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The Influence of Dividend Policy, Financing Decisions, and Free Cash Flow on Firm Value in Indonesia

Andrean Wong[1], I Gede Adiputra[2]

[1,2]Faculty of Economics and Business, Tarumanagara University, Jakarta, Indonesia

ABSTRACT: Data from the Indonesian Central Securities Depository (KSEI) shows that the number of *Single Investor Identification* (SID) holders in 2023 has reached more than 11 million, a rapid increase from around 2 million in 2018. This growth reflects an increase in public awareness of the importance of investing in the capital market. In addition, the Indonesian capital market plays an important role in strengthening the resilience of the national economy by providing funds for companies in various sectors (*World Bank*, 2022; KSEI, 2023). Thus, research on the factors that influence capital market dynamics is becoming increasingly relevant, especially in the context of strategic sectors that contribute significantly to the national Gross Domestic Product (GDP). This study aims to analyze the effect of dividend policy, financing decisions, and free cash flow on Firm value in Indonesia. The research population consists of primary consumption sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2024. The sample was selected using purposive sampling and analyzed using multiple linear regression with classical assumption tests. The results show that dividend policy and financing decisions have a positive and significant effect on Firm value, while free cash flow has a negative but insignificant effect. These findings indicate that optimal dividend distribution policy and a balanced financing structure can increase Firm value, while inefficient free cash flow management can lower investor perception of company performance.

KEYWORDS: Dividend Policy, Financing Decisions, Free Cash Flow, Firm value

I. INTRODUCTION

The capital market is one of the main pillars of the modern economy because it functions as a means of raising long-term funds for companies while providing investment alternatives for the public. Through the capital market, companies obtain funding for business expansion, while investors have the opportunity to allocate capital to yield-bearing instruments. Therefore, the existence of an efficient capital market not only contributes to company growth but also reflects the economic progress of a country. According to *the World Bank* (2022), the depth of the capital market is closely correlated with the stability of the financial system and the competitiveness of the national economy. The more developed the capital market is, the stronger a country's capacity to attract investment, create jobs, and promote sustainable growth.

In Indonesia, the capital market has shown significant development in the last decade. This can be seen from the increasing number of retail investors and the increasingly diverse investment instruments available. Data from the Indonesian Central Securities Depository (KSEI) shows that the number of *Single Investor Identification* (SID) holders in 2023 has reached more than 11 million, a rapid increase from around 2 million in 2018. This growth reflects an increase in public awareness of the importance of investing in the capital market. In addition, the Indonesian capital market plays an important role in strengthening the resilience of the national economy by providing funds for companies in various sectors (*World Bank*, 2022; KSEI, 2023). Thus, research on the factors that influence capital market dynamics is becoming increasingly relevant, especially in the context of strategic sectors that contribute significantly to the national Gross Domestic Product (GDP). One such strategic sector is the primary consumption sector, which plays an important role in the economy by providing basic necessities that are always needed by the community. This sector is often referred to as a defensive sector that is relatively stable compared to other sectors. According to the Central Statistics Agency (BPS, 2023), the food, beverage, and household needs subsector contributes more than 20% to non-oil and gas GDP, making it one of the main drivers of the national economy. However, despite its defensive characteristics, the performance of the primary consumption sector in the capital market still faces various challenges.

Figure 1.1: Development of PBV in the Primary Consumption Sector

Source: www.idx.co.id/id

Fluctuations in Firm value, as proxied by *Price to Book Value* (PBV), during the 2021–2024 period can be seen in Figure 1.1. Based on data from the Indonesia Stock Exchange (2024), the PBV of the primary consumption sector was recorded at 0.726 in 2021, increased to 1.127 in 2022, rose slightly to 1.138 in 2023, and then declined significantly to 0.789 in 2024. These fluctuations indicate that the value of companies in the primary consumption sector is not yet optimal and is still vulnerable to changes in internal and external conditions. This instability signals uncertainty for investors because high Firm value should reflect management's success in increasing shareholder prosperity (Brigham & Houston, 2011). Therefore, even though the primary consumption sector has a strategic position in the national economy, the instability of Firm value indicates that there are issues that need to be further examined to understand the factors that influence it. Firm value is a key indicator that reflects investors' perceptions of a company's performance and future prospects. Brigham & Houston (2011) explain that high Firm value indicates management's success in increasing shareholder welfare and signals good growth prospects. One measure that is often used is *Price to Book Value* (PBV), which is the ratio between the market price of shares and the book value of the company's equity (Sartono, 2010). According to *signaling Theory* (Spence, 1973), financial information published by management will be interpreted by investors as a signal to assess the company's prospects. Thus, PBV fluctuations in the primary consumption sector can be considered as signal variations that affect investor perceptions of Firm value.

A number of previous studies also emphasize the importance of Firm value as a basis for investment decision-making. Pahi and Yadav (2019) in India found that capital structure and profitability have a significant effect on increasing Firm value, while Zhou et al. (2022) in China showed that dividend policy provides a positive signal that increases investor confidence. However, research results in Indonesia still show inconsistencies. Amaliyah and Herwiyanti (2020) found that dividend policy, investment decisions, and financing decisions did not significantly affect the corporate value of the mining sector, while Wibowo, Asyik, and Bambang (2021) proved that *free cash flow* had a positive effect on corporate value even though it could cause agency conflicts. The differences in these research results indicate that the determinants of Firm value are still debatable, especially in the context of the primary consumption sector in Indonesia. Thus, further study is needed to comprehensively understand the factors that affect Firm value in this strategic sector.

Dividend policy is a company's decision on whether to distribute profits to shareholders in the form of dividends or retain them for future investment financing. Weston and Copeland (2010) define dividend policy as a company's decision to determine the portion of profits to be distributed compared to retained earnings. The *Bird in the Hand Theory* proposed by Gordon and Lintner (1962) explains that investors prefer certain dividends over uncertain *capital gains*, because high dividends are considered a positive signal of company performance. This is in line with *Signaling Theory* (Spence, 1973), which states that stable dividends can give investors a positive perception of the company's financial prospects. Various previous studies also reinforce the importance of dividend policy in influencing Firm value. Pahi and Yadav (2019) in India found that dividend policy has a significant effect on increasing investor confidence. Zhou et al. (2022) in China also showed that stable dividends send a positive signal to the market, thereby increasing investor perception of Firm value. Similar results were shown by Murekefu and Ouma (2018) in Kenya, who found a close relationship between dividends, stock prices, and the attractiveness of company investments. However, in Indonesia, research results show varying findings. Amaliyah and Herwiyanti (2020) found that dividend policy does not have a significant effect on the value of mining companies, while Wibowo, Asyik, and Bambang (2021) prove that dividends remain an important consideration for investors in assessing a company's prospects. The inconsistency of these results shows that the effect of dividend policy on Firm value cannot yet be conclusively determined. Thus, research on dividend policy in the primary consumption sector in Indonesia is relevant, given that this sector contributes significantly to the national economy and attracts investors because it provides basic necessities with relatively stable demand.

Financing decisions are closely related to a company's capital structure, namely the composition of debt and equity used to finance operational and investment activities. Brigham and Houston (2011) define capital structure as the balance between long-term debt and equity used by a company to finance its assets. *Trade-Off Theory* explains that the use of debt provides benefits in the form of tax savings (*tax shield*), but excessive debt can increase the risk of bankruptcy, thereby reducing the value of the company. Meanwhile, *Pecking Order Theory* states that companies prefer internal funding sources first, then debt, and finally equity, due to the differences in asymmetric information costs incurred from each source of funds. Thus, the right financing decision can send a positive signal to investors and have an impact on increasing Firm value. A number of studies support the importance of financing decisions in influencing Firm value. Pahi and Yadav (2019) in India found that *leverage* has a significant effect on Firm value because it can increase returns for shareholders. Research by Alipour, Mohammadi, and Derakhshan (2015) in Iran also shows that optimal financing decisions can maximize Firm value, while Zhou et al. (2022) in China prove that a balanced capital structure sends a positive signal to investors. However, research in Indonesia shows varying results. Amaliyah and Herwiyanti (2020) concluded that financing decisions do not significantly affect the value of mining companies. Andayani (2021) found that *leverage* has a negative effect on the value of manufacturing companies, while Sari and Lestari (2022) found a positive effect on property companies. These differing results show that the effect of financing decisions on Firm value is still inconsistent. Thus, further research on the primary consumption sector in Indonesia is important, given that this sector contributes significantly to the national economy and attracts investor attention, even though it has rarely been studied in depth from a financing decision perspective.

Free cash flow (FCF) is the cash available to a company after meeting its operational needs and investing in fixed assets. Ross, Westerfield, and Jaffe (2013) define *free cash flow* as cash that can be used to pay dividends, repay debt, or make new investments without disrupting operational continuity. This concept is closely related to the *Agency Theory* proposed by Jensen and Meckling (1976), which explains that free cash flow has the potential to cause conflicts of interest between managers and shareholders. On the one hand, *free cash flow* provides financial flexibility for companies to expand and increase Firm value. On the other hand, if not properly monitored, *free cash flow* can lead to *over-investment* or unproductive use of funds, thereby reducing the company's efficiency. Empirical research supports the role *of free cash flow* in influencing Firm value, although the results still vary. Zhou et al. (2022) in China found that high *free cash flow* provides financial flexibility to expand the business, thereby increasing Firm value. Similar results were also shown by Murekefu and Ouma (2018) in Kenya, who found a positive relationship between *free cash flow* and stock prices. In Indonesia, Munandar and Kusumawati (2017) proved that *free cash flow* plays a role in increasing Firm value by strengthening investor confidence. Wibowo, Asyik, and Bambang (2021) also showed the positive effect of *free cash flow* on Firm value, despite the potential for agency conflicts. Conversely, Amaliyah and Herwiyanti (2020) found that *free cash flow* did not have a significant effect on the value of mining companies in Indonesia. These differing results indicate that the effect of *free cash flow* on Firm value is still inconsistent. Therefore, research on *free cash flow* in the primary consumption sector in Indonesia is relevant, given that this sector faces significant fluctuations in Firm value and makes an important contribution to supporting national economic stability.

Based on the previous description, it can be concluded that Firm value is an important indicator that reflects a company's performance and prospects. However, the primary consumption sector in Indonesia still faces significant fluctuations. Various financial factors such as dividend policy, funding decisions, and *free cash flow* are believed to affect Firm value, but previous research results show inconsistent findings, both internationally and nationally. Some studies prove a positive effect, while others find a negative or even insignificant effect. This inconsistency indicates a *research gap* that needs to be further explored. In addition, research that specifically highlights the primary consumption sector in Indonesia is still very limited, even though this sector contributes significantly to the national economy and attracts investors due to its defensive nature. Therefore, this study was conducted to analyze the effect of dividend policy, funding decisions, and *free cash flow* on Firm value in the primary consumption sector listed on the Indonesia Stock Exchange for the period 2021–2024.

II. LITERATURE REVIEW

The main objective of companies in the modern financial framework is to maximize Firm value. Firm value reflects investors' perceptions of the company's performance and future prospects, which are reflected in stock prices, market capitalization, and market-based ratios such as *Price to Book Value* (PBV). The higher the Firm value, the greater the investor confidence, making it easier for companies to obtain funding and strengthen their competitive position. To achieve this goal, management must make strategic decisions regarding dividend policy, financing decisions, and *free cash flow* management. Various financial theories have been developed to explain the relationship between these decisions and Firm value.

Dividend Policy

Dividend policy is one of the important decisions in financial management because it is directly related to the distribution of company profits to shareholders. This variable is important to examine because dividend distribution decisions not only affect the interests of investors but also influence the availability of internal funds for the company to finance future investments. According to Brigham and Houston (2011), dividend policy is a company's decision to determine the portion of profits to be distributed to shareholders in the form of dividends compared to profits retained for reinvestment. Thus, dividend policy reflects the balance between the interests of shareholders in receiving direct returns and the company's need to maintain growth through retained earnings.

Several empirical studies show mixed results regarding dividend policy. Suhendar and Paramita (2024) state that dividend policy, proxied by *the Dividend Payout Ratio* (DPR), does not have a significant effect on the value of companies in the banking sector, indicating that investors tend to consider other factors in assessing a company's prospects. Different results are shown by Yanti and Darmayanti (2019), who found that dividend policy has a positive effect on the value of manufacturing companies, so that dividend distribution is seen as a positive signal regarding the company's financial stability. Meanwhile, Bahrun, Tifah, and Firmansyah (2020) found that dividend policy actually has a negative effect on the value of consumer goods companies. This condition may be due to the need for companies to retain earnings as a source of internal funding. The differences in these research results confirm that the effect of dividend policy on Firm value is still debatable and is greatly influenced by industry conditions and investor preferences.

In this study, dividend policy is used as one of the independent variables because it is believed to influence Firm value through investor perception. If the dividends distributed are in line with investor expectations, Firm value has the potential to increase. However, if the dividend policy does not match market preferences, it can create a negative perception of the company. Therefore, analysis of dividend policy is important to understand the extent to which profit distribution decisions play a role in increasing Firm value, particularly in the primary consumption sector in Indonesia.

According to the *Dividend Irrelevance Theory* (Modigliani & Miller, 1961), in a perfect capital market, dividend policy does not affect Firm value because investors can form their own "dividends" by selling some of their shares. Empirically, a number of studies show that dividend policy has a positive effect on Firm value. Pahi and Yadav (2019) in India found that stable dividends can increase investor confidence in a company's prospects. Research by Zhou et al. (2022) in China also shows that dividend policy sends a positive signal to the market, thereby increasing investor perception of Firm value. Furthermore, research by Murekefu and Ouma (2018) in Kenya supports similar findings that consistent dividend payments are closely related to increases in stock prices and the attractiveness of company investments.

However, several other studies show different results. Amaliyah and Herwiyanti (2020) found that dividend policy does not have a significant effect on the value of mining companies in Indonesia. Bahrun, Tifah, and Firmansyah (2020) even found a negative effect of dividend policy on Firm value, indicating that dividend distribution is not always perceived as a positive signal by the market. The results of Hendry Jaya's (2021) research are also in line with this, where dividend policy has a negative and insignificant effect on Firm value. These findings support *the Dividend Irrelevance Theory*, which asserts that the main factors determining Firm value are profitability and growth prospects, not dividend policy itself.

Conditions in the Indonesian capital market also show a similar phenomenon. PT Unilever Indonesia Tbk (UNVR) and PT Bank Central Asia Tbk (BBCA) are examples of companies that consistently distribute high dividends, so they are perceived as defensive stocks with stable values. Conversely, companies that retain too much profit without a clear investment strategy are often perceived negatively, because investors consider that management does not provide the expected cash flow certainty.

Funding Decisions

Financing decisions are one of the strategic aspects of financial management related to determining the sources of funds used by companies to finance their operational and investment activities. This variable is important because the choice of funding sources will affect the company's capital structure and ultimately have an impact on the company's value. According to Brigham and Houston (2011), financing decisions are company policies in determining the balance between long-term debt and equity used to finance assets. The right financing structure will provide benefits in the form of tax savings (*tax shield*) and increase investor confidence, while excessive use of debt can increase the risk of bankruptcy.

Several empirical studies support the important role of financing decisions on Firm value. Bahrun, Tifah, and Firmansyah (2020) found that financing decisions have a significant positive effect on Firm value in the consumer goods industry, indicating that the proportional use of debt can increase returns for shareholders. Furthermore, Wibowo, Asyik, and Bambang (2021) also confirmed that capital structure has a positive effect on Firm value, in line with *the Trade-Off Theory* which emphasizes the tax benefits of using debt. However, research by Suhendar and Paramita (2024) shows different results, where financing decisions proxied by *the Debt to Equity Ratio* (DER) have a negative effect on the value of companies in the banking sector. This shows that an increase in debt can increase risk and reduce investor confidence. These findings show that the effect of financing decisions on Firm value still varies, depending on industry conditions and company characteristics.

Theoretically, financing decisions can be explained through *the Trade-Off Theory*, which emphasizes the importance of balancing the benefits of debt use in the form of tax savings and increased bankruptcy costs when debt is too large (Kraus & Litzenberger, 1973). Thus, financing decisions are not only technical financing policies but also signals to investors regarding management's ability to manage risk and the company's prospects.

In this study, financing decisions are used as one of the independent variables because they play a strategic role in influencing Firm value. A balanced financing structure can increase investor confidence and strengthen the company's competitive position, while disproportionate financing policies have the potential to reduce Firm value due to increased financial risk. Therefore, the analysis of financing decisions is important to understand how capital structure policies in primary consumption sector companies in Indonesia affect Firm value.

According to *Trade-Off Theory* (Kraus & Litzenberger, 1973), the use of debt can increase Firm value because debt interest is tax deductible (*tax shield*). However, excessive use of debt increases the risk of bankruptcy, thereby reducing Firm value. This hierarchy reflects the company's strategy to minimize the costs of information asymmetry and maintain investor confidence. Several empirical studies show the positive effect of financing decisions on Firm value. Pahi and Yadav (2019) found that *leverage* can increase Firm value because it provides higher returns for shareholders. Research by Alipour, Mohammadi, and Derakhshan (2015) in Iran also proves that optimal financing decisions can maximize Firm value. In Indonesia, Sari and Lestari (2022) found that *leverage* has a positive effect on the value of companies in the property sector, in line with the *TradeOff Theory's* view that moderate use of debt can increase Firm value.

However, different results were also found in other studies. Amaliyah and Herwiyanti (2020) proved that financing decisions did not have a significant effect on the value of mining companies in Indonesia. Meanwhile, Andayani (2021) found that *leverage* in the manufacturing sector actually has a negative effect on Firm value due to the high risk of default resulting from high debt burdens. Bahrun, Tifah, and Firmansyah (2020) also emphasized that financing decisions do not always have a positive effect on Firm value, especially if the capital structure used is not in line with the company's financial capacity. Market conditions also reflect mixed results. PT Telekomunikasi Indonesia Tbk (TLKM) was able to maintain a moderate debt ratio, thereby continuing to benefit from *tax shields* without incurring excessive bankruptcy risk. This kept the company's value stable and attractive to investors. In contrast, PT Garuda Indonesia Tbk (GIAA) showed the negative impact of excessive debt. High *leverage* has led to increased financial costs and caused a liquidity crisis, which has resulted in a decline in the company's value in the eyes of investors.

Thus, it can be concluded that financing decisions play an important role in determining Firm value. However, empirical research results show inconsistencies: some support the positive effect *of leverage*, some show no significant effect, and others find a negative effect. This inconsistency shows that the effect of financing decisions on Firm value is greatly influenced by industry conditions, risk levels, and management effectiveness in managing capital structure. Therefore, this study aims to reexamine the effect of financing decisions on Firm value in the primary consumption sector in Indonesia.

Free Cash Flow

Free cash flow is one of the important variables in this study because it reflects a company's ability to generate cash available after financing operational needs and investments in fixed assets. This variable is important to analyze because it provides an overview of a company's financial flexibility in paying dividends, repaying debt, and financing business expansion. According to Ross, Westerfield, and Jaffe (2013), *free cash flow* is cash that a company can use without disrupting its operations. Thus, the greater the *free cash flow* a company has, the greater the opportunity for the company to increase its value and provide benefits to shareholders.

Several empirical studies have supported the importance of *free cash flow*. Holly, Jao, and Mardiana (2022) define *free cash flow* as the actual cash flow distributed to investors after the company has made investments and fulfilled its working capital requirements. Their research results show that *free cash flow* has a significant positive effect on Firm value through earnings management as a mediating variable. In line with this, Rahmi and Wijaya (2022) refer to *free cash flow* as the remaining cash flow that can be distributed to shareholders after the company has invested in fixed assets and necessary operational activities, and find that *free cash flow* has a significant positive effect on Firm value in the *consumer goods* sector. However, research by Bahrun, Tifah, and Firmansyah (2020) found different results, where *free cash flow* actually has a negative effect on Firm value in the consumer goods industry. This finding indicates that the existence *of free cash flow* can also cause conflicts of interest if not managed properly.

Theoretically, *free cash flow* is closely related to the *Agency Theory* proposed by Jensen and Meckling (1976). This theory explains that excess cash held by a company can cause conflicts of interest between managers and shareholders. On the one hand, *free cash flow* provides flexibility for management to make investments that have the potential to increase Firm value. However, on the other hand, if not closely monitored, managers can use these funds for personal gain or make unproductive investments (*overinvestment*), which ultimately reduces the efficiency and value of the company.

In this study, *free cash flow* is used as one of the independent variables because it is believed to have an impact on Firm value, either positively or negatively, depending on how management manages it. Therefore, an analysis of *free cash flow* is relevant to understand whether the financial flexibility possessed by a company is truly capable of increasing Firm value, or whether it actually creates the risk of agency conflicts that have a negative impact. Thus, *free cash flow* is one of the key variables that will be tested for its effect on Firm value in this study, along with dividend policy and funding decisions.

Several empirical studies support the positive influence of *free cash flow* on Firm value. Wibowo, Asyik, and Bambang (2021) found that *free cash flow* has a significant effect on Firm value because it provides flexibility for management to expand the business and strengthen investor confidence. Research by Rahmi and Wijaya (2022) in the *consumer goods* sector also shows that *free cash flow* has a significant positive effect on Firm value, indicating that the greater the free cash flow, the higher the investor interest. Similar results were found by Zhou et al. (2022) in China, where high free cash flow is interpreted as the company's ability to generate strong internal funds, thereby increasing the company's market value. However, some studies show conflicting results. Amaliyah and Herwiyanti (2020) found that *free cash flow* does not have a significant effect on the value of mining companies in Indonesia, indicating that FCF is not always a major factor in determining Firm value. In fact, research by Bahrun, Tifah, and Firmansyah (2020) found that *free cash flow* has a negative effect on Firm value. They explain that large free cash flows can trigger *overinvestment* behavior, which reduces investor confidence and leads to a decline in stock prices.

These differing results show that *free cash flow* cannot be viewed simplistically. In companies with strong *corporate* governance, free cash flow tends to send a positive signal to the market because it is used efficiently to finance expansion or pay dividends. Conversely, in companies with weak corporate governance, high free cash flow raises suspicions of inefficient use of funds by management. A clear example can be seen in PT Astra International Tbk (ASII), which has consistently maintained positive free cash flow, leading investors to perceive it as evidence of financial stability and increasing Firm value. Conversely, PT Garuda Indonesia Tbk (GIAA) shows that even though it has large cash flows in certain periods, poor management means that these funds are unable to increase the company's value because they are absorbed to cover high debt obligations. Thus, *free cash flow* is one of the important factors that can potentially affect Firm value. However, previous studies have shown inconsistencies—some support a positive effect, some show no effect, and others show a negative effect. Therefore, this study aims to re-examine the effect of *free cash flow* on Firm value in the primary consumption sector in Indonesia, considering that the characteristics of this defensive sector allow free cash flow to play a major role in building investor confidence.

Firm Value

Firm value is one of the important variables in this study because it reflects the extent to which management has been successful in managing company assets to provide prosperity for shareholders. In addition, Firm value is a major concern for investors in the capital market because it reflects the market's perception of the company's performance and prospects.

According to Brigham and Houston (2011), Firm value is investors' perception of a company's level of success as reflected in its share price. Meanwhile, Sartono (2010) adds that Firm value can be measured using the *Price to Book Value* (PBV) ratio, which is the ratio between the market price of shares and the book value of the company's equity. This ratio is often used to assess whether a company's shares are traded at a price that reflects their fair value.

Several empirical studies reinforce this concept. Holly, Jao, and Mardiana (2022) state that Firm value is investors' perception of a company's success, which is closely related to its share price, and find that *free cash flow* has a significant positive effect on Firm value through profit management as a mediating variable. Furthermore, Rahmi and Wijaya (2022) define Firm value as the value of all assets owned by the company and emphasize that *corporate social responsibility* and *free cash flow* have a positive effect on Firm value in the *consumer goods* sector. Meanwhile, Bahrun, Tifah, and Firmansyah (2020) state that the main objective of establishing a company is to optimize Firm value for the welfare *of stakeholders*, but their research results show that dividend policy and free cash flow actually have a negative effect on Firm value, while financing decisions have a significant positive effect.

Therefore, in this study, Firm value is placed as a dependent variable because it serves as a final measure that reflects the success of the implementation of company financial policies. This variable is influenced by several main factors, including dividend policy, financing decisions, and *free cash flow*, which will be discussed further in the next subsection.

Framework and Hypotheses

Dividend policy is a company's decision on whether to distribute profits to shareholders in the form of dividends or retain them for internal financing. A stable dividend policy can increase investor confidence in the company and imply an increase in Firm value. Conversely, an inconsistent or low dividend policy can send a negative signal to the market about future profit prospects.

Financing decisions relate to a company's capital structure, namely the proportion of debt and equity used to finance operational and investment activities. According to *Trade-Off Theory*, companies will strive to achieve an optimal capital structure to minimize capital costs and maximize Firm value. Excessive use of debt will increase financial risk and reduce investor confidence. However, if managed efficiently, debt can improve financial discipline and signal management's confidence in future profit potential.

Investment decisions reflect management's ability to allocate company resources to projects that provide added value in the future. Appropriate investment decisions can improve market perception of the company's potential performance, thereby increasing Firm value.

Firm value reflects investors' perceptions of the company's future performance and prospects. In this study, Firm value is proxied by the *Price to Book Value* (PBV) ratio, which is the ratio of the market price of a share to its book value per share. A high PBV indicates that the market perceives the company to have good growth prospects and high managerial efficiency, while a low PBV indicates that the market perceives the company's performance to be less than optimal.

In addition, *free cash flow* is also an important indicator in assessing Firm value. Based on *Agency Theory*, large free cash flow can provide a positive signal regarding the company's financial capabilities, but it also has the potential to cause agency conflicts if not managed properly. Therefore, optimal *free cash flow* management will reflect management efficiency in utilizing funds to increase Firm value.

Conceptually, the three financial decisions of dividend policy, financing decisions, and free cash flow are the main pillars of a company's financial strategy. Dividend policy serves to signal the company's financial stability, financing decisions determine the balance between risk and return through capital structure, while free cash flow illustrates financial flexibility and potential agency conflicts if not managed properly. Thus, these three variables are believed to have a significant influence on Firm value, both partially and simultaneously. Based on the theoretical framework and previous research results, this study aims to empirically test the influence of dividend policy, financing decisions, and free cash flow on Firm value, which is proxied by *Price to Book Value* (PBV) in the primary consumption sector in Indonesia.

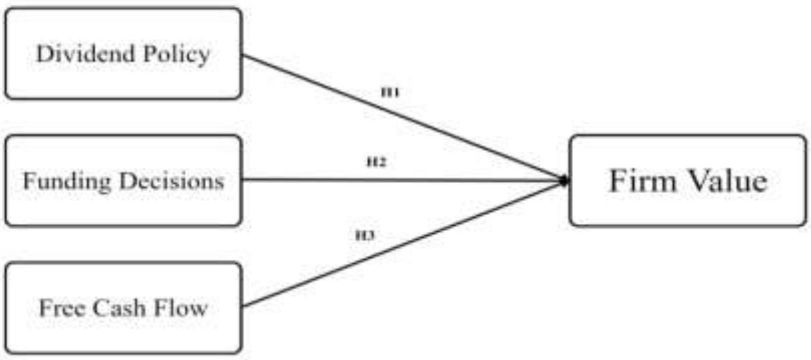

Figure 1: Research Model The hypothesis of this study is:

H_1 Dividend policy has a significant effect on Firm value in Indonesia

H_2 Financing decisions have a significant effect on Firm value in Indonesia : Free cash flow has a significant effect on Firm

H_3 value in Indonesia.

III. METHOD

This study uses *causal research*. According to Kerlinger and Lee (2000), causal research aims to analyze the cause-and-effect relationship between variables so that the independent variables that influence the dependent variables can be identified. This approach is relevant to this study because it aims to examine the effect of dividend policy, financing decisions, and *free cash flow* on Firm value.

The population in this study consists of all companies in the primary consumer goods sector (*consumer non-cyclicals*) listed on the Indonesia Stock Exchange (IDX) during the period 2021–2024. This study uses *purposive sampling*. According to Sugiyono (2019:138), *purposive sampling* is a sampling technique with certain considerations determined by the researcher based on the research objectives. This technique was chosen because the study uses secondary data that requires complete information and consistent data availability during the observation period. There were 122 companies included in the primary consumption sector on the Indonesia Stock Exchange (IDX) during the study period. After selection based on *purposive sampling* criteria, 36 companies were found to meet the requirements to be included in the study sample.

Variable and Instrument Operationalization

The dependent variable in this study is Firm value. According to Brigham and Houston (2014), the main objective of a company is to maximize Firm value in order to increase shareholder welfare. In this study, Firm value is proxied using *Price to Book Value* (PBV), which is the ratio between the market price of a share and its book value per share. This ratio illustrates the extent to which the market values a company compared to its accounting value.

Previous studies have shown mixed results regarding the effect of financial variables on PBV. A study conducted by Saputri, Oktavianna, and Benarda (2022) found that dividend policy has a significant effect on PBV, indicating that the market responds positively to dividend distribution on Firm value. However, research by Amaliyah and Herwiyanti (2020) in the mining sector found different results, where the financial variables tested did not have a significant effect on PBV. These differences in results indicate that PBV remains relevant as a proxy for Firm value, but needs to be retested in various industrial sectors, including the primary consumption sector in Indonesia.

In this study, there are three independent variables, namely *free cash flow* (FCF), financing decisions proxied by *the debt to equity ratio* (DER), and dividend policy proxied by *the dividend payout ratio* (DPR). Dividend policy is proxied using *the Dividend Payout Ratio* (DPR), which is the ratio between the amount of dividends paid and the company's net income in a period. This ratio shows the proportion of profits distributed to shareholders compared to retained earnings.

Financing decisions are proxied by *the Debt to Equity Ratio* (DER), which is the ratio between total debt and total equity that describes the company's *leverage* level. Research conducted by Bahrun, Tifah, and Firmansyah (2021) shows that DER has a positive effect on Firm value. However, different results are shown by Tandrio and Handoyo (2023), who prove that *leverage* (DER) has a significant negative effect on Firm value.

Free cash flow is the remaining cash flow available after a company has met all its operational and investment needs. According to Jensen (1986), companies with high *free cash flow* are potentially facing *agency problems*, as managers have the discretion to use these funds on projects that are less profitable for shareholders. Research conducted by Holly, Jao, and Mardiana (2022) shows that *free cash flow* has a significant positive effect on Firm value, and even the variable of earnings management has been proven to mediate this effect. However, different results were found by Bahrun, Tifah, and Firmansyah (2020), who stated that *free cash flow* actually has a negative effect on Firm value. The difference in research results indicates that the effect of *free cash flow* on Firm value is still debatable, so it needs to be re-examined in the context of the primary consumption sector in Indonesia.

Data Analysis

Multiple linear regression analysis was used to determine the effect of independent variables on the dependent variable. The model used in this study can be formulated as follows:

$$PBV = \propto + \beta_1 FCF + \beta_2 DER + \beta_3 DPR + e$$

Explanation:

PBV	= Firm value
FCF	= Free cash flow
DER	= Debt-Equity Ratio
DPR	= Dividend policy
α	= Constant
β1,β2,β3	= regression coefficients
e	= error

Data processing was performed using the EViews program. The regression estimation results obtained will show the direction of the relationship, whether positive or negative, as well as the significance level of each variable, both partially and simultaneously. Thus, this analysis is expected to prove the research hypothesis that has been formulated previously.

IV. RESULTS

In this study, the author used the F-test to determine whether the independent variables used in the research model, namely dividend policy (*Dividend Payout* Ratio/DPR), financing decisions (*Debt to Equity* Ratio/DER), and *free cash flow* (FCF), together had a significant effect on the dependent variable, namely Firm value (*Price to Book* Value/PBV).

Theoretically, the F-test is used to assess the validity of the regression model as a whole. The model is considered valid if the independent variables are simultaneously able to explain the variation that occurs in the dependent variable at an acceptable level of significance.

Table 2: F-test results based on the *Fixed Effect Model* (FEM) regression model

Cross-section fixed (dummy variables)			
R-squared	0.941507	Mean dependent var	3.437292
Adjusted R-squared	0.920338	S.D. dependent var	5.030427
S.E. of regression	1.419806	Akaike info criterion	3.764732
Sum squared resid	211.6643	Schwarz criterion	4.569056
Log likelihood	-232.0607	Hannan-Quinn criter.	4.091564
F-statistic	44.47619	Durbin-Watson stat	1.489816
Prob(F-statistic)	0.000000		

Source: Processed secondary data, 2025

Based on the test results using the *Fixed Effect Model* (FEM) shown in Figure 4.8, a Prob(*F-statistic*) value of 0.000000 was obtained, which is smaller than the significance level of 0.05. This indicates that the dividend policy (DPR), financing decisions (DER), and free cash flow (FCF) variables simultaneously have a significant effect on Firm value (PBV). In addition, the *F-statistic* value of 44.47619 and the Adjusted R-squared value of 0.920338 indicate that the model has excellent ability to explain the variation in Firm value. This means that approximately 92.03% of the variation in Firm value in the primary consumption sector can be explained by these three independent variables, while the rest is explained by other factors outside the model.
Next, a t-test was conducted to determine the effect of each independent variable on the dependent variable partially. This test was conducted using the *Fixed Effect Model* (FEM).

Table 3: Results of the t-test based on the *Fixed Effect Model* (FEM) regression model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.548273	0.514474	6.896895	0.0000
X1	0.028283	0.115981	0.243855	0.8078
X2	-0.364890	0.353337	-1.032694	0.3041
X3	3.766095	3.691260	1.020274	0.3099

Source: Processed secondary data, 2025

The table above shows that the dividend policy variable does not have a significant effect on Firm value (*Price to Book* Value/PBV). Financing decisions do not have a significant effect on Firm value (*Price to Book* Value/PBV). These results indicate that an increase in a company's use of debt is not always followed by an increase in Firm value. For the *free cash flow* (FCF) variable, it shows that free cash flow does not have a significant effect on Firm value (*Price to Book* Value/PBV). A possible reason for this is that some companies in the primary consumption sector use free cash flow to meet routine operational needs or long-term investments that do not immediately increase stock market value. In addition, investors may not respond positively to an increase in free cash flow if it is not accompanied by consistent profitability performance. Thus, these results reflect that free cash flow has not been a major factor in determining investor perceptions of Firm value during the research period. The adjusted R-squared coefficient is 0.920338. The Adjusted R-squared value of 0.920338 indicates that 92.03% of the variation in Firm value (*Price to Book* Value/PBV) can be explained by the independent variables in the model, namely dividend policy

(*Dividend Payout* Ratio/DPR), financing decisions (*Debt to Equity* Ratio/DER), and *free cash flow* (FCF). Meanwhile, the remaining 7.97% is explained by other factors outside this research model, such as profitability, company size, growth rate, and macroeconomic conditions that are not included in the model.

Discussion

Dividend policy does not have a significant effect on Firm value.

These results indicate that fluctuations in the value of primary consumption sector companies described in the background cannot be explained by dividend policy alone. In the context of the 2021–2024 research period, during which most of the sample companies routinely distributed dividends but still experienced PBV fluctuations, these findings suggest that dividends have not become a dominant signal in shaping investor perceptions. Investors are likely to focus more on fundamental factors such as profitability, sales growth, and managerial efficiency than dividend stability. The insignificant effect of dividends is also inseparable from the macroeconomic conditions that occurred during 2021–2024. The 2021–2022 period was a phase of post-COVID-19 pandemic recovery, during which, according to the Central Statistics Agency (BPS, 2023), economic recovery occurred gradually and companies were still focused on improving cash flow and restoring profitability. In this situation, investors considered a company's ability to survive and manage efficiency to be far more important than the amount of dividends distributed.

Entering 2022–2023, global inflationary pressures and commodity price increases intensified due to the Russia–Ukraine war. According to a report by the Coordinating Ministry for Economic Affairs (2022), the conflict caused a surge in food and energy prices and disrupted global supply chains. CNBC Indonesia (2023) also reported that commodity prices, such as cooking oil and rice, have surged to their highest levels, putting pressure on the margins of primary consumption sector companies that rely heavily on imported raw materials. In such conditions, investors are more concerned with financial performance stability and the ability to maintain margins than using dividends as an indicator of a company's prospects. In addition, fluctuations in the rupiah exchange rate in 2023–2024 also increased uncertainty. The depreciation of the rupiah caused import costs to rise, thereby increasing companies' operational risks. The Ministry of Finance (2023) noted that global uncertainty has prompted investors to be more cautious and focus more on company fundamentals. The shift in investor preferences toward high-growth sectors during economic recovery has also made dividends less of a key signal. From a practical standpoint, these results show that companies with high dividends do not always receive better market valuations. For the management of primary consumption sector companies, dividend policy needs to be balanced with clear operational performance and growth strategies so that the signals sent to the market are stronger. Conversely, high dividend distributions without improved performance may be perceived by investors as short-term measures that do not reflect the company's sustainable prospects.

These findings are in line with the results of Hendry Jaya's (2021) study, which shows that dividend policy has a negative and insignificant effect on Firm value. These results support the view that high dividend payouts can reduce a company's internal funds for productive investment, so they do not always increase Firm value. However, these findings differ from those of Fifta Dian Fitiriawati et al. (2021), who found that dividend policy has a positive and significant effect on Firm value. This difference can be explained by differences in sector and macroeconomic conditions, where companies in other sectors may face investor perceptions that are more sensitive to dividend signals. Theoretically, these research results are in line with the *Dividend Irrelevance Theory* proposed by Modigliani and Miller (1961), which states that dividend policy does not affect Firm value if the capital market is efficient and information is perfectly available. Investors assess companies based on profit prospects and investment opportunities, not on the amount of dividends paid. This can also be explained from the perspective *of Agency Theory* (Jensen & Meckling, 1976), where high dividend payouts can indeed reduce agency conflicts, but if they are not followed by improved financial performance, their impact on Firm value remains limited.

Thus, it can be concluded that the results of this study answer the inconsistency described in the background, where even though the primary consumption sector is known to be stable and regularly distributes dividends, this factor is not strong enough to affect Firm value. This shows that investors assess companies based on financial fundamentals and long-term growth prospects, not solely on dividend distribution policies.

Financing decisions do not have a significant effect on Firm value.

Fluctuations in Firm value in the primary consumption sector during the 2021–2024 research period cannot be fully explained by the funding structure. Macroeconomic conditions during this period shaped investors' perceptions of debt risk. In 2021–2022, the post-COVID-19 pandemic recovery phase caused companies to focus on stabilizing cash flow and restoring profitability. BPS (2023) noted that economic recovery was gradual and uncertain, causing companies to be more cautious in increasing *leverage*. Under these conditions, investors tended to view increased debt as a signal of risk rather than an aggressive strategy for expansion.

Global inflationary pressures in 2022–2023 also played an important role. An official report by the Coordinating Ministry for Economic Affairs (2022) explains that the Russia–Ukraine war triggered a surge in global food, energy, and commodity prices. The primary consumption sector, which depends on imported raw materials, was directly affected. CNBC Indonesia (2023) reported that the prices of staple foods such as cooking oil and rice reached their highest levels in recent years due to disruptions in the global supply chain. This situation led to increased production costs and squeezed company margins, so that increased debt actually increased financial risk in the eyes of investors. This explains why *leverage* was unable to increase PBV during the research period. In addition, fluctuations in the rupiah exchange rate in 2023–2024 also reinforced the perception of risk. The depreciation of the rupiah increased the burden of imports and added cost pressure on companies in the primary consumption sector. The Ministry of Finance (2023) emphasized that global uncertainty during this period increased investor caution towards highly indebted companies. As a result, companies with lower leverage tended to be viewed as more stable and having more controllable operational risks.

In practical terms, these results indicate that primary consumption sector companies tend to adopt conservative capital structure policies. The use of large amounts of debt is not always an effective strategy for increasing Firm value, especially if it is not balanced by the ability to generate profits and maintain stable cash flow. In capital-intensive and basic needs-oriented industries, investors value companies with strong financial fundamentals and maintained liquidity levels more than companies with high *leverage*. These findings are in line with research conducted by Muhammad Fadly Bahrun et al. (2020), which shows that financing decisions do not have a significant effect on Firm value. These results support the view that excessive use of debt can actually cause market concerns about bankruptcy risk. However, these research results differ from the findings of Wulan Sari and Rachman (2021), who found that a funding structure through increased debt can increase Firm value if the debt is used productively for business expansion and increased operational efficiency. This difference in results is likely due to different industry characteristics and research periods, where post-pandemic economic conditions have made companies more cautious in utilizing external financing.

Theoretically, the results of this study support *the Trade-Off Theory* (Kraus & Litzenberger, 1973), which explains that the use of debt provides tax benefits (*tax shield*), but is accompanied by bankruptcy risk. When the risks outweigh the tax benefits, the value of the company will decrease. In addition, these results are also in line with *Agency Theory* (Jensen & Meckling, 1976), which states that an increase in debt can exacerbate agency conflicts if management is unable to manage financial burdens effectively.

Thus, the results of this study address the inconsistency described in the background, namely that although classical financial theory assumes that the use of debt can increase Firm value, empirical conditions in the primary consumption sector in Indonesia show different results. Investors place greater value on financial stability and a company's ability to maintain a healthy capital structure as the main factors that determine Firm value, rather than a high level of debt.

Free cash flow does not have a significant effect on Firm value.

This insignificance cannot be separated from the macroeconomic and industrial conditions of the primary consumption sector during the 2021–2024 period. During the post-pandemic recovery period of 2021–2022, companies are still focused on maintaining liquidity and operational stability. According to the Central Statistics Agency (BPS, 2023), Indonesia's economic recovery is gradual and not yet fully stable. Under these conditions, companies tend to hold cash for operational needs, inventory, minimum dividend payments, and risk mitigation, rather than for investment expansion that could increase Firm value. Investors also believe that cash accumulation does not automatically reflect growth prospects if it is not followed by a clear allocation strategy.

Entering 2022–2023, inflationary pressures and commodity price spikes have intensified due to the Russia–Ukraine war. The Coordinating Ministry for Economic Affairs (2022) reported that the conflict has triggered a global increase in food, energy, and raw material prices. CNBC Indonesia (2023) also noted that the prices of major food commodities such as rice and cooking oil were at their highest levels in recent years. This surge in production costs has made companies more cautious in their use of internal cash, as cash flow needs to be channeled to maintain margins, manage costs, and maintain operational continuity. In situations like this, investors place more value on the effective use of cash than simply looking at the amount of FCF. In addition, fluctuations in the rupiah exchange rate in 2023–2024 reinforce the tendency for companies to maintain large cash reserves. The Ministry of Finance (2023) emphasized that global uncertainty increases import risks and production costs for the primary consumption sector. This impact has prompted companies to use cash as a risk buffer rather than as productive expansion capital that can increase market value. As a result, the increase in free cash flow does not signal strong growth prospects for investors, thus having no significant effect on PBV.

In terms of implications, these results indicate that the availability of internal cash is not necessarily a positive signal for investors, as excessive cash accumulation can actually create the perception that the company does not have promising investment prospects. Investors in the primary consumption sector are more likely to assess the effectiveness of fund utilization rather than just the amount of cash a company has. Thus, efficient and transparent management of free cash flow is key to building investor confidence in a company's value.

This finding is in line with research conducted by Muhammad Fadly Bahrun et al. (2020), which shows that free cash flow has a negative and insignificant effect on Firm value. This indicates that the amount of internal funds cannot directly improve a company's market performance. However, these results differ from the findings of Anthony Holly et al. (2022), who found that *free cash flow* has a positive and significant effect on Firm value, especially when the company has strong *corporate governance* mechanisms. These differences in results may be due to variations in industry characteristics and different managerial control systems. In the context of this study, weak managerial oversight can lead to inefficient cash usage, thereby hindering an increase in Firm value.

From a theoretical perspective, these results support *Agency Theory* (Jensen & Meckling, 1976), which emphasizes the importance of aligning the interests of management and shareholders to avoid wasting company resources. Thus, the results of this study address the gap described in the background, namely the inconsistency of previous studies regarding the effect of free cash flow on Firm value. Empirical conditions in the primary consumption sector in Indonesia show that the amount of internal cash does not necessarily increase a company's market value if it is not managed efficiently and transparently. Therefore, the effective use of internal funds is an important factor in increasing investor confidence and creating sustainable Firm value.

Based on the F-test results, the variables of free cash flow (FCF), funding structure (DER), and dividend policy (DPR) simultaneously have a significant effect on Firm value (*Price to Book* Value/PBV). This significance indicates that these three variables, when considered together, are able to explain the variation in Firm value in the primary consumption sector during the 2021–2024 period. Thus, even though some variables do not show a significant partial effect, the combination of the three still contributes to the formation of investor perceptions and market assessments. This significant simultaneous effect can be understood by considering the characteristics of the primary consumption sector and macroeconomic conditions during the study period. In capital-intensive industries that depend on stable demand, funding decisions, cash flow generation capabilities, and dividend policies are important indicators that reflect the overall financial health of a company. During the 2021–2024 period, the Indonesian economy was in a post-pandemic recovery phase (BPS, 2023), accompanied by inflationary pressures, supply chain disruptions due to the Russia–Ukraine war (Kemenko Perekonomian, 2022), and fluctuations in the rupiah exchange rate (Kemenkeu, 2023). Under these conditions, investors assess company performance through a combination of financial factors, rather than through a single indicator. This simultaneous significance indicates that the market responds to the overall quality of financial management. Free cash flow reflects a company's ability to generate internal funds, DER indicates the level of financial risk and capital structure, while DPR describes the profit distribution policy and the company's ability to maintain investor confidence. These three components are interrelated in assessing a company's resilience to macroeconomic pressures and industry volatility. In other words, although one variable is not strong enough to influence PBV individually, the combination of financial indicators provides a more comprehensive picture of a company's prospects.

The implication is that companies in the primary consumption sector need to manage these three financial aspects in an integrated manner. Efficient cash management, a healthy capital structure, and a consistent dividend policy can strengthen the market's perception of the company's stability and long-term prospects. These results also confirm that investors value companies that are able to balance liquidity, *leverage*, and profit distribution strategies in the face of economic uncertainty. Thus, the results of this simultaneous test support the conclusion that a company's value is shaped by a combination of integrated financial decisions, rather than by a single financial indicator in isolation.

V. CONCLUSION

Based on the results of data analysis, hypothesis testing, and discussion, several conclusions can be drawn regarding the effect of dividend policy (DPR), financing decisions (DER), and free cash flow (FCF) on Firm value (*Price to Book* Value/PBV) in the companies sampled in this study. The conclusions are as follows: Dividend Policy (DPR) does not have a significant effect on Firm value (*Price to Book* Value/PBV), Financing Decisions (DER) does not have a significant effect on Firm value, Free Cash Flow (FCF) does not have a significant effect on Firm value. Together, dividend policy (DPR), financing decisions (DER), and free cash flow (FCF) have a significant effect on Firm value (*Price to Book* Value/PBV). This shows that the combination of these financial policies as a whole plays an important role in determining Firm value, even though each variable individually does not show a significant effect.

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