

Strategic Investment Decisions and Their Implications for Firm Value: A Mediated Model of Dividend Policy

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ABSTRACT

This empirical analysis explores the relationship between investment decisions, proxied by PER, and dividend policy, proxied by DPR, on firm value, as indicated by PBV, within manufacturing sector firms listed on the Indonesia Stock Exchange from 2015 to 2021. Firm value serves as the dependent variable, while investment decisions act as the independent variable, and dividend policy functions as a mediating variable. The research population comprises pharmaceutical companies listed on the IDX within the specified period, with samples selected through purposive sampling based on the criteria of consistently publishing audited financial and annual reports. The study employs descriptive statistical analysis and path analysis, an extension of multiple regression techniques. The empirical findings demonstrate that investment choices contribute meaningfully and positively to the firm's market performance. Nonetheless, investment decisions do not exhibit a statistically significant effect on dividend policy, nor does dividend policy have a notable influence on corporate value. In addition, mediation analysis indicates that dividend policy does not serve as an intervening variable in the linkage of investment decisions and corporate value.

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1. INTRODUCTION

Investors regard the value of a firm as a fundamental determinant in their capital allocation strategies. A sustained increase in firm value over time reflects effective operational management and overall business success. High firm value is particularly important, as it directly correlates with the maximization of shareholder wealth [1]. According to [2], firm value can be described as the amount a potential buyer is prepared to offer if the company were to be sold.

This research utilizes the Price-to-Book Value (P/BV) ratio as a proxy for firm value, positioning it as the dependent variable due to its effectiveness in capturing investor perceptions of a firm's financial performance. [3] highlights the advantages of using PBV, noting that it offers a relatively stable representation of a stock's fair value because it is based on a firm's equity, where profitability contributes directly to increases in PBV. Additionally, PBV enables comparability across firms, providing

investors with useful signals regarding whether a firm is overvalued or undervalued in the market.

Several factors may influence firm value; however, this study focuses specifically on investment decisions as a key determinant. Investment decisions refer to the allocation of funds, considering both the sources and uses of capital for short-term and long-term objectives. To evaluate investment decisions, this study utilizes the Price-to-Earnings Ratio (P/E), a financial metric that illustrates how much investors are willing to pay for each unit of earnings generated by the firm. According to signaling theory, companies are expected to send meaningful signals to stakeholders through financial information that reflects managerial actions aimed at fulfilling shareholders' interests [4]. These managerial actions, particularly investment decisions, serve as indicators to investors regarding the firm's future prospects [5]. As noted by [6], firms that undertake substantial investment are perceived to have strong growth potential, thereby positively influencing their stock performance and enterprise value.

There is a lack of consensus in the empirical literature on how investment decisions influence firm value, with findings varying across different contexts and methodologies. Several studies, including those by [7], [8], found that investment decisions significantly and positively influence firm value. However, other studies—such as those by [9], [10], [11], [12]—reported no significant relationship between investment decisions and firm value. These contradictory findings suggest that the influence of investment decisions may vary depending on firm-specific characteristics and external conditions.

Due to the inconsistency in previous empirical findings, it is suspected that investment decisions alone may not be sufficient to influence firm value. This suggests the potential presence of other mediating factors. In line with signaling theory, dividend policy is proposed as one such factor that may bridge the relationship. The theory posits that announcements of dividend increases serve as positive signals

regarding the firm's future prospects. A stable or increasing cash dividend payout tends to signal financial strength and profitability, thereby encouraging investors to purchase the firm's shares. [13] argues that firms capable of distributing dividends are perceived by the public as more profitable and stable.

Dividend policy refers to decisions concerning the allocation of corporate earnings—either distributing them to shareholders as dividends or retaining them within the firm for reinvestment [14]. Dividend policy is represented by the Dividend Payout Ratio (DPR), which indicates the percentage of net earnings allocated to shareholders in the form of dividends per share compared to earnings per share.

Grounded in signaling theory, dividend policy is assumed to mediate the effect of investment decisions on firm value by conveying information about the firm's future prospects to investors. This mediation is supported when the indirect effect is greater than the direct effect, indicating that enhancing dividend policy may serve as a positive signal to investors. An increase in the Dividend Payout Ratio (DPR) may reflect the firm's financial health and future prospects, encouraging investor participation and ultimately increasing the company's capital for implementing investment decisions. Under this framework, the role of dividend policy is positioned as an intermediary that channels the impact of investment decisions toward firm valuation outcomes.

Building on these considerations, the present research aims to deepen the analysis of how investment decisions influence firm value, with dividend policy included as an intervening mechanism. The scope of this research encompasses pharmaceutical companies publicly traded on the Indonesia Stock Exchange (IDX) between 2015 and 2021. The pharmaceutical sector was selected due to its strategic importance and significant contribution to Indonesia's economic development. The industry plays a vital role not only in supporting national health infrastructure but also in contributing to international trade. The growing output

quality of local pharmaceutical firms that are increasingly competitive in the global market highlights the sector's relevance for academic and policy-oriented financial research.

2. LITERATURE REVIEW

2.1 Signaling Theory

Signaling theory explains that companies need to convey relevant signals or information to financial statement users as a representation of managerial actions in realizing the interests of the company's owners [4]. These signals reflect decisions or policies made by management and are interpreted by investors as indicators of the company's prospects [5]. Corporate disclosures act as strategic communication tools that significantly influence investors' perceptions and subsequent decision-making processes. Therefore, the quality, timeliness, and transparency of the information become crucial, as such information not only reflects historical and current conditions but also provides projections of the company's future performance and business continuity.

According to [15], the disclosure of corporate information provides essential signals that assist investors in evaluating both investment opportunities and financing strategies. The theory suggests that both investment decisions and dividend policies signal the company's favorable future outlook to investors. An increase in debt, for instance, may indicate a firm's ability to meet its obligations or reflect lower business risk, thus generating a positive market response. Likewise, the announcement of increased dividends per share is perceived as a signal of optimism regarding future cash flows. Therefore, the signals communicated by the company can enhance investor confidence and ultimately lead to an increase in firm value.

2.2 Agency Theory

[10] highlights that agency theory addresses the principal-agent relationship between investors and

management, while [16] conceptualize this as a contractual delegation of authority, allowing agents to act on behalf of principals—particularly in strategic decisions such as investments. These investment decisions, executed by management, aim to enhance profitability and ultimately maximize dividend payouts to shareholders. Therefore, agency theory provides a conceptual basis for understanding the linkage between investment decisions and dividend policy. The optimal management of assets is expected to drive operational growth and strengthen investor confidence in the firm.

2.3 Firm's Value

As explained by [2], the value of a company is often reflected either in the price potential investors are willing to pay or in its stock price as determined by market dynamics. [17] further emphasizes that company value is represented by the stock price formed through market mechanisms in response to the firm's performance. Brigham and [5] likewise define firm value as the discounted value of anticipated future free cash flows, where the discount rate applied is the corporate's weighted average cost of capital. Free cash flow refers to the cash available to investors after covering operating and investment expenses. From these perspectives, firm value represents the market's confidence as reflected in the market valuation of the company's shares. An increase in firm value indicates effective managerial performance in enhancing shareholder wealth.

[18] suggest that one of the most relevant metrics to evaluate firm value is the valuation ratio, as it captures the relationship between risk and the expected return from the investor's standpoint. The fundamental purpose of utilizing these financial ratios is to enhance firm value, thereby promoting shareholder wealth. Valuation ratios, which are categorized under market value ratios, are frequently used as key

indicators in financial statement analysis. Two of the most commonly employed ratios are the Price to Book Value (PBV) and the Price to Earnings Ratio (PER). PBV measures a company's market value relative to its book value, while PER reflects the stock price relative to its earnings per share. Both ratios provide important insights into market perceptions of a company's performance and future prospects.

2.4 *Investment Decisions*

According to [19], investment decisions reflect a combination of a company's existing assets (assets in place) and future investment opportunities that possess a positive net present value (NPV). In this context, investment decisions are proxied by the Price to Earnings Ratio (PER), which represents the ratio between a company's closing stock price and its earnings per share (EPS). The PER serves as an indicator of market expectations regarding future earnings growth, as well as investor perceptions of the company's investment potential.

2.5 *Dividend Policy*

Dividend policy constitutes a component of financial decision-making related to the allocation of earnings—whether to distribute them to shareholders as dividends or to retain them for future operational and investment financing [14], [20], [21]. This decision directly influences the amount of retained earnings and the company's internal financing structure, thereby affecting its long-term growth strategy and capital structure.

Accordingly, dividend policy can be defined as a corporate strategy regarding the distribution of a portion of net income to shareholders, taking into account both the firm's funding requirements and shareholder interests.

2.6 *Investment Decisions, Dividend Policy, and Firm Value: A Strategic Financial Perspective*

The continuous increase in firm value over time reflects the management's

effectiveness in operating and growing the business. According to Signaling Theory, investment decisions made by a firm serve as positive signals to investors and creditors regarding the company's future growth prospects [6]. Profitable investment activities enhance market confidence, attract new investors, and ultimately lead to an increase in firm value.

In addition, Agency Theory posits that profit distribution mechanisms may mediate the effect of investment decisions on corporate value. Prudent investment choices may have an impact on the magnitude of dividend payouts to shareholders. Within the framework of agency theory, management (as agents) holds the responsibility of managing corporate resources in alignment with the interests of the shareholders (principals), which includes formulating an optimal dividend policy aimed at maximizing the firm's long-term value.

An increase in assets accompanied by improved operational performance enhances investor confidence in the firm. According to Signaling Theory, dividend increase announcements function as favorable signals reflecting the company's financial stability and anticipated future performance. Firms that consistently distribute substantial dividends are generally perceived as financially sound and profitable [13].

3. METHODS

This research employs a quantitative approach, aimed at empirically testing hypotheses through the analysis of numerical data. The analytical methods employed include descriptive statistics, multiple linear regression analysis accompanied by classical assumption testing, and Path analysis is employed to assess both the direct and indirect effects among the studied variables. Data processing and analysis were conducted using IBM SPSS software. Hypothesis testing was performed using the t-test and partial

significance testing (sig-t) to analyze the specific contribution of each independent variable to the variance in the dependent variable. This methodological approach is designed to produce robust, data-driven findings that are objectively measurable and methodologically sound in addressing the stated research aims.

The object of this study encompasses all pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2015 - 2021 period. Secondary data were obtained from the official IDX website at www.idx.co.id. This study targets a population of 53 manufacturing firms listed in the Consumer Goods Industry Sector on the Indonesia Stock Exchange (IDX) from 2015 to 2018. Among these, 12 companies belong to the pharmaceutical sub-sector, which serves as the primary focus of this research.

A purposive sampling technique was employed to select the sample, ensuring alignment with predefined criteria pertinent to the study's scope based on specific criteria aligned with the objectives of the study. The sampling criteria include: (1) the firm must be a publicly listed pharmaceutical company actively traded on the IDX throughout the 2015–2021 period, with no history of delisting, and must consistently publish audited financial statements to the IDX during the observation period; and (2) the firm must have complete financial data for the years 2015–2021.

From the predetermined selection criteria, eight pharmaceutical manufacturing companies were identified as eligible research samples.

4. RESULTS AND DISCUSSION

4.1 *Investment Decision-Making and Its Impact on Corporate Value*

The regression analysis demonstrates that investment decisions, as proxied by Log_PER, have a statistically significant and positive effect on firm value. This finding supports Hypothesis 1, indicating that more robust

investment decisions are associated with an increase in firm value.

This positive relationship implies that investment decisions which generate an internal rate of return exceeding the cost of capital contribute to enhanced firm value through increased stock prices. The findings support the signaling theory perspective, wherein investment decisions are interpreted by the market as indicative of the firm's prospective growth, encompassing asset accumulation and increases in market value.

In this study, PT Kalbe Farma Tbk recorded an increase in its Price Earning Ratio (PER) from 30.87 in 2015 to 31.28 in 2016, accompanied by a rise in its Price to Book Value (PBV) from 5.66 to 6.01. This trend suggests that effective investment decisions contribute to an increase in the firm's market value. Accordingly, these findings reinforce prior research conducted by [22], [23], [24], which highlighted the significant role of investment decisions in enhancing firm value by conveying positive signals to the capital market.

4.2 *Investment Decision-Making and Its Impact on Dividend Distribution Policy*

This finding suggests that fluctuations in investment decisions do not influence the amount of dividends distributed by the firm. One possible explanation is that increased investment activities are often financed through retained earnings, thereby reducing the company's capacity to distribute dividends. These results align with agency theory, which posits that managers, acting as agents, are entrusted with the authority to allocate earnings toward investments aimed at enhancing firm value rather than prioritizing dividend distribution.

In 2017, the Price to Earnings Ratio (PER) of PT Kalbe Farma Tbk increased by 2.11%, accompanied by a relatively modest rise in the Dividend Payout Ratio (DPR) of only 0.4%. However, in 2019, although PER

experienced a 1.56% increase, DPR declined by 0.13%. This inconsistency in directional movement between investment decisions and dividend policy suggests a lack of alignment between the two variables.

Therefore, the findings suggest that investment decisions do not exert a direct or statistically meaningful influence on dividend policy. The findings corroborate those of previous studies by [23], [25], both of which concluded that investment decisions do not significantly affect dividend policy in the context of manufacturing companies listed on the Indonesia Stock Exchange.

4.3 *Dividend Policy as a Determinant of Firm Value: An Empirical Analysis*

These findings indicate that the amount of dividends distributed does not significantly influence firm value, as measured by the Price to Book Value (PBV). This aligns with the proposition of [26], which asserts that the DPR constitutes only a minor component of a firm's financing decisions and does not determine its overall value. Rather, firm value is primarily influenced by the company's ability to manage its assets efficiently to generate profits, or by implementing sound investment policies.

Furthermore, [27] suggests that the insignificance of dividend policy on firm value may stem from a shift in shareholder orientation, where investors increasingly prioritize capital gains over dividend income. Capital gains are perceived to yield quicker returns compared to periodic dividend distributions. This view is also supported by agency theory, which posits that corporate managers are granted the authority to determine dividend levels based on shareholder preferences—many of whom favor appreciation in share value over direct dividend payouts.

For instance, PT Tempo Scan Pacific Tbk recorded a 0.11% increase in its Dividend Payout Ratio (DPR) in 2020, accompanied by a 0.27% rise in Price to Book Value (PBV). However, in 2021,

despite a further DPR increase of 0.18%, PBV declined by 0.1%. This inconsistency suggests a lack of a stable or direct relationship between dividend policy and firm value.

The results align with the empirical evidence presented in studies by [24], [28], [29], all of which found no statistically significant relationship between dividend policy and firm value

4.4 *Investment Decisions and Firm Value: The Mediating Role of Dividend Policy*

Path analysis findings demonstrate that the strength of the direct relationship between investment decisions and firm value is more pronounced than the indirect effect transmitted via dividend policy. Additionally, statistical evidence from the Sobel test indicates that dividend policy does not effectively function as a mediating variable in the linkage between investment decisions and firm value. The empirical evidence fails to support the initial assumption that dividend policy functions as a mediating mechanism within the relationship between investment decisions and firm value.

The lack of a mediating role for dividend policy is attributed to the inconsistency in the direction of influence. While investment decisions exhibit a significant and positive impact on firm value, dividend policy does not demonstrate a statistically significant effect. Therefore, dividend policy is not capable of strengthening the influence of investment decisions on firm value.

These results are consistent with the agency theory framework, which suggests that managers, acting as agents of shareholders, possess the discretion to allocate corporate earnings—particularly through retained earnings—to fund investment activities that are expected to enhance firm value. In this context, managerial decisions to reduce dividend distribution and increase retained earnings are considered rational, as they support the optimization of investment activities. Consequently, dividend

distribution does not exert a direct influence on firm value.

This finding is also in line with previous research conducted by Mahmudi and [30], which concluded that dividend policy does not act as an intervening variable in the relationship between investment decisions and firm value, specifically among mining

companies listed on the Indonesia Stock Exchange during the 2015–2018 period.

The presented tables and figures are accompanied by clear titles and numerical data, along with adequate explanatory notes. Ensure that all tables and figures are completed by including the source information beneath each respective table or figure.

Table 1. Descriptive Statistic

Variable	Min	Max	Mean	Std. Deviation
PBV	0.80	8.19	3.4486	2.13930
PER	8.06	89.19	24.7529	17.17082
DPR	0.00	13.00	1.1802	2.64212

Source: Processed primary data

Table 2. Path Analysis Substructure 1

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std Error	Beta	T	Sig
Constant	1.891	0.228		8.307	0.000
LG_PER	-0.169	0.172	-0.171	-0.984	0.332

Table 3. Path Analysis Substructure 2

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std Error	Beta	T	Sig
Constant	0.846	0.404		-2097	0.044
LG_DPR	0.205	0.176	0.168	1.163	0.254
LG_PER	0.738	0.174	0.615	4.249	0.000

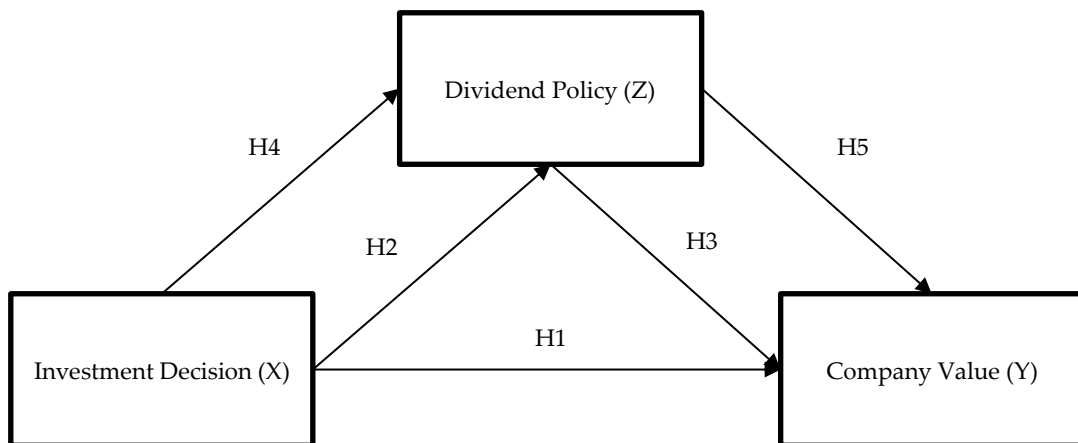


Figure 1. Research Result Model

5. CONCLUSION

The empirical findings indicate that investment decisions, indicated by the Price Earnings Ratio (PER), significantly and positively affect firm value, as reflected by the Price to Book Value (PBV), among pharmaceutical firms on the Indonesia Stock Exchange during 2015–2020. Moreover, dividend policy serves as an intervening variable in this relationship. This finding indicates that higher earnings resulting from effective investment decisions contribute to a growth in the company's stock market performance, which in turn leads to an overall enhancement of firm value.

Despite being measured by the Price Earnings Ratio (PER), investment decisions show no significant influence on dividend policy, as reflected by the Dividend Payout Ratio (DPR). This finding indicates that variations in profits resulting from investment activities do not directly determine dividend distributions. This may be attributed to the firm's tendency to allocate retained earnings toward internally financed strategic and productive investments.

The results also reveal that shareholder return policy has no significant influence on enterprise worth, indicating that dividend variations are not a primary consideration for investors, who instead focus on asset profitability and the efficacy of investment decisions in assessing firm value.

Mediation analysis reveals that shareholder return policy does not mediate the linkage between investment decisions and enterprise worth, primarily due to the disparity in statistical significance—investment decisions positively and significantly affect enterprise worth, whereas shareholder return policy does not exert a significant impact. Therefore, dividend policy does not serve as an effective mediating mechanism in enhancing the linkage between investment decisions and corporate value.

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Drawing from the empirical findings, this study offers several recommendations.

For investors, the evidence highlights that investment decisions, as indicated by the Price Earnings Ratio (PER), exert a significant and positive contribution on enterprise worth, proxied by the Price to Book Value (PBV). Accordingly, an increase in the Price Earnings Ratio (PER) may be interpreted as a positive signal of the company operational results, indicating its potential to initiate greater shareholder value. Investors and prospective investors are therefore advised to be more selective in allocating capital by prioritizing companies that consistently demonstrate strong and growing PER levels. Additionally, investors should evaluate the company's historical investment management practices and assess how effectively its assets have been utilized to generate increases in share price.

Second, for pharmaceutical companies, the evidences show that a higher PER drives directly to a rise in PBV, implying that sound investment decisions contribute to improved asset utilization, which in turn enhances firm value. Therefore, it is recommended that pharmaceutical firms maintain a stable and upward PER trend by optimizing their asset use in order to boost both share prices and overall firm value.

In response to the increasingly competitive nature of the pharmaceutical industry, firms are advised to pursue business diversification strategies. Rather than focusing solely on the sale of pharmaceutical products, companies should consider expanding into other health-related goods and services. For instance, Kalbe Farma has begun offering nutritious food products for mothers and children, while Kimia Farma has established clinics in remote areas as part of a strategy to boost revenue streams. Such diversification efforts have the potential to enhance market capitalization, elevate the Price Earning Ratio (PER), and ultimately contribute to the firm's value creation.

Future studies are encouraged To research other potential intermediary variables that could better explain the linkage between investment decisions and firm value. Incorporating additional mediating factors could yield a more comprehensive understanding of how fund allocation

decisions influence enterprise worth, thereby enriching the theoretical and empirical insights in this area of financial management.

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