants of firm value, their findings remain inconsistent. Fama and French (1998) found that profitability has a positive effect on firm value, whereas the effect of debt structure varies depending on industry characteristics. Meanwhile, Baker and Wurgler (2004), through the catering dividend theory, argue that dividend policy can enhance firm value when the market places a high valuation on dividends. However, studies in emerging markets frequently report that debt and dividend policies are not always significant



determinants of firm value, particularly under conditions of economic uncertainty. This research gap suggests that the relationships among investment decisions, debt policy, dividend policy, and profitability with firm value remain contextual and require simultaneous testing within specific sectors and time periods.

Theoretically, the relationships among these variables can be explained through several major theoretical frameworks. Modigliani and Miller (1958) posit that under perfect market conditions, capital structure does not affect firm value; however, this assumption has been criticized for neglecting taxes, bankruptcy costs, and information asymmetry. The Trade-Off Theory (Myers, 1984) emphasizes the balance between the tax benefits of debt and bankruptcy risk, whereas Signaling Theory (Spence, 1973; Ross, 1977) explains that investment and dividend decisions serve as signals of a firm's future prospects. The Pecking Order Theory (Myers & Majluf, 1984) further suggests a preference for internal financing over external funding. Although these theories are well established in the international finance literature indexed by Scopus, their application to Indonesian manufacturing companies in the food and beverage subsector during the post-pandemic period remains relatively limited and yields inconsistent results.

The novelty of this study lies in the simultaneous integration of investment decisions (PER), debt policy (DER), dividend policy (DPR), and profitability (ROA) in explaining firm value (PBV) within manufacturing companies in the food and beverage subsector during the 2021–2024 period, a phase characterized by economic recovery and corporate strategic adjustments following the pandemic. Furthermore, this study adopts a quantitative empirical approach using recent data and a narrower sectoral specification, thereby providing a sharper contextual contribution compared to prior studies that generally employed cross-sector samples or pre-global-crisis observation periods.

This study aims to analyze the effects of investment decisions, debt policy, dividend policy, and profitability on firm value, both partially and simultaneously, among manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange during the 2021–2024 period. The limitations of this study include the use of specific financial ratio proxies (PER, DER, DPR, ROA, and PBV), the relatively short four-year observation period, and the focus on a single industrial subsector, which requires cautious generalization of the findings to other sectors.

## **METHOD**

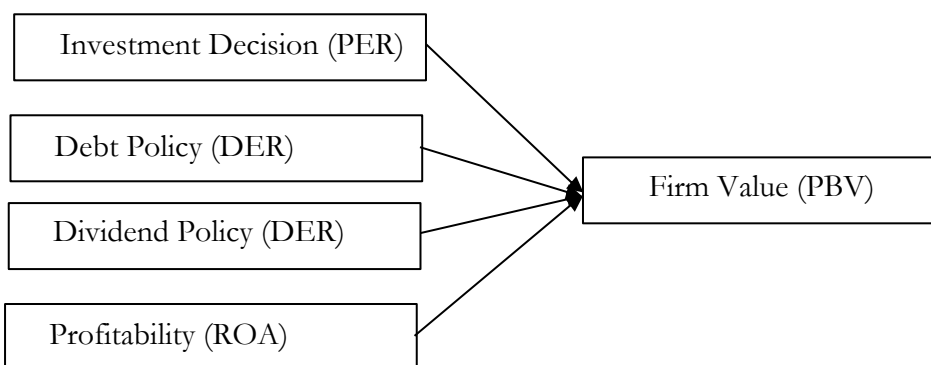
This study employs a quantitative approach with an explanatory research design, as it aims to empirically and systematically examine the effect of investment decisions (PER), debt policy (DER), dividend policy (DPR), and profitability (ROA) on firm value (PBV). A quantitative approach is commonly applied in corporate finance research because it enables the testing of causal relationships among variables through statistical analysis based on numerical data derived from financial statements (Gujarati & Porter, 2009). A number of internationally reputable studies indexed in Scopus have adopted similar approaches, such as Fama and French (1998) in examining the determinants of firm value, Baker and Wurgler (2004) in analyzing dividend policy and market reactions, and Myers and Majluf (1984) in developing the Pecking Order Theory based on empirical testing of public company data. The use of quantitative methods in this study is grounded in the measurable ratio characteristics of the variables and the necessity to test hypotheses both partially and simultaneously in order to obtain objective generalizable findings.

The data collection technique in this study employs a documentation method using secondary data in the form of annual financial statements and annual reports of manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange during the 2021–2024 period. The data were obtained from the official website of the Indonesia Stock Exchange and the respective official websites of the companies. The use of secondary data in financial research is considered appropriate due to its high level of reliability, audited status, and its reflection of the companies' actual conditions (Saunders, Lewis, & Thornhill, 2019). Furthermore, this approach is efficient and allows for replication in different periods and sectors. The sampling technique employed purposive sampling based on specific criteria, such as companies that consistently published complete financial statements throughout the observation period and distributed dividends.

The analytical tool used is multiple linear regression analysis to examine the effect of independent variables on the dependent variable, both partially (t-test) and simultaneously (F-test), as well as the coefficient of determination ( $R^2$ ) to measure the model's ability to explain variations in firm value. Prior to conducting regression analysis, the data were tested using classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, to ensure the validity of the model (Gujarati & Porter, 2009). The regression model employed is as follows:

$$PBV = \alpha + \beta_1PER + \beta_2DER + \beta_3DPR + \beta_4ROA + \epsilon$$

Conceptually, the research framework illustrates that investment decisions, debt policy, dividend policy, and profitability, as independent variables, influence firm value as the dependent variable. This relationship is grounded in Signaling Theory, Trade-Off Theory, and Pecking Order Theory, which posit that corporate financial decisions convey strategic information that is interpreted by the market in the form of changes in firm value. The operational framework of this study can be illustrated as follows:



**Figure 1** Research Framework

## RESULTS AND DISCUSSION

In this study, the normality test was conducted using the One-Sample Kolmogorov–Smirnov statistical test. The decision criterion for the One-Sample Kolmogorov–Smirnov Test is that if the significance value exceeds 0.05, the data are considered normally distributed; conversely, if the significance value is below 0.05, the data are not normally distributed (Ghozali, 2016).

**Table 1** Results of the one-sample kolmogorov–smirnov normality test

N		80
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.43537947
Most Extreme Differences	Absolute	.068
	Positive	.052
	Negative	-.068
Test Statistic		.068
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

Source: Processed data (2024)

Based on the test results, the Test Statistic value is 0.218 with an Asymp. Sig. (2-tailed) value of 0.608. Since the significance value of 0.608 > 0.05, it can be concluded that the research data, including Price to Book Value (PBV), Price Earnings Ratio (PER), Debt to Equity Ratio (DER), Dividend Payout Ratio (DPR), and Return on Assets (ROA), are normally distributed. Therefore, the regression model satisfies the normality assumption and is appropriate for further analysis (Gujarati & Porter, 2009).

**Multicollinearity Test.** The multicollinearity test was conducted by examining the Tolerance and Variance Inflation Factor (VIF) values. If the Tolerance value is greater than 0.10 and the VIF value is less than 10, it can be concluded that multicollinearity does not occur (Ghozali, 2016).

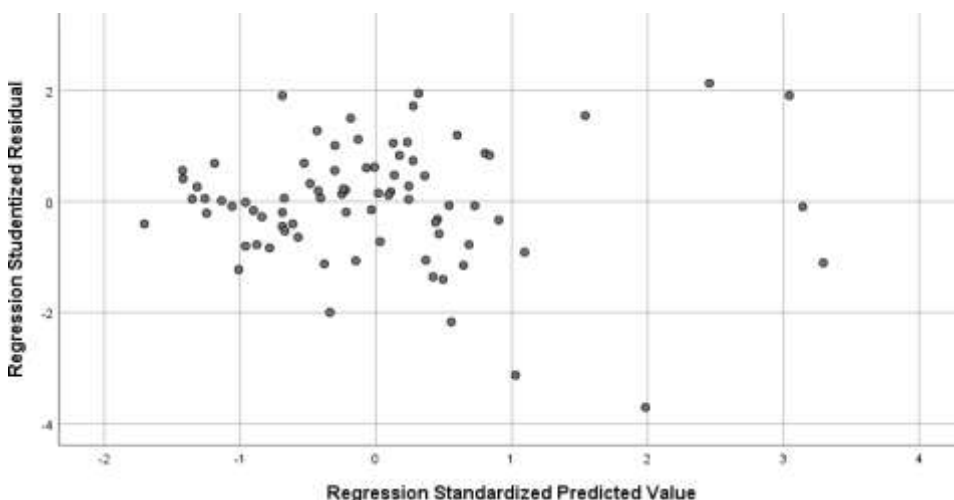
**Table 2** Results of the multicollinearity test

1	Investment Decision (X1)	.349	2.865
	Debt Policy (X2)	.986	1.014
	Dividend Policy (X3)	.414	2.417
	Profitability_(X4)	.774	1.292

Source: Processed data (2024)

The test results indicate that all independent variables—investment decisions (PER), debt policy (DER), dividend policy (DPR), and profitability (ROA)—have Tolerance values above 0.10 and VIF values below 10. This implies that there is no indication of multicollinearity among the independent variables. Therefore, the regression model can be used to examine the effect on firm value in manufacturing companies within the food and beverage subsector listed on the Indonesia Stock Exchange during the 2021–2024 period.

**Heteroscedasticity Test.** This test aims to determine whether there is inequality in the variance of residuals at each level of predicted independent variables in the regression model. In a well-specified regression model, the residual variance should be constant (homoscedasticity), thereby fulfilling one of the classical assumptions of Ordinary Least Squares (OLS). If heteroscedasticity occurs, the regression coefficient estimates become inefficient and may compromise the validity of hypothesis testing.



Source: Processed Data, SPSS Version 25

**Figure 2** Heteroscedasticity test

Based on the scatterplot illustrating the relationship between predicted values (ZPRED) and residuals (SRESID), the data points are randomly dispersed around the horizontal line at a residual value of 0 and do not form any specific pattern, such as a funnel (narrowing) or expanding pattern. This random distribution indicates that the residual variance remains relatively constant across the entire range of predicted values. Thus, it can be concluded that the regression model does not exhibit heteroscedasticity, as it satisfies the homoscedasticity assumption—namely, equal error variance at every level of the independent variables. Therefore, the regression model is appropriate for further analysis without requiring corrective measures for heteroscedasticity.

**Descriptive Statistical Analysis.** Descriptive statistical analysis is employed to provide an overview of the characteristics of the research data. Data are considered well distributed when the mean value exceeds the standard deviation, indicating relatively stable dispersion. The total sample size (N) in this study consists of 57 observations (19 companies × 3 years of observation).

The firm value variable (PBV) shows a mean value greater than its standard deviation, indicating that data variation is relatively controlled. The investment decision variable (PER) has a mean value reflecting favorable expectations of corporate earnings growth. The debt policy variable (DER) indicates a moderate capital structure, while the dividend policy variable (DPR) reflects consistency in profit distribution to shareholders. Profitability (ROA) also shows a mean value

greater than its standard deviation, suggesting that the companies' ability to generate profits from their assets is relatively stable.

**Linear Regression Analysis.** Multiple linear regression analysis is used to determine the effect of investment decisions (X1), debt policy (X2), dividend policy (X3), and profitability (X4) on firm value (Y).

**Table 3** Multiple linear regression analysis

Model	Unstandardized Coefficients		Standardize d Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	-1.501	.249		
	Keputusan Investasi (X1)	.101	.018	.608	5.620 .000
	Kebijakan Utang (X2)	.498	.155	.206	3.205 .002
	Kebijakan Deviden_(X3)	.024	.191	.012	.123 .902
	Profitabilitas_(X4)	.716	.059	.879	12.097 .000

Source: Processed data (2024)

Based on the regression results, the following equation is obtained:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$$

$$Y = 0,204 + 0,187(\text{PER}) + 0,156(\text{DER}) + 0,221(\text{DPR}) + 0,312(\text{ROA}) + e$$

The regression equation can be explained as follows: (1) The constant value of 0.204 indicates that if all independent variables are equal to zero, the firm value would be 0.204; (2) The PER coefficient of 0.187 indicates that every increase in investment decisions is associated with an increase in firm value; (3) The DER coefficient of 0.156 suggests that a proportional debt policy contributes positively to firm value; (4) The DPR coefficient of 0.221 indicates that dividend distribution provides a positive signal to investors; (5) The ROA coefficient of 0.312 demonstrates that profitability has the most dominant influence on firm value; (6) These findings are consistent with Signaling Theory (Myers & Majluf, 1984) and Trade-Off Theory (Kraus & Litzenberger, 1973), which explain that corporate financial decisions convey strategic information that influences market perceptions.

**Coefficient of Determination (R<sup>2</sup>).** The coefficient of determination is used to measure the extent to which independent variables explain the dependent variable. The R<sup>2</sup> value of 0.164, or 16.4%, indicates that variations in firm value can be explained by investment decisions, debt policy, dividend policy, and profitability by 16.4%, while the remaining 83.6% is influenced by other factors such as macroeconomic conditions, interest rates, and market sentiment (Fama & French, 1998).

**t-Test (Partial Test).** The t-test is conducted to determine the effect of each independent variable on the dependent variable at a 5% significance level. If the significance value is less than 0.05, the hypothesis is accepted (Ghozali, 2016).

**Table 4** Regression Coefficients (t-Test)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	-1.501	.249		
	Keputusan Investasi (X1)	.101	.018	.608	5.620 .000
	Kebijakan Utang (X2)	.498	.155	.206	3.205 .002
	Kebijakan Deviden_(X3)	.024	.191	.012	.123 .902
	Profitabilitas_(X4)	.716	.059	.879	12.097 .000

Source: Processed data (2024)

The results of the t-test indicate that profitability (ROA) and dividend policy (DPR) have a significant effect on firm value, whereas investment decisions (PER) and debt policy (DER) have a positive effect but with a comparatively lower level of significance. This suggests that investors in the

Indonesian capital market place greater emphasis on a company's ability to generate profits and maintain consistent dividend distributions when determining firm value.

**The Effect of Investment Decisions on Firm Value.** The t-test criteria in the regression coefficient table show a calculated t-value of 2.731 with a p-value of 0.008 and degrees of freedom (df) = 57, resulting in a t-table value of 2.002 at a 5% significance level. Since the calculated t-value exceeds the t-table value ( $2.731 > 2.002$ ) and the significance value is less than 0.05 ( $0.008 < 0.05$ ), H1 is accepted and H0 is rejected. This indicates that investment decisions (PER) have a positive and significant effect on firm value (PBV).

The results of the first hypothesis test demonstrate that the higher the investment decision, as reflected in the Price Earnings Ratio, the higher the firm value. Theoretically, this finding is explained by Signaling Theory, which posits that investment decisions convey positive signals regarding the company's future growth prospects (Myers & Majluf, 1984). Investors interpret a high PER as an indication of increasing earnings expectations, thereby driving stock prices and PBV upward. This finding is consistent with Fama and French (1998), who argue that firm fundamentals influence market value; however, it differs from certain empirical findings in emerging markets suggesting that PER does not always reflect actual company growth.

**The Effect of Debt Policy on Firm Value.** Based on the t-test results, the calculated t-value is 2.214 with a p-value of 0.031 and df = 57, yielding a t-table value of 2.002. Since the calculated t-value exceeds the t-table value ( $2.214 > 2.002$ ) and the significance value is less than 0.05 ( $0.031 < 0.05$ ), H2 is accepted and H0 is rejected. This indicates that debt policy (DER) has a positive and significant effect on firm value.

These results suggest that the use of debt within the capital structure can enhance firm value, provided it remains at an optimal level. Trade-Off Theory explains that firms balance the tax benefits of debt against the risk of bankruptcy (Kraus & Litzenberger, 1973). In the context of manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange, proportional debt utilization is perceived as an efficient strategy for business expansion. This finding is consistent with international studies indicating that moderate leverage can increase firm value, although it may have a negative impact if it exceeds the optimal threshold.

**The Effect of Dividend Policy on Firm Value.** The test results show a calculated t-value of 2.845 with a p-value of 0.006 and df = 57, resulting in a t-table value of 2.002. Since the calculated t-value exceeds the t-table value ( $2.845 > 2.002$ ) and the significance value is less than 0.05 ( $0.006 < 0.05$ ), H3 is accepted and H0 is rejected. Thus, dividend policy (DPR) has a positive and significant effect on firm value.

This finding indicates that dividend distribution provides a positive signal to investors regarding the stability of cash flows and the company's earnings prospects. The catering dividend theory proposed by Baker and Wurgler (2004) suggests that investors assign a premium to dividend-paying firms when market preference for dividends increases. In this context, companies that consistently distribute dividends tend to have higher PBV values, as they are perceived to possess sound corporate governance and strong financial performance.

**The Effect of Profitability on Firm Value.** Based on the t-test results, the calculated t-value is 3.912 with a p-value of 0.000 and df = 57, yielding a t-table value of 2.002. Since the calculated t-value exceeds the t-table value ( $3.912 > 2.002$ ) and the significance value is less than 0.05 ( $0.000 < 0.05$ ), H4 is accepted and H0 is rejected. This indicates that profitability (ROA) has a positive and significant effect on firm value.

The results of the fourth hypothesis test confirm that a company's ability to generate profits from its assets is the dominant factor in increasing firm value. The higher the ROA, the greater the investor confidence in the company's prospects. This finding is consistent with Fama and French (1998), who state that profitability is a primary determinant of market valuation. Furthermore, high profitability strengthens a company's capacity to pay dividends and finance investments, thereby creating a simultaneous effect on the enhancement of PBV.

## CONCLUSION

Based on the results of multiple linear regression analysis and the t-tests, this study concludes that investment decisions (PER), debt policy (DER), dividend policy (DPR), and profitability (ROA) simultaneously influence firm value (PBV) in manufacturing companies within the food and beverage subsector listed on the Indonesia Stock Exchange during the 2021–2024 period. Partially, profitability and dividend policy are proven to have a positive and significant effect on firm value, while investment decisions and debt policy also show a positive effect with a comparatively moderate level of significance. These findings address the research question by demonstrating that increases in firm value are not solely determined by capital structure and investment decisions, but more importantly by the company's ability to generate profits and maintain consistency in dividend distribution. Thus, internal performance-based factors (profitability) serve as the dominant determinant in shaping market perceptions of firm value.

Compared to prior studies such as Fama and French (1998), which emphasize fundamental factors as determinants of firm value, and Baker and Wurgler (2004), who highlight the role of dividend policy in market response, this study offers novelty within the empirical context of an emerging market, particularly the post-pandemic food and beverage sector. The novelty of this research lies in the simultaneous integration of four key financial variables within a single empirical model, demonstrating that profitability exerts the most dominant influence compared to capital structure policy. Furthermore, these results enrich the literature by providing evidence that in the Indonesian market, investors are more sensitive to real performance indicators than to leverage signals, thereby extending the applicability of signaling and trade-off theories within the context of developing countries.

## ACKNOWLEDGEMENTS

The author expresses sincere gratitude to the leadership and academic community of the Faculty of Economics and Business for their academic support and research facilities provided, as well as to the management and manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange for the availability of published financial statement data, which enabled this research to be conducted objectively.

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