

Corporate Finance and Firm Value on the Indonesia Stock Exchange

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ABSTRACT

Purpose – This study examines the relationship between corporate finance decisions and firm value among companies listed on the Indonesia Stock Exchange, focusing on financing, investment, and dividend-related decisions. It also evaluates the robustness of these relationships across alternative firm-value measures, economic controls, and time horizons.

Design/methodology/approach – A confirmatory quantitative design was employed using secondary financial data from 155 listed companies during 2012–2022. Firm value was measured using Tobin’s Q and the market-to-book ratio. Multiple linear regression was conducted using SPSS, with robustness tests incorporating IHSG, inflation, interest rates, exchange rates, and 2-, 5-, and 10-year periods.

Findings – The determinants of firm value vary across measurement proxies. Free cash flow significantly affects firm value when measured by Tobin’s Q, while fixed assets are the only significant determinant when using the market-to-book ratio. These findings remain consistent after controlling for macroeconomic factors and across different time horizons.

Originality/Value – This study demonstrates that the influence of corporate finance decisions on firm value is sensitive to the measurement proxy but robust across alternative model specifications, economic controls, and time periods. The findings highlight the distinct roles of dividend-related financial capacity and investment decisions in shaping firm value in the Indonesian capital market.

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1. Introduction

Theoretically, firm value is influenced by three major corporate finance decisions, namely investment decisions, financing decisions, and dividend decisions. However, each of these decisions is also interrelated with the others (Ernayani et al., 2017; Qureshi and Sharif, 2012; Ernayani and Robiyanto, 2016). Corporate finance encompasses three main decisions: the strategic aspects of capital structure, investment decisions, and the distribution of corporate dividends. Together, these three decisions determine a company's financial health and the market's perception of the company (Dwianto et al., 2024; Yahya et al., 2024). Market perception creates firm value, which is an important indicator of corporate success because it reflects investors' perceptions of the company's current performance and its future growth potential (Ghani et al., 2023).

To create value for the company, managers seek to maximize shareholder wealth through efficient resource allocation (Putri, 2020; Vaswani, 2026). Achieving this requires linkages among capital structure, dividend policy, and investment strategy to sustainably increase firm value over the long term (Ermawati, 2024), or, in other words, to connect managerial strategic decisions with market-determined corporate valuation (market valuation) (Soviatun & Rudianto, 2024).

With regard to capital structure, its relationship with firm value began with the development of the irrelevance theorem under perfect capital market conditions (Mansour et al., 2024). Subsequently, various market imperfections, including taxation, agency conflicts, and information asymmetry, were incorporated and contributed to the development of trade-off theory and pecking order theory (Graham & Leary, 2011). The capital structure issue remains unresolved because there is still no strong consensus on how firms should optimally balance the benefits and costs of alternative financing sources (Myers, 1984). The relationship with firm value may also be nonlinear (nonlinear threshold effects), suggesting that the relationship between leverage and firm value may follow an inverted-U pattern rather than being consistently positive or negative (Cheng et al., 2010; Nguyen, 2025). Different views also depend on the underlying theory, for example, static trade-off theory versus pecking order theory (Thành, 2014).

Investment decisions can be viewed from two perspectives: investment in fixed assets (capital budgeting) and investment in securities (capital market). Strategic investment decisions in corporate assets affect firm value by enabling an organization to approach its optimal scale and take advantage of changes in market profitability (Warusawitharana, 2007). The rate of investment also inherently determines the cross-sectional development of stock performance (Cooper et al., 2008). Therefore, one of the company's important decisions is how to align market valuation with the quality and growth potential of its investment opportunities (Carlson et al., 2004; Jones et al., 2004).

Free cash flow refers to the funds remaining after a company makes the capital expenditures required to maintain or expand its productive capacity. Changes in free cash flow can materially affect corporate valuation because investors incorporate expectations of future earnings growth into their asset price assessments (O & Myers, 2021). A company's ability to generate stable free cash flow signals that it has the capacity to finance investment, distribute dividends, and reduce outstanding obligations (Falato et al., 2022).

Profitability also affects firm value. Variations in return on equity (ROE) influence corporate decision-making and market valuation of the company (Yu & Luu, 2021). Profitability is closely related to the corporate life cycle and bankruptcy risk, particularly in relation to

earnings management practices and investment decisions (Đurana et al., 2021; Hoberg & Maksimovic, 2021).

This study focuses on the effects of financing decisions, investment decisions, and dividend decisions on firm value. It also examines the effects of control variables on the relationship between corporate finance and firm value. Several research models are employed with different control variables to obtain specific findings with high originality. The control variables are the IHSG, exchange rate, inflation, and interest rate, which are also tested for consistency across time horizons (short term versus long term).

2. Literature Review & Hypothesis Development

2.1. Agency Theory and Signaling Theory

Agency theory and the pecking order hypothesis provide the basis for explaining how capital structure and dividend policy convey information to the market (Syahfitri, 2025). Signaling theory indicates that dividend payments can function as credible indicators of a company's financial stability. This condition can reduce information asymmetry and limit agency conflicts between managers and shareholders (Isibor et al., 2024). Agency theory states that capital structure can align the interests of management and principals, thereby increasing firm value (Riandawa et al., 2025). The divergence of empirical findings indicates that debt and equity configurations are not universally optimal. Therefore, capital structure needs to be adjusted to the characteristics and level of operational risk of the company (Marsheila & Marpaung, 2026; Siregar et al., 2023).

2.2. Financing Decisions (Capital Structure) and Firm Value

Empirical analysis shows that an optimal capital structure, characterized by an appropriate combination or proportion of debt and equity, significantly reduces the cost of capital and improves financial efficiency (Apriadi et al., 2025). Research findings indicate that maintaining a lower debt-to-equity ratio can maximize firm value compared with conventional theories that recommend higher levels of leverage (Qureshi, 2007). However, under the Modigliani and Miller irrelevance theorem in perfect capital market conditions, capital structure does not affect firm value (Mansour et al., 2024).

The relationship between capital structure and firm value may also support nonlinear threshold effects, in which the relationship between leverage and firm value can follow an inverted-U pattern (Cheng et al., 2010; Nguyen, 2025). Meanwhile, static trade-off theory states that firms seek to achieve an optimal leverage ratio by balancing the tax benefits of debt against bankruptcy costs and financial distress. In contrast, pecking order theory emphasizes the role of information asymmetry in determining a firm's preference for financing sources, beginning with internal funds, followed by debt, and finally external equity (Thành, 2014).

Under trade-off theory, there is an optimal range of debt in which the tax-shield benefit of debt can increase firm valuation. However, when leverage exceeds this level, excessive debt can increase the risk of financial distress and ultimately reduce firm value (Ganta, 2025; Liu, 2017; Mazumdar & Mara, 2024). This indicates that debt can function as a disciplinary mechanism to reduce agency costs as long as leverage remains within a sustainable or manageable range (Pangestuti & Tindangen, 2020; Dewi & Muhyarsyah, 2025). Research also shows that leverage is often a noisy indicator of financial policy, particularly because of transaction costs (Leary & Roberts, 2005). Differences in the speed of capital structure adjustment and firm-specific characteristics also affect the persistence of deviations in leverage from its target level (Görtz et al., 2023).

2.3. Investment Decisions and Firm Value

According to the Q-theory perspective, firm value is intrinsically related to the marginal product of capital, where the investment-to-capital ratio serves as a strong predictor of cross-sectional variation in stock returns (Xing, 2007). This approach, known as the investment CAPM, explains that expected stock returns are fundamentally a function of the current level of investment, expected profitability, and the direction of future investment growth (George et al., 2018).

In further model development, more recent multifactor models have incorporated investment and profitability indicators to address empirical limitations in explaining various cross-sectional anomalies. The theoretical basis of this approach uses the Miller-Modigliani valuation framework and the q-theory of investment (Cooper & Maio, 2018). Firms seek to optimally adjust their working capital levels in response to changes in discount rates. This adjustment effectively explains the relationship between investment decisions and expected rates of return (Wu et al., 2009).

On the other hand, structural models indicate that investment decisions cannot be separated from a firm's systematic risk profile (Berk et al., 1998; Kogan & Papanikolaou, 2013). Changes in investment decisions not only affect a company's growth capacity but can also alter its exposure to systematic risk factors, which in turn affects investors' assessment of the firm's value in the capital market. From a time-horizon perspective, investment remains a major driver of firm value in the long run (Kermani & Ma, 2022).

Fixed assets, defined as long-term tangible assets in the form of property, plant, and equipment, constitute the fundamental capital base used by a company to generate future cash flows. Therefore, fixed assets directly affect overall firm value (Kermani & Ma, 2022). Fixed assets also support core production activities and determine the degree of operating leverage, linking internal investment decisions to corporate performance that is subsequently reflected in market valuation (Amihud & Levi, 2022). Fixed assets can also affect the sensitivity of stock prices to market fluctuations (Kermani & Ma, 2022).

2.4. Dividend Decisions and Firm Value

The effect of dividend decisions on firm value remains mixed (Nurdyastuti et al., 2025; Santosa et al., 2020). This relationship is based on an important concept: free cash flow serves as a major determinant of firm value because it can reduce financial constraints (Brown et al., 2021; Gürkaynak et al., 2022). Free cash flow is a fundamental measure in corporate finance because it directly reflects a company's ability to create wealth for shareholders while also indicating efficiency in capital allocation.

From the perspective of agency theory, the relationship between dividends and firm value focuses on the concept of overinvestment. Overinvestment occurs when managers prioritize the use of internal funds over external financing sources that generally provide stronger discipline and monitoring (Antoniou et al., 2022). This condition results in lower free cash flow, which means lower dividends paid and may generate a negative market response in terms of firm value. From the agency-cost perspective, management may increase investment expenditure by reducing free cash flow, which can depress equity valuation because shareholders take into account the possibility of resource misallocation when assessing the company (Yan et al., 2022).

However, recent research shows that although firms generate greater discretionary cash flow, they also tend to make larger dividend payments. Under these conditions, the market continues to assess how those resources are strategically allocated and aligned with the

company's needs and requirements. Managers, however, often rely on internally generated projections that may be subject to miscalibration, potentially leading to valuation errors and suboptimal use of free cash flow (Graham, 2022). The outcome may differ when firms with large cash reserves (free cash flow) use their liquidity to support strategic investments, such as decarbonization programs. Although such investments require larger capital allocations, they can paradoxically help stabilize firm value over the long term (Alam et al., 2022).

The relationship between free cash flow and firm value underscores the importance of managers aligning capital allocation with shareholder interests, particularly to reduce the risk of overinvestment associated with agency problems (Yu & Luu, 2021). This alignment requires corporate governance frameworks to prioritize transparency in order to reduce information asymmetry, as investors increasingly scrutinize how internal capital reserves are used during periods of macroeconomic volatility (Daniel et al., 2021; Tosun, 2021).

2.5. Profitability and Firm Value

Fundamentally, profitability is one of the underlying sources of equity premia (Gormsen & Lazarus, 2023). The price-earnings ratio is influenced by cash-flow growth shaped by a firm's profitability. Numerous studies show that short-term earnings prospects have a stronger influence on valuation than long-term projections (O & Myers, 2021). The valuation of firm-specific characteristics can explain variations in a company's future profitability. This means that internal operating conditions can shape firm value (Koijen et al., 2023). The formation of firm value is based on investors' beliefs regarding persistent cash-flow dynamics (Farmer et al., 2023).

From the perspective of behavioral finance, the fading of investors' memory of past earnings information can generate overreactions to recent earnings surprises. This condition makes the relationship between profitability and the stability of firm valuation increasingly complex (Nagel & Xu, 2021). Profitability is an important indicator of organizational efficiency and is consistently associated with higher market valuations because it signals a lower risk of insolvency and a better capacity for capital allocation (Reboredo & Ugolini, 2022).

3. Methodology

This study uses a confirmatory/associative research design. The population consists of all companies listed on the Indonesia Stock Exchange. Judgment sampling was used, resulting in a sample of 155 companies. The analysis covers the period from 2012 to 2022. The study uses ratio-scale secondary data. The variables used in this study are defined through variables and proxies for financing decisions, investment decisions, dividends, corporate governance, external factors, the capital market, and firm value. The analytical technique used is multiple linear regression with SPSS.

4. Result and Discussion

4.1. Results

The descriptive statistics of the research variables are presented in Table 1.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
markettobook	1040	.00	4540.00	47.7087	270.00980
tobins	1040	.00	716.00	11.7635	63.90528

Variable	N	Minimum	Maximum	Mean	Std. Deviation
der	1040	-150.00	185.00	2.2625	13.07008
ROA	1040	-22.00	22.00	.0529	1.16415
ROE	1040	-140.00	33.00	-.0183	4.70851
FCF	1039	-1882317651	15161049.00	-15653755.8	109171209.4
fixedasset	1040	6.00	20.00	13.5404	1.84696
Valid N (listwise)	1039				

The results show that the average market-to-book ratio is 47, which is relatively high because the market value is already 47 times higher than the par or nominal value. A negative DER indicates that some companies experienced losses for several consecutive years, causing equity to become negative, as also reflected in negative ROA and ROE values.

4.1.1. Initial Model (Firm Value Measured by Tobin's Q Ratio)

In the initial model, Tobin's Q ratio is used as the dependent variable. The analysis results are presented in Tables 2, 3, and 4.

Table 2. Simultaneous Correlation and Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.420	.177	.173	58.15546

Predictors: (Constant), fixedasset, der, ROE, FCF, ROA. Dependent Variable: tobins.

The results show a relatively low simultaneous correlation coefficient. The simultaneous coefficient of determination is also low (17.7%), indicating that many independent variables in the model are not significant.

Table 3. F-Test for Model 1 (Y = Tobin's Q)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	749374.738	5	149874.948	44.315	.000
Residual	3493665.110	1033	3382.057		
Total	4243039.848	1038			

The results show that the simultaneous test (F-test) is significant, meaning that all variables representing financing, investment, and dividend decisions simultaneously affect Tobin's Q (firm value).

Table 4. t-Test for Model 1 (Y = Tobin's Q)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	16.138	13.657		1.182	.238
der	.027	.138	.006	.196	.845
ROA	-.840	2.536	-.015	-.331	.741
ROE	.402	.627	.030	.641	.521
FCF	-2.443E-7	.000	-.417	-14.537	.000

Model	B	Std. Error	Beta	t	Sig.
fixedasset	-.605	.996	-.017	-.608	.543

The partial test (t-test) results show that only FCF (free cash flow), as a proxy for the dividend decision, significantly affects firm value.

4.1.2. Robustness Check

The robustness model in this study is divided into three forms. First, the dependent variable is replaced with another measure of firm value. Second, control factors such as stock market performance and external factors are added. Third, consistency is tested across short- and long-term time dimensions. The purpose of these tests is to examine variations in the effects resulting from changes in the independent variables. The model is expected to consistently produce the same findings as the initial model despite these modifications.

4.1.3. Model 2 with Market-to-Book Ratio as the Y Variable

In the second model, the dependent variable is replaced with the market-to-book ratio. The results are presented in Tables 5, 6, and 7.

Table 5. Simultaneous Correlation Coefficient and Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.164	.027	.022	267.10690

The results show relatively low simultaneous correlation and determination coefficients because many independent variables in the model are not significant. These results are not substantially different from those of the initial model.

Table 6. F-Test Results for Model 2

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2046804.579	5	409360.916	5.738	.000
Residual	73700519.81	1033	71346.099		
Total	75747324.39	1038			

The results show that the simultaneous test (F-test) is significant, meaning that all variables representing financing, investment, and dividend decisions simultaneously affect firm value.

Table 7. t-Test for Model 2 (Y = Market-to-Book Ratio)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	-265.811	62.727		-4.238	.000
der	.252	.635	.012	.396	.692
ROA	18.049	11.648	.078	1.550	.122
ROE	-.905	2.879	-.016	-.315	.753
FCF	-1.212E-7	.000	-.049	-1.570	.117
fixedasset	22.905	4.574	.157	5.008	.000

The partial test (t-test) results show that only fixed assets, as a proxy for the investment decision, significantly affect firm value, whereas in the initial model the significant variable is free cash flow (FCF).

4.1.4. Model Using External Control Variables

The results after controlling for the IHSG (capital market aspect) are as follows:

Table 8. t-Test and F-Test with the IHSG Control Variable

Panel A: Dependent Variable = Tobin's Q

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	752649.264	6	125441.544	37.089	.000
Residual	3490390.684	1032	3382.161		
Total	4243039.848	1038			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	3.915	18.461		.212	.832
der	.027	.138	.006	.198	.843
ROA	-.859	2.536	-.016	-.339	.735
ROE	.384	.627	.028	.612	.540
FCF	-2.437E-7	.000	-.416	-14.495	.000
fixedasset	-.644	.997	-.019	-.647	.518
IHSG	.002	.002	.028	.984	.325

Panel B: Dependent Variable = Market-to-Book Ratio

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2091141.125	6	348523.521	4.883	.000
Residual	73656183.26	1032	71372.271		
Total	75747324.39	1038			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	-220.837	84.807		-2.604	.009
der	.251	.636	.012	.394	.693
ROA	18.121	11.650	.078	1.555	.120
ROE	-.839	2.881	-.015	-.291	.771
FCF	-1.233E-7	.000	-.050	-1.596	.111
fixedasset	23.049	4.578	.158	5.034	.000
IHSG	-.008	.010	-.024	-.788	.431

The t-test results show that including the IHSG control variable makes FCF significant. However, when the Y variable is replaced with the market-to-book ratio, fixed assets become significant.

The results after controlling for the interest rate (economic/external aspect) are as follows:

Table 9. t-Test and F-Test with the Interest Rate Control Variable

Panel A: Dependent Variable = Tobin's Q

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	752351.466	6	125391.911	37.071	.000
Residual	3490688.382	1032	3382.450		
Total	4243039.848	1038			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	23.222	15.607		1.488	.137
der	.027	.138	.006	.195	.845
ROA	-.903	2.537	-.016	-.356	.722
ROE	.396	.627	.029	.629	.529
FCF	-2.435E-7	.000	-.416	-14.474	.000
fixedasset	-.648	.997	-.019	-.650	.516
Sukubunga	-1.235	1.316	-.027	-.938	.348

Panel B: Dependent Variable = Market-to-Book Ratio

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2090288.204	6	348381.367	4.881	.000
Residual	73657036.18	1032	71373.097		
Total	75747324.39	1038			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	-292.886	71.690		-4.085	.000
der	.252	.636	.012	.396	.692
ROA	18.289	11.654	.079	1.569	.117
ROE	-.877	2.880	-.015	-.305	.761
FCF	-1.241E-7	.000	-.050	-1.605	.109
fixedasset	23.067	4.580	.158	5.037	.000
Sukubunga	4.720	6.047	.024	.781	.435

The t-test results show that including the interest rate control variable makes FCF significant. However, when the Y variable is replaced with the market-to-book ratio, fixed assets become significant.

The results after controlling for inflation (economic/external aspect) are as follows:

Table 10. t-Test and F-Test with the Inflation Control Variable

Panel A: Dependent Variable = Tobin's Q

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	750559.705	6	125093.284	36.964	.000
Residual	3492480.143	1032	3384.186		
Total	4243039.848	1038			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	18.335	14.157		1.295	.196
der	.025	.138	.005	.182	.855
ROA	-.889	2.538	-.016	-.350	.726
ROE	.410	.627	.030	.654	.513
FCF	-2.438E-7	.000	-.416	-14.485	.000
fixedasset	-.620	.996	-.018	-.622	.534
inflasi	-.526	.887	-.017	-.592	.554

Panel B: Dependent Variable = Market-to-Book Ratio

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2046922.913	6	341153.819	4.777	.000
Residual	73700401.47	1032	71415.118		
Total	75747324.39	1038			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	-265.116	65.034		-4.077	.000
der	.251	.636	.012	.396	.693
ROA	18.034	11.660	.078	1.547	.122
ROE	-.903	2.881	-.016	-.313	.754
FCF	-1.210E-7	.000	-.049	-1.566	.118
fixedasset	22.901	4.578	.157	5.003	.000
inflasi	-.166	4.075	-.001	-.041	.968

The t-test results show that including the inflation control variable makes FCF significant. However, when the Y variable is replaced with the market-to-book ratio, fixed assets become significant.

The results after controlling for the exchange rate (economic/external aspect) are as follows:

Table 11. t-Test and F-Test with the Exchange Rate Control Variable

Panel A: Dependent Variable = Tobin's Q

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	750440.963	6	125073.494	36.957	.000
Residual	3492598.885	1032	3384.301		
Total	4243039.848	1038			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	5.595	23.226		.241	.810
der	.028	.138	.006	.199	.842
ROA	-.859	2.537	-.016	-.338	.735
ROE	.404	.627	.030	.644	.520
FCF	-2.441E-7	.000	-.417	-14.518	.000
fixedasset	-.625	.997	-.018	-.627	.531
kurs	.001	.001	.016	.561	.575

Panel B: Dependent Variable = Market-to-Book Ratio

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2088330.567	6	348055.095	4.876	.000
Residual	73658993.82	1032	71374.994		
Total	75747324.39	1038			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	-200.014	106.665		-1.875	.061
der	.249	.636	.012	.391	.696
ROA	18.166	11.651	.078	1.559	.119
ROE	-.918	2.880	-.016	-.319	.750
FCF	-1.223E-7	.000	-.049	-1.584	.113
fixedasset	23.029	4.578	.157	5.031	.000
kurs	-.005	.006	-.023	-.763	.446

The t-test results show that including the exchange rate control variable makes FCF significant. However, when the Y variable is replaced with the market-to-book ratio, fixed assets become significant. The models with control variables all produce the same pattern of results as Models 1 and 2.

4.1.5. Short-, Medium-, and Long-Term Analysis Models

The results of the short-term impact analysis (2 years) are presented in Table 12.

Table 12. t-Test and F-Test for the Short-Term Analysis (2 Years)

Panel A: Dependent Variable = Market-to-Book Ratio

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	541210.649	5	108242.130	1.534	.180
Residual	19056948.12	270	70581.289		
Total	19598158.77	275			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	221.853	110.434		2.009	.046
der	.818	1.325	.044	.617	.538
ROA	-10.363	47.856	-.029	-.216	.829
ROE	26.681	31.245	.117	.854	.394
FCF	-7.666E-8	.000	-.047	-.776	.439
fixedasset	19.288	8.011	.148	2.408	.017

Panel B: Dependent Variable = Tobin's Q

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	188060.156	5	37612.031	7.465	.000
Residual	1360394.061	270	5038.497		
Total	1548454.217	275			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	12.911	29.506		.438	.662
der	.149	.354	.028	.421	.674
ROA	-7.660	12.786	-.075	-.599	.550
ROE	4.897	8.348	.076	.587	.558
FCF	-1.569E-7	.000	-.346	-5.941	.000
fixedasset	-.139	2.140	-.004	-.065	.948

For the short-term analysis (2 years), the significant variable when Y is measured by the market-to-book ratio is fixed assets, whereas when Y is measured by Tobin's Q, the significant

variable is free cash flow (FCF). Thus, the results remain consistent with Models 1 and 2 and with the models using control variables.

The results of the medium-term impact analysis (5 years) are presented in Table 13.

Table 13. t-Test and F-Test for the Medium-Term Analysis (5 Years)

Panel A: Dependent Variable = Market-to-Book Ratio

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1648975.747	5	329795.149	3.135	.008
Residual	64698622.20	615	105201.012		
Total	66347597.94	620			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	-296.944	93.067		-3.191	.001
der	.023	.898	.001	.026	.979
ROA	20.244	20.890	.075	.969	.333
ROE	-2.903	11.641	-.019	-.249	.803
FCF	-1.325E-7	.000	-.056	-1.361	.174
fixedasset	25.424	6.751	.155	3.766	.000

Panel B: Dependent Variable = Tobin's Q

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	496580.282	5	99316.056	20.243	.000
Residual	3017294.877	615	4906.171		
Total	3513875.159	620			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	16.336	20.098		.813	.417
der	-.006	.194	-.001	-.032	.974
ROA	.244	4.511	.004	.053	.957
ROE	-.492	2.514	-.014	-.196	.845
FCF	-2.047E-7	.000	-.373	-9.737	.000
fixedasset	-.384	1.458	-.010	-.264	.792

For the medium-term analysis (5 years), the significant variable when Y is measured by the market-to-book ratio is fixed assets, whereas when Y is measured by Tobin's Q, the significant variable is free cash flow (FCF). Thus, the results remain consistent with Models 1 and 2, the 2-year test model, and the models using control variables.

Table 14. t-Test and F-Test for the Long-Term Analysis (10 Years)

Panel A: Dependent Variable = Market-to-Book Ratio

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1983580.400	5	396716.080	5.291	.000
Residual	73405761.62	979	74980.349		
Total	75389342.02	984			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	-267.104	65.786		-4.060	.000
der	.253	.661	.012	.382	.702
ROA	18.192	11.966	.079	1.520	.129
ROE	-.976	2.956	-.017	-.330	.744
FCF	-1.202E-7	.000	-.049	-1.512	.131
fixedasset	23.056	4.791	.155	4.812	.000

Panel B: Dependent Variable = Tobin's Q

ANOVA (F-Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	696618.038	5	139323.608	40.285	.000
Residual	3385800.555	979	3458.428		
Total	4082418.593	984			

Coefficients (t-Test)

Model	B	Std. Error	Beta	t	Sig.
(Constant)	14.188	14.129		1.004	.316
der	.022	.142	.005	.154	.877
ROA	-.801	2.570	-.015	-.312	.755
ROE	.391	.635	.029	.616	.538
FCF	-2.370E-7	.000	-.411	-13.878	.000
fixedasset	-.450	1.029	-.013	-.437	.662

For the long-term analysis (10 years), the significant variable when Y is measured by the market-to-book ratio is fixed assets, whereas when Y is measured by Tobin's Q, the significant variable is free cash flow (FCF). Thus, the results remain consistent with Models 1 and 2, the 2-year test model, the 5-year test model, and the models using control variables.

4.2. Discussion

The results show that investment decisions (capital budgeting) and dividend decisions (proxied by free cash flow) significantly affect firm value, although the significant variable differs according to the proxy used for firm value. When Y is measured by the market-to-book

ratio, fixed assets are significant, whereas when Y is measured by Tobin's Q, free cash flow (FCF) is significant.

The finding that investment decisions affect firm value is consistent with arguments from the Q-theory perspective (Xing, 2007; Cooper & Maio, 2018; Wu et al., 2009) and the investment CAPM (George et al., 2018). It is also related to the market response to the company's systematic risk profile embedded in investment decisions (Berk et al., 1998; Kogan & Papanikolaou, 2013; Kermani & Ma, 2022). On the other hand, the significance of the investment variable is also consistent with the arguments of Kermani and Ma (2022) and Amihud and Levi (2022).

The effect of dividend decisions, proxied by free cash flow, on firm value supports arguments related to reducing financial constraints (Brown et al., 2021; Gürkaynak et al., 2022), the concept of overinvestment (Antoniou et al., 2022; Yu & Luu, 2021), agency costs (Yan et al., 2022), the long-term effects of investment (Alam et al., 2022), and the effects of macroeconomic volatility (Daniel et al., 2021; Tosun, 2021).

5. Conclusion

Based on the analysis, the following main findings are concluded:

- a. In the initial model, with Tobin's Q as the Y variable, only FCF (free cash flow), as a proxy for the dividend decision, significantly affects firm value. In Model 2, with the market-to-book ratio as the Y variable, only fixed assets, as a proxy for the investment decision, significantly affect firm value.
- b. The initial model shows that only FCF significantly affects firm value when Y is measured by Tobin's Q, whereas only fixed assets are significant when Y is measured by the market-to-book ratio. These findings remain consistent after controlling for the IHSG, inflation, interest rates, and exchange rates.
- c. For the long-term analysis (10 years), the significant variable when Y is measured by the market-to-book ratio is fixed assets, whereas when Y is measured by Tobin's Q, the significant variable is free cash flow (FCF). Thus, the results remain consistent with Models 1 and 2, the 2-year test model, the 5-year test model, and the models using control variables.

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