

ANALYSIS OF PROFITABILITY, CAPITAL STRUCTURE, AND INVESTMENT DECISIONS ON FIRM VALUE IN TELECOMMUNICATION SECTOR COMPANIES LISTED ON INDONESIA STOCK EXCHANGE PERIOD 2022-2024

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Abstract. This study aims to analyze the effects of profitability, capital structure, and investment decisions on firm value. Firm value is an important indicator reflecting investor perceptions of corporate performance and future prospects, particularly in technology-related telecommunication companies. The study uses a quantitative approach with secondary data obtained from the audited financial statements of telecommunication subsector companies listed on the Indonesia Stock Exchange during 2022-2024. The research variables consist of firm value measured by Price to Book Value (PBV), profitability measured by Return on Assets (ROA), capital structure measured by Debt to Equity Ratio (DER), and investment decisions measured by Price Earnings Ratio (PER). The data, comprising 69 firm-year observations, were analyzed using descriptive statistics, multicollinearity testing, simultaneous testing, coefficient of determination, and multiple regression with IBM SPSS Statistics 22. The results show that profitability has a positive and significant effect on firm value, while investment decisions also have a positive and significant effect on firm value. In contrast, capital structure has no significant effect on firm value. Profitability is the most dominant variable affecting firm value. These findings imply that companies should strengthen profitability and improve investment quality to enhance market valuation, while investors may use profitability and investment decision indicators as important considerations in investment analysis.

Keywords: profitability, capital structure, investment decision, firm value, telecommunication sector

I. INTRODUCTION

Globalization and rapid technological development have intensified business competition and required firms to become more adaptive, innovative, and efficient. In capital markets, firm value is a central indicator because it reflects how investors assess the quality of corporate performance, future growth opportunities, and managerial effectiveness. A higher firm value generally signals stronger market confidence and better prospects for shareholders and creditors. In this context, firm value is not only viewed as the outcome of financial performance but also as a signal of the firm's ability to sustain growth and manage resources strategically.

For investors, firm value is closely related to stock prices and expected returns. The Indonesia Stock Exchange provides a mechanism through which investors evaluate listed companies based on publicly available financial information. Financial statements reduce information asymmetry between management and investors by providing signals about profitability, financing decisions, investment prospects, and business continuity. In line with signaling theory, transparent and favorable financial indicators may increase investor confidence and strengthen the market valuation of a company [1]-[3].

The technology and telecommunication sector is increasingly relevant to the Indonesian economy. Digital connectivity, internet access, mobile services, data infrastructure, and information technology have become fundamental to economic

and social activities. Official statistical publications report that internet access in Indonesia reached 72.78% in 2024, while the information and communication technology development index continued to show progress [4], [5]. This condition creates growth opportunities for telecommunication companies listed on the Indonesia Stock Exchange, but it also creates pressure to improve profitability, strengthen capital allocation, and implement investment decisions that can support long-term expansion [6].

Profitability represents the company's ability to generate earnings from the resources it controls. High profitability is generally interpreted as a positive signal because it indicates operational efficiency, potential dividend capacity, and stronger prospects for growth. Capital structure reflects the composition of debt and equity used to finance company operations and investments. An optimal capital structure may improve firm value, but excessive debt may increase financial risk and reduce investor confidence. Investment decisions, reflected in the market's expectation of future earnings, are also important because they indicate how management allocates funds to projects or assets that are expected to generate future returns.

Previous studies show inconsistent findings regarding the determinants of firm value. Several studies find that profitability has a significant effect on firm value [7], [8], while other studies indicate that capital structure may or may not significantly affect firm value depending on sectoral context and financial risk [9]-

[11]. Similar inconsistency is also found in the relationship between investment decisions and firm value, where some studies report significant effects and others find insignificant effects [12]-[14].

Based on these empirical inconsistencies, this study examines the effect of profitability, capital structure, and investment decisions on firm value in telecommunication subsector companies listed on the Indonesia Stock Exchange during 2022-2024. The novelty of this study lies in its focus on technology-related telecommunication companies in the recent post-digital acceleration period and in the simultaneous examination of ROA, DER, and PER as determinants of PBV. The objectives are to test whether profitability, capital structure, and investment decisions individually and simultaneously affect firm value.

Theoretical Foundation and Hypothesis Support

This study is grounded in several corporate finance theories that explain how financial performance, financing policy, and investment prospects influence firm value. Modigliani and Miller theory explains that, under perfect market assumptions, firm value is not determined by the mix of debt and equity [15]. The correction with corporate income taxes later shows that debt may increase firm value through tax advantages [16]. These arguments support the need to examine DER because leverage may create benefits, but it may also create financial pressure when debt exceeds the firm's ability to generate stable earnings.

Agency Theory explains that separation between owners and managers can create conflicts of interest, monitoring costs, and decisions that do not always maximize shareholder wealth [17]. In this context, profitability, capital structure, and investment decisions become important control indicators. High profitability can reduce agency concerns because it shows that assets are managed productively. Debt can discipline managers, but high debt can also increase the risk of financial distress. Trade-Off Theory further states that firms seek an optimal debt level by balancing tax benefits, bankruptcy costs, and agency costs [18]. The pecking order view also suggests that firms prefer internal financing before debt and equity when information asymmetry exists [19]. Therefore, the effect of capital structure on firm value may be positive, negative, or insignificant depending on the balance between benefit and risk. Prior corporate finance research also shows that taxes, financing choices, and investment policies can interact in shaping market value [20].

Firm value theory views market value as a reflection of investor assessment of expected cash flows, risk, and growth opportunities. Tobin's q provides a classic market-based view of firm value by comparing the market value of assets with their replacement cost [21], while later studies provide simpler empirical approximations for market valuation [22]. In corporate finance, firm value increases when management can generate returns above the cost of capital and allocate funds to value-creating assets [23], [24]. Profitability theory supports the use of ROA because this ratio shows how effectively assets produce earnings. Strong profitability usually improves retained earnings, dividend capacity, business resilience, and market confidence [25].

Investment decision theory explains that investment choices affect firm value through growth opportunities and expected

future earnings. The incentive-signaling approach argues that financial decisions may transmit information about managerial expectations to the market [26]. Growth opportunity theory also explains that firms with valuable future projects tend to receive higher market valuation [27]. The investment opportunity set literature states that investment, financing, dividend, and compensation policies are closely related to the firm's growth options [28], [29]. Therefore, PER is relevant because it reflects market expectations of future earnings and growth realization [30]. Based on these theories, profitability and investment decisions are expected to increase firm value, while capital structure is expected to have a context-dependent effect in telecommunication subsector companies.

The Influence of Profitability (ROA) on Firm Value

Profitability, measured by return on assets, operates as a key signaling device in capital markets because it reveals how effectively management converts the firm's asset base into actual earnings. In the Indonesian telecommunication sector, where companies carry heavy investments in spectrum, towers, fiber networks, and data centers, a higher ROA indicates that these capital-intensive resources are being deployed productively rather than simply expanded. Investors interpret stronger asset returns as evidence of operational discipline and lower agency risk, which in turn supports a higher price-to-book value. This logic is consistent with signaling theory and with earlier findings in Indonesian manufacturing and consumer sectors showing that profitability remains one of the most reliable drivers of market valuation. Accordingly, profitability is expected to exert a positive and significant effect on firm value among telecommunication subsector companies listed on the Indonesia Stock Exchange during 2022–2024.

The Influence of Capital Structure on Firm Value

Capital structure, captured by the debt-to-equity ratio, reflects the trade-off between tax advantages of debt and the costs of financial distress, as framed by trade-off and agency theories. Telecommunication firms in Indonesia typically rely on debt to finance large, ongoing capital expenditure programs for network modernization and coverage expansion. While moderate leverage can provide necessary funding without immediate value destruction, high debt levels may also raise concerns about refinancing risk, interest burden, and reduced managerial flexibility amid rapid technological change and regulatory pressure. Prior studies in Indonesia have produced mixed results, often finding that leverage exerts little or no significant influence on firm value when debt is viewed as a normal feature of capital-intensive industries rather than a distinctive strategic choice. This study therefore anticipates that capital structure will show a positive but statistically insignificant relationship with firm value in the sampled telecommunication companies.

The Influence of Investment Decision on Firm Value

Investment decisions, proxied by the price-earnings ratio, embody market expectations about the quality and payoff of future growth opportunities. Grounded in investment opportunity set theory, a higher PER signals that investors believe current earnings will translate into stronger future cash flows through well-chosen projects. In Indonesia's telecommunication sector between 2022 and 2024, such projects typically involve network upgrades, digital service expansion, and infrastructure to meet rising data demand. When the market

perceives management as allocating capital to value-creating initiatives, it assigns a higher price-to-book multiple to the firm. This forward-looking mechanism is supported by empirical work linking favorable earnings multiples to elevated market valuations in emerging-market settings. Investment decisions are therefore hypothesized to have a positive and significant effect on firm value.

The Influence of Profitability, Capital Structure, and Investment Decisions on Firm Value

Firm value is shaped by the interplay of current operating performance, financing policy, and growth expectations rather than by any single financial dimension in isolation. Profitability provides observable evidence of realized asset productivity, capital structure defines the risk profile attached to the firm's funding mix, and investment decisions convey information about future earnings trajectories. In the telecommunication sector, these three elements are closely connected: stronger profitability can reduce reliance on external debt, while sound investment choices can improve long-term returns on the existing asset base. Firm value theory suggests that investors evaluate companies holistically, incorporating all three sets of information simultaneously when forming price-to-book assessments. It is therefore hypothesized that profitability, capital structure, and investment decisions exert a significant simultaneous effect on firm value among telecommunication

subsector companies listed on the Indonesia Stock Exchange over the 2022–2024 period.

II. RESEARCH METHOD

This study applies a quantitative research design using secondary data. The object of the study consists of telecommunication subsector companies listed on the Indonesia Stock Exchange during the 2022-2024 period. The data were collected from audited financial statements published through the official Indonesia Stock Exchange website and other official supporting publications. The research data form a panel structure because the observations combine cross-sectional company data and time-series data over three years.

The population consists of telecommunication subsector companies listed on the Indonesia Stock Exchange. The final dataset contains 69 firm-year observations, representing 23 companies observed for three reporting years. The use of secondary data is appropriate because the variables in this study are financial ratios derived from annual financial statements. Data collection was conducted through observation of published financial reports and literature study of books, journal articles, and relevant official publications.

Table 1. Research Variables and Measurements

Variable	Proxy	Measurement	Role
Firm value	PBV	Market price per share / book value per share	Dependent variable
Profitability	ROA	Net income / total assets	Independent variable
Capital structure	DER	Total debt / total equity	Independent variable
Investment decision	PER	Market price per share / earnings per share	Independent variable

Source: processed from the source article.

The analytical procedure includes descriptive statistics, classical assumption testing, and hypothesis testing. Descriptive statistics are used to present the minimum, maximum, mean, and standard deviation of each variable. Multicollinearity is assessed using the Variance Inflation Factor (VIF) and tolerance values. Hypothesis testing uses simultaneous regression testing (F-test), coefficient of determination (R and R Square), and partial regression testing (t-test). The data were processed using Microsoft Excel and IBM SPSS Statistics 22.

The regression model is formulated as follows: $FV = a + b_1ROA + b_2DER + b_3PER + e$. In this model, FV represents firm value measured by PBV, ROA represents profitability, DER represents capital structure, PER represents investment decisions, a is the constant, b_1 - b_3 are regression coefficients, and e is the error term. The hypotheses are accepted when the significance value is below 0.05.

III. RESULT AND DISCUSSION

Descriptive Statistics

The descriptive statistical results show that the profitability variable (ROA) has a mean of 1.5081, with a minimum value of 0.0000, a maximum value of 3.3000, and a standard deviation of 0.7829. This indicates that the sampled companies vary in their ability to generate income from assets, although the dispersion is relatively moderate. Capital structure (DER) has a mean of 3.8933, indicating that the financing structure of the companies is relatively debt-oriented. Investment decisions (PER) have a mean of 7.8114, indicating that the market gives a relatively positive valuation to expected future earnings. Firm value (PBV) has a mean of 6.6461, suggesting that the companies generally have market values above their book values.

Table 2. Descriptive Statistical Results

Statistic	ROA	DER	PER	PBV
Mean	1.5081	3.8933	7.8114	6.6461
Minimum	0.0000	0.0000	4.1900	2.6400
Maximum	3.3000	6.2700	11.0600	10.6900
Std. Dev.	0.7829	1.6135	1.3507	2.2518
Observations	69	69	69	69

Source: processed data, IBM SPSS Statistics 22.

Multicollinearity Test

The multicollinearity test indicates that all independent variables have VIF values below 10 and tolerance values

above 0.10. Therefore, ROA, DER, and PER can be used together in the regression model without serious multicollinearity problems.

Table 3. Multicollinearity Test

Variable	VIF	Tolerance	Conclusion
ROA	1.66	0.602966	No multicollinearity
DER	1.22	0.819876	No multicollinearity
PER	1.73	0.579520	No multicollinearity
Mean VIF	1.53	-	No multicollinearity

Source: processed data, IBM SPSS Statistics 22.

Simultaneous Test and Coefficient of Determination

The simultaneous regression test shows an F-statistic of 6.09 with a significance value of 0.002, which is below 0.05. This means that profitability, capital structure, and investment decisions jointly have a significant effect on firm value. The

coefficient of determination shows an R Square value of 0.325, indicating that 32.5% of the variation in firm value can be explained by ROA, DER, and PER, while the remaining 67.5% is explained by other factors outside the model.

Table 4. Model Feasibility and Explanatory Power

Test	Value	Significance / Information	Interpretation
F-test	F = 6.09	Sig. = 0.002	The model is significant
R	0.570	-	Moderate relationship
R Square	0.325	-	32.5% of PBV variation is explained
Adjusted R Square	0.271	-	27.1% adjusted explanatory power

Source: processed data, IBM SPSS Statistics 22.

Partial Regression Test

Table 5. Hypothesis Testing Results

Variable	B	Beta	t-statistic	Sig.	Decision
ROA -> PBV	1.8529	0.6897	4.0174	0.0003	Accepted
DER -> PBV	0.2598	0.1838	1.2486	0.2195	Rejected
PER -> PBV	1.0233	0.6216	3.5496	0.0010	Accepted

Source: processed data, IBM SPSS Statistics 22.

The multiple linear regression analysis examining the influence of Return on Assets (ROA), Debt to Equity Ratio (DER), and Price to Earnings Ratio (PER) on Price to Book Value (PBV) produced the following estimated equation:

$PBV = 1.8529(ROA) + 0.2598(DER) + 1.0233(PER) + \varepsilon$, where ε denotes the error term. Hypothesis testing results indicated that ROA had a statistically significant positive effect on PBV ($B = 1.8529$, $\beta = 0.6897$, $t = 4.0174$, $p = 0.0003 < 0.05$), leading to the acceptance of the hypothesis. Similarly, PER demonstrated a significant positive impact on PBV ($B = 1.0233$, $\beta = 0.6216$, $t = 3.5496$, $p = 0.0010 < 0.05$), supporting the acceptance of its hypothesis. In contrast, DER exhibited a positive but statistically insignificant influence on PBV ($B = 0.2598$, $\beta = 0.1838$, $t = 1.2486$, $p = 0.2195 > 0.05$), resulting in the rejection of the hypothesis.

The Influence of Profitability (ROA) on Firm Value

The partial test shows that profitability has a positive and significant effect on firm value. The regression coefficient for ROA is 1.8529 with a significance value of 0.0003. This result indicates that higher profitability is followed by higher firm value, assuming other variables remain constant. In the perspective of signaling theory, higher profitability provides a favorable signal to investors because it reflects the firm's

efficiency in managing assets and generating earnings. The finding is consistent with the view that investors place substantial weight on earnings capability when assessing corporate prospects and market value [7], [8].

The positive and significant effect of profitability is empirically reasonable in the telecommunication subsector because these companies operate in an asset-intensive industry. Network infrastructure, spectrum costs, technology upgrades,

towers, data centers, and digital service platforms require large asset commitments. When ROA increases, the market can interpret that management uses these assets effectively to produce earnings. Higher ROA also indicates that the company does not only expand its asset base, but also converts the asset base into economic returns. This condition is important for investors because PBV reflects how the market values the company relative to its book equity. A profitable company tends to receive a higher PBV because investors expect stronger cash flows, better dividend potential, and greater internal financing capacity. This explanation supports signaling theory, firm value theory, and profitability theory because profitability gives direct information about managerial efficiency, earnings quality, and future resilience [1]-[3], [25].

The Influence of Capital Structure on Firm Value

Capital structure has a positive but insignificant effect on firm value. DER has a regression coefficient of 0.2598 with a significance value of 0.2195, which is above the 0.05 threshold. This finding suggests that changes in debt and equity composition do not significantly explain changes in firm value among the sampled telecommunication companies. Although debt may provide tax advantages and additional financing capacity, it also increases financial risk. Investors may therefore evaluate other fundamentals, such as profitability, growth prospects, revenue stability, and asset management, more strongly than the debt-equity ratio. This result is in line with studies reporting that capital structure does not always determine firm value in a significant way [10], [11].

The insignificant effect of capital structure also fits the financial characteristics of telecommunication companies. The average DER in the sample indicates that many firms use debt as an important source of financing. However, debt in this sector may be viewed as normal because telecommunication firms need large and continuous capital expenditure. Investors may not immediately treat a higher DER as a value-enhancing signal when the debt is used mainly to maintain infrastructure, renew technology, or support long-term network capacity. At the same time, the tax benefit of debt may be offset by financial risk, interest burden, refinancing risk, and uncertainty about future returns from capital expenditure. Trade-Off Theory explains this balance between tax advantage and distress cost, while Agency Theory explains that debt can reduce free cash flow problems but can also create conflicts between shareholders and creditors [16]-[18]. Therefore, DER may become statistically insignificant when investors consider debt as only one part of a broader evaluation of profitability, business scale, cash flow stability, and growth potential.

The Influence of Investment Decision on Firm Value

Investment decisions have a positive and significant effect on firm value. PER has a regression coefficient of 1.0233 and a significance value of 0.0010. This result indicates that better investment prospects and market expectations of future earnings are associated with higher firm value. Good investment decisions can create opportunities for future growth, improve asset productivity, and strengthen investor confidence. In signaling theory, favorable investment prospects become positive information for the market, encouraging investors to give higher valuation to the company. This finding supports prior studies showing that investment decisions can increase firm value [12], [14].

The positive and significant effect of investment decisions shows that the market appreciates companies with stronger growth expectations. PER represents how much investors are willing to pay for each unit of earnings. A higher PER can indicate confidence that current earnings will grow in the future. In the telecommunication subsector, investment decisions are closely related to network expansion, digital service development, data traffic growth, and the ability to capture demand from an increasingly connected economy. When investors believe that management selects projects with good future returns, PBV tends to increase because the firm is perceived to have valuable growth opportunities. This result is consistent with investment opportunity theory, which states that growth options and future projects can raise market valuation when the market expects those projects to generate future benefits [27]-[30].

The Influence of Profitability (ROA), Capital Structure, and Investment Decisions on Firm Value

The dominance of profitability is shown by the highest standardized beta value of ROA. This result means that profitability contributes the strongest relative effect on PBV compared with DER and PER in the regression model. Profitability becomes dominant because it is the most direct and observable indicator of current financial performance. Investment decisions describe expectations, while capital structure describes financing composition. Profitability, however, shows realized operating results. For investors, realized earnings provide stronger evidence that a company can manage assets, control costs, and sustain operations. In a sector with high technology investment needs, profitability also reduces dependence on external financing because firms with stronger earnings can finance part of their expansion internally. This lowers perceived financial pressure and strengthens market confidence.

These findings also show that firm value is not formed by a single financial ratio. ROA, DER, and PER jointly have a significant effect on PBV, but the R Square value of 0.325 indicates that 32.5% of firm value variation is explained by the three variables. The remaining variation may come from other factors such as firm size, dividend policy, liquidity, corporate governance, service quality, market competition, macroeconomic conditions, digital transformation strategy, and investor sentiment. This moderate explanatory power is acceptable because market valuation is influenced by both accounting information and market expectations. For telecommunication companies, the practical implication is clear. Management needs to improve earnings quality first, then align financing policy and investment choices with projects that can increase long-term shareholder value.

Overall, the findings indicate that profitability and investment decisions are the main determinants of firm value in the telecommunication subsector, whereas capital structure is not a significant determinant. Profitability also has the largest standardized beta value, showing that it is the most dominant variable in the model. The results imply that telecommunication companies should prioritize operational efficiency, asset productivity, and investment selection because these indicators are more directly appreciated by the capital market [23], [24].

IV. CONCLUSION

This study concludes that profitability and investment decisions have positive and significant effects on firm value, while capital structure has no significant effect on firm value. Simultaneously, profitability, capital structure, and investment decisions significantly explain firm value, although the explanatory power of the model is moderate. Profitability is the most dominant variable affecting firm value, indicating that the ability to generate earnings is the primary consideration for investors in assessing technology-related telecommunication companies listed on the Indonesia Stock Exchange.

For companies, the findings imply that management should improve profitability through operational efficiency, optimal asset management, and stronger financial performance. Companies should also improve the quality of investment decisions by selecting projects with good growth prospects and reasonable expected returns. For investors, profitability and investment decision indicators can be used as important considerations when evaluating company performance and market prospects, while capital structure should be interpreted together with other financial and strategic indicators.

This study has several limitations. First, it only uses three independent variables, whereas firm value may also be affected by dividend policy, firm size, liquidity, growth, corporate governance, and macroeconomic conditions. Second, the observation period is limited to 2022-2024, so the findings may not fully represent longer-term dynamics. Third, the analysis uses secondary financial data and does not include qualitative managerial or market perception variables. Future studies are advised to extend the observation period, add other explanatory variables, and compare the telecommunication subsector with other technology-related industries to obtain a more comprehensive model of firm value.

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