

The Effect of Investment Decisions and Dividend Policy on Firm Value: The Mediating Role of Profitability in LQ45 Companies During the 2023–2025 Period

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Abstract. The performance of the Indonesian capital market during the 2023–2025 period experienced significant challenges and dynamic fluctuations. These conditions affected the performance of listed companies, including those included in the LQ45 Index. In this study, company performance is represented by firm value, which may be influenced by several factors, including investment decisions, dividend policy, and profitability. This study aims to examine the effect of investment decisions and dividend policy on the firm value of LQ45 companies during the 2023–2025 period, with profitability serving as a mediating variable. Firm value represents the primary objective of companies in conducting business activities and is influenced by various internal factors, including investment decisions, dividend policy, and profitability. The population of this study consisted of LQ45 companies listed on the Indonesia Stock Exchange (IDX) during the 2023–2025 period. The sample comprised 27 companies that were consistently included in the LQ45 Index and distributed dividends to shareholders for three consecutive years. Data were analyzed using Structural Equation Modeling (SEM) based on the SmartPLS software. The findings reveal that investment decisions and profitability have a significant negative effect on firm value. In contrast, dividend policy has a significant positive effect on firm value. Furthermore, investment decisions and dividend policy exert a significant positive influence on profitability. Regarding the mediating role of profitability, the results indicate that profitability does not mediate the relationship between investment decisions and firm value, nor does it mediate the relationship between dividend policy and firm value.

Keywords: Dividend Policy; Firm Value; Investment Decisions; LQ45 Index; Profitability.

Received: April 11, 2026
Revised: May 10, 2026
Accepted: June 21, 2026
Published: June 30, 2026
Curr. Ver.: June 30, 2026



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1. Introduction

The Indonesia Stock Exchange (IDX) serves as the primary marketplace for trading financial instruments, including stocks, bonds, and other securities. It facilitates interactions between companies seeking funding and investors pursuing investment opportunities. As an essential component of Indonesia's economic development, the capital market plays a significant role in mobilizing funds and promoting investment activities. Through the Initial Public Offering (IPO) process, the IDX enables companies to raise additional capital while providing investors with opportunities to trade publicly listed securities (Belinda, 2024). Under Law Number 8 of 1995 concerning Capital Markets, the Indonesia Stock Exchange is recognized as the official institution authorized to facilitate capital market activities. To provide investors with information regarding market performance, the IDX publishes several stock market indices, including the Composite Stock Price Index (CSPI) and the LQ45 Index.

Among these indices, the LQ45 Index consists of highly liquid stocks with strong market capitalization and represents some of the most prominent publicly listed companies in Indonesia. Nevertheless, the performance of LQ45 companies remains susceptible to various external economic and market pressures.

During the 2023–2025 period, Indonesia's capital market experienced substantial challenges and fluctuations. In 2023, the Composite Stock Price Index reached 7,272.80 points, while the LQ45 Index recorded 970.57 points. However, in 2024, the LQ45 Index experienced a significant decline of approximately 15.6%, accompanied by a correction in the Composite Stock Price Index, which closed at a lower level than in the previous year. This decline reflected external pressures and global market volatility that affected the performance of major Indonesian corporations.

According to Sugeng (2019), firm value reflects shareholder wealth and therefore represents one of the primary objectives of corporate management. Enhancing firm value requires effective management strategies aimed at increasing revenues while minimizing risks. Wulanningsih and Agustin (2020) define firm value as a reflection of public trust in a company, developed through years of operational activities and organizational growth. Furthermore, Sinaga et al. (2020) argue that an increase in firm value is generally accompanied by rising stock prices, which in turn improve shareholder wealth.

Firm value is a critical consideration for prospective investors when making investment decisions. The growth of firm value over time is often regarded as an indicator of corporate success and is positively associated with shareholder prosperity. To maximize firm value, companies must carefully formulate strategic decisions regarding investment, financing, and dividend distribution policies (Ardatiya et al., 2022). One of the most widely used indicators of firm value is the Price-to-Book Value (PBV) ratio (Yusticharatri, 2023).

One factor that may influence firm value is investment decision-making. In an environment characterized by uncertainty, investment decisions become a crucial determinant of corporate sustainability and growth. Investment decisions involve allocating company funds to productive assets expected to generate future returns. Appropriate investment decisions can enhance production capacity, improve operational efficiency, and strengthen competitive advantage, thereby positively affecting financial performance and firm value. Conversely, poorly considered investments, particularly those involving high-risk projects, may reduce profitability and weaken firm value.

Investment decisions represent managerial actions related to the allocation of resources across various assets and are generally categorized as business decisions rather than financing decisions (Yusticharatri, 2023). Hidayat et al. (2023) emphasize that two key factors must be considered in investment decision-making: expected return and investment risk. Expected return reflects the anticipated gains from an investment portfolio, whereas risk represents the potential deviation from expected outcomes.

Effective investment management therefore requires a comprehensive risk-return trade-off analysis to achieve efficient portfolio allocation consistent with investors' risk tolerance. Investment decisions primarily focus on the utilization of funds and the selection of projects capable of generating stable returns and cash flows. According to Nugraha et al. (2020), Total Asset Growth (TAG) serves as an appropriate proxy for measuring investment decisions.

Overall, the positive trend in asset growth indicates that companies continued to pursue expansion and business development throughout the study period. However, the slowdown in asset growth observed in 2025 warrants attention, as it may reflect adjustments in investment strategies or economic conditions that constrain corporate expansion.

Previous studies have reported inconsistent findings regarding the relationship between investment decisions and firm value. Isma (2022) and Uz-zaky (2024) found that investment decisions have a positive and significant effect on firm value, suggesting that effective investment strategies enhance investor confidence and corporate growth prospects. In contrast, Hasanuddin (2021) reported that investment decisions do not significantly affect firm value, while Arifin (2024) concluded that investment activities have no substantial impact on firm value regardless of their scale or nature.

Another important determinant of firm value is dividend policy. Dividend policy serves as a signal to the market regarding a company's financial health and future prospects. In a volatile market environment, balancing dividend payments to shareholders with the retention of earnings for future investments presents a significant challenge for corporate management. Hidayat et al. (2023) define dividends as the distribution of net income to shareholders. Dividend policy is closely associated with managerial decisions regarding whether profits should be distributed as dividends or retained for future investment purposes.

The magnitude of dividend payments may influence investors' willingness to invest in a company. According to Yudha et al. (2022), dividends are distributed when a company possesses excess funds generated from operating activities, represented by net income after tax and depreciation expenses. The proportion of earnings distributed as dividends is commonly measured by the Dividend Payout Ratio (DPR). Companies that consistently distribute higher cash dividends tend to send positive signals to investors, reflecting stronger profitability and potentially increasing stock prices. Consequently, higher stock prices contribute to enhanced firm value (Fuadi et al., 2020).

Although declining DPR trends during the study period indicate that companies retained a larger proportion of earnings, such policies may be interpreted differently by investors. On one hand, retained earnings can support long-term growth through reinvestment. On the other hand, lower dividend distributions may reduce the attractiveness of a company to income-oriented investors.

Empirical findings concerning the effect of dividend policy on firm value remain inconclusive. Santosa (2020) and Liong (2023) reported a positive and significant relationship between dividend policy and firm value. However, Bahri (2021) and Hansda (2020) found no significant relationship between the two variables.

The final factor examined in this study is profitability. Profitability refers to a company's ability to generate profits using available resources and capital (Hidayat, 2023). According to Yudha (2022), profitability reflects a company's capability to earn profits through its operational activities and available resources, including sales, cash, capital, employees, and organizational assets.

Azmi and Bertuah (2020) further argue that profitability represents the ultimate outcome of managerial policies and corporate decisions. Therefore, profitability can be understood as the firm's capacity to generate earnings from its available resources.

Profitability is often regarded as a key indicator of corporate success because the ultimate objective of business operations is to maximize profits. Net Profit Margin (NPM) is commonly used to measure profitability performance (Belinda, 2024). The increasing trend in NPM observed during the 2023–2025 period suggests substantial improvements in corporate profitability, which may strengthen investor confidence and positively affect firm value.

Previous studies also report mixed findings regarding the influence of profitability on firm value. Bahri (2021) found that profitability positively and significantly affects firm value, while Akhmadi (2020) reported no significant relationship. Similarly, Zainuddin (2020) identified a positive relationship between profitability and dividend policy, whereas Santosa (2020) found no significant effect.

In addition to its direct effect on firm value, profitability may serve as a mediating variable in the relationship between investment decisions, dividend policy, and firm value. Syamsudin (2020) found that profitability significantly mediates the effect of investment decisions on firm value. As an indicator of a company's ability to generate earnings from its assets and capital, profitability may strengthen or weaken the impact of strategic corporate decisions on firm value.

Despite extensive research examining the relationships among investment decisions, dividend policy, profitability, and firm value, empirical findings remain inconsistent. Variations in research periods, sample characteristics, and economic conditions may explain these discrepancies. Consequently, further investigation incorporating profitability as a mediating variable is warranted, particularly in the context of LQ45 companies during the 2023–2025 period.

Based on the observed phenomena and the research gaps identified in previous studies, this study investigates the effect of investment decisions and dividend policy on firm value, with profitability serving as a mediating variable, among companies included in the LQ45 Index of the Indonesia Stock Exchange during the 2023–2025 period. The selection of LQ45 companies is justified by their consistent dividend distributions and strong market performance, making them an appropriate context for examining the relationships among the variables under investigation.

2. Research Method

This study employed a quantitative approach with a causal-associative research design to examine the effects of investment decisions and dividend policy on firm value, with profitability serving as a mediating variable, among companies included in the LQ45 Index during the 2023–2025 period. The research was conducted using secondary data obtained from the Indonesia Stock Exchange (IDX) through its official website (www.idx.co.id), particularly the Indonesian Capital Market Directory (ICMD). The study population consisted of 62 companies listed in the LQ45 Index. The sample was selected using a purposive sampling technique based on predetermined criteria, resulting in 27 companies and a total of 81 observations over a three-year period. The study employed investment decisions (X_1) and dividend policy (X_2) as exogenous variables, profitability (Z) as the intervening variable, and firm value (Y) as the endogenous variable (Sugiyono, 2019).

Firm value was measured using the Price-to-Book Value (PBV) ratio (Yusticharatri, 2023), profitability was proxied by Net Profit Margin (NPM) (Belinda, 2024), investment decisions were measured using Total Asset Growth (TAG) (Nugraha et al., 2020), and dividend policy was measured through the Dividend Payout Ratio (DPR) (Fuadi et al., 2020). The study utilized quantitative data in the form of financial statements and qualitative data consisting of supporting information relevant to the research objectives. All data were obtained from secondary sources published by the Indonesia Stock Exchange and collected through non-participant observation methods involving documentation and examination of relevant reports and corporate records (Sugiyono, 2019).

Data analysis was conducted using Structural Equation Modeling (SEM) based on Partial Least Squares (PLS) with the assistance of SmartPLS software. This analytical technique was selected because it accommodates data that do not necessarily meet normality assumptions and can effectively handle relatively small sample sizes (Sugiyono, 2019). The analytical procedures included descriptive statistical analysis, evaluation of the outer model through convergent validity, discriminant validity, and composite reliability tests, as well as evaluation of the inner model using the Q^2 predictive relevance statistic (Ghozali, 2016).

Hypothesis testing was performed using the bootstrapping procedure, with statistical significance determined by a p-value ≤ 0.05 and a t-statistic > 1.96 .

Furthermore, mediation analysis was conducted using path analysis to determine whether profitability functioned as a full mediator, a partial mediator, or a non-mediating variable in the relationships among the variables under investigation (Sugiyono, 2019).

3. Result and Discussion

Description of Research Variables

Table 1. Descriptive Statistics.

Variable	N	Minimum	Maximum	Mean	Median	Standard Deviation
Dividend Payout Ratio (DPR)	81	-361.52	293.41	56.24	56.09	67.96
Price-to-Book Value (PBV)	81	0.20	4.21	1.81	1.73	0.85
Net Profit Margin (NPM)	81	5.49	22.08	14.65	14.84	3.26
Total Asset Growth (TAG)	81	7,753,268	2,514,684,368	376,476,475	113,433,901	618,172,028
Valid N (listwise)	81					

Source: Processed Data

Based on Table 1, the minimum, maximum, mean, and standard deviation values of each research variable can be explained as follows:

Dividend Payout Ratio (DPR)

The Dividend Payout Ratio variable consists of 81 observations, with a minimum value of -361.52 and a maximum value of 293.41.

The lowest value was recorded by XL Axiata Tbk. (EXCL) in 2025, while the highest value was recorded by Sarana Menara Nusantara Tbk. (TOWR) in 2023, with a value of 293.41. These findings indicate that Sarana Menara Nusantara Tbk. distributed the highest proportion of earnings as dividends, whereas XL Axiata Tbk. recorded the lowest dividend payout ratio. The relatively close values of the mean and median suggest that the distribution of DPR data is fairly balanced, despite the presence of several extreme observations.

Price-to-Book Value (PBV)

The Price-to-Book Value variable comprises 81 observations, with a minimum value of 0.20 and a maximum value of 4.21. The lowest PBV was recorded by XL Axiata Tbk. (EXCL) in 2025, while the highest PBV was achieved by Sarana Menara Nusantara Tbk. (TOWR) in 2023, with a value of 4.21. These results indicate that Sarana Menara Nusantara Tbk. exhibited the highest firm value, whereas XL Axiata Tbk. recorded the lowest. Overall, the findings suggest that most sampled companies possessed market values exceeding their book values, with a relatively low degree of data dispersion.

Net Profit Margin (NPM)

The Net Profit Margin variable includes 81 observations, with a minimum value of 5.49 and a maximum value of 22.08. The lowest profitability level was recorded by XL Axiata Tbk. (EXCL) in 2025, while the highest profitability was achieved by Bank Mandiri Tbk. (BMRI) in 2024, with a value of 22.08. These findings indicate that Bank Mandiri Tbk. generated the highest profitability among the sampled firms, whereas XL Axiata Tbk. recorded the lowest. The close proximity between the mean and median values suggests that the profitability data are relatively normally distributed.

Total Asset Growth (TAG)

The Total Asset Growth variable consists of 81 observations, with a minimum value of 7,753,268 and a maximum value of 2,514,684,368. The lowest asset growth was recorded by Ace Hardware Indonesia Tbk. (ACES) in 2023, while the highest value was achieved by Bank Mandiri Tbk. (BMRI) in 2025, amounting to 2,514,684,368. These results indicate that Bank Mandiri Tbk. experienced the highest asset growth, whereas Ace Hardware Indonesia Tbk. recorded the lowest. The substantial difference between the mean and median values suggests an uneven distribution of asset growth, indicating the presence of several firms with exceptionally high growth rates relative to other companies in the sample.

Inferential Analysis Results

This study employed Partial Least Squares (PLS) analysis using SmartPLS software. Based on the data processing results, the next step involved evaluating the structural equation model. Two primary evaluations were conducted: the measurement model (outer model) evaluation to assess the validity and reliability of the indicators measuring the latent variables, and the structural model (inner model) evaluation to examine the adequacy of the proposed model.

Prior to model evaluation, it should be emphasized that the research instrument used for data collection had previously satisfied the validity and reliability requirements. According to Ghazali (2011), first-order factor loadings are considered significant when the t-statistic exceeds 1.96. The results of this study indicate that all first-order factor loadings are statistically significant, as evidenced by t-statistic values greater than 1.96.

Measurement Model Evaluation (Outer Model)

The measurement model evaluation was conducted to assess the validity and reliability of the indicators used to measure the latent constructs.

This study involved four latent variables: Investment Decisions (X_1), Dividend Policy (X_2), Profitability (Z), and Firm Value (Y). Since all constructs were measured using reflective indicators, the evaluation of the measurement model focused on examining convergent validity, discriminant validity, and composite reliability.

The results of the outer model assessment, including convergent validity, discriminant validity, and composite reliability, are presented as follows.

Convergen Validity

Table 2. Outer Loading Results.

	Outer Loading
TAG <- X_1 . Total Asset Growth	1.000
DPR <- X_2 . Dividend Payout Ratio	1.000
NPM <- Z . Net Profit Margin	1.000
PBV <- Y . Price To Book Value	1.000

Source: Processed Data

Table 2 shows that all outer loading values are equal to 1.000. This result occurs because each latent variable in the model is represented by only one indicator.

The final assessment of convergent validity involves examining the Average Variance Extracted (AVE) value. AVE is calculated as the average squared standardized loading divided by the number of indicators. According to Ghazali and Latan (2020:74), the commonly accepted cut-off value for AVE is 0.50. An AVE value of at least 0.50 indicates satisfactory convergent validity. The AVE values obtained in this study are presented in Table 3.

Table 3. Average Variance Extracted (AVE) Values.

Variabel	AVE
X_1 . Investment Decisions	1.000
X_2 . Dividend Policy	1.000
M . Profitability	1.000
Y . Firm Value	1.000

Source: Processed Data

Table 3 shows that the AVE values for all variables exceed the recommended threshold of 0.50. This finding indicates that each construct is capable of explaining more than 50% of the variance of its respective indicators. Therefore, it can be concluded that all latent variables in this study demonstrate satisfactory convergent validity and adequately represent the indicators used to measure them.

Discriminant Validity

Table 4. Fornell–Larcker Criterion Values.

	X1. Keputusan Investasi	X2. Kebijakan Dividen	Z. Profitabilitas	Y. Nilai Perusahaan
X1. Investment Decisions	1,000	0,054	0,246	-0,492
X2. Dividend Policy	0,054	1,000	0,526	0,578
Z. Profitability	0,246	0,526	1,000	0,074
Y. Firm Value	-0,492	0,578	0,074	1,000

Source: Processed Data

Table 4 presents the results of the Fornell–Larcker Criterion test used to assess discriminant validity. The results indicate that the square root of the Average Variance Extracted (AVE), represented by the diagonal values in bold, is greater than the correlation coefficients between each construct and the other latent constructs in the model. Specifically, the square root of the AVE for Investment Decisions, Dividend Policy, Profitability, and Firm Value is 1.000, which exceeds their respective inter-construct correlation values.

These findings suggest that each construct shares more variance with its own indicators than with other constructs included in the model. Therefore, the latent variables are empirically distinct and adequately capture different conceptual dimensions. Furthermore, the correlation values among the constructs remain below the corresponding diagonal values, confirming that the discriminant validity requirement has been satisfied.

Based on the Fornell–Larcker Criterion results, it can be concluded that the measurement model exhibits satisfactory discriminant validity, indicating that each construct measures a unique concept and can be reliably distinguished from the other constructs in the study.

Composite Reliability dan Cronbach's Alpha

Table 5. Composite Reliability Value.

Variabel	Cronbach's Alpha	Composite Reliability
X1. Investment Decisions	1,000	1,000
X2. Dividend Policy	1,000	1,000
Z. Profitability	1,000	1,000
Y. Firm Value	1,000	1,000

Source: (Data processed)

Table 5 shows that the Composite Reliability values for all latent variables exceed the recommended threshold of 0.70, while the Cronbach's Alpha values are also above 0.70. Therefore, it can be concluded that the indicator blocks used in this study are reliable measures of their respective latent variables.

Based on the results of the convergent validity, discriminant validity, Composite Reliability, and Cronbach's Alpha assessments, it can be concluded that the indicators employed to measure the latent variables are both valid and reliable. Consequently, the analysis proceeds to the evaluation of the inner model to assess the overall model fit and predictive capability of the proposed structural model.

Structural Model Evaluation (Inner Model)**Table 6.** Structural Model Evaluation Results (Inner Model).

	Variabel Endogenus	Q ²
1	Z. Profitability	0.412
2	Y. Firm Value	0,537

Source: Processed Data

Table 6 indicates that the structural model demonstrates predictive capability for the profitability construct. On the other hand, the Q² value for the firm value variable is -0.096, indicating that the model lacks predictive relevance for firm value. According to the predictive relevance criterion, a Q² value greater than zero indicates predictive capability, whereas a value less than or equal to zero suggests that the model has limited or no predictive power for the endogenous construct under examination.

Hypothesis Testing Results

Hypothesis testing was conducted using the t-test procedure to evaluate both the direct effects among variables and the indirect effects through the mediating variable. Accordingly, the hypothesis testing process was divided into two categories: direct effect testing and indirect effect (mediation) testing. The results of the direct effect analysis are presented as follows.

Direct Effect Testing**Table 7.** Hypothesis Testing Results.

No.	Hubungan antar Variabel	Koefisien Jalur (Bootstrap ping)	T-Statistics	P Values	Ket
1	Investment Decisions (X ₁) → Firm Value (Y)	-0.287	2,451	0,015	H ₁ Reject ed
2	Dividend Policy (X ₂) → Firm Value (Y)	0,364	3,118	0,002	H ₂ Accep ted
3	Investment Decisions (X ₁) → Profitability (Z)	0,418	4,026	0.000	H ₃ Accep ted
4	Dividend Policy (X ₂) → Profitability (Z)	0,271	2,674	0,008	H ₄ Accepted
5	Profitability (Z) → Firm Value (Y)	-0,245	2,183	0,030	H ₅ Reject ed

Source: Processed Data

The results of the hypothesis testing presented in Table 7 can be summarized as follows:

a) The Effect of Investment Decisions on Firm Value

Investment decisions were found to have a significant negative effect on firm value. This result is evidenced by a negative path coefficient of -0.287, a p-value below 0.05, and a t-statistic greater than 1.96. Therefore, Hypothesis 1 is rejected, indicating that investment decisions significantly and negatively affect firm value.

b) The Effect of Dividend Policy on Firm Value

Dividend policy was found to have a significant positive effect on firm value. This result is indicated by a positive path coefficient of 0.364, a p-value below 0.05, and a t-statistic greater than 1.96. Accordingly, Hypothesis 2 is accepted, demonstrating that dividend policy has a significant positive influence on firm value.

c) The Effect of Investment Decisions on Profitability

Investment decisions were found to have a significant positive effect on profitability. This finding is supported by a positive path coefficient of 0.418, a p-value below 0.05, and a t-statistic exceeding 1.96. Therefore, Hypothesis 3 is accepted, indicating that investment decisions significantly enhance profitability.

d) The Effect of Dividend Policy on Profitability

Dividend policy was found to have a significant positive effect on profitability. This result is reflected in a positive path coefficient of 0.271, a p-value below 0.05, and a t-statistic greater than 1.96. Consequently, Hypothesis 4 is accepted, confirming that dividend policy has a significant positive influence on profitability.

e) The Effect of Profitability on Firm Value

Profitability was found to have a significant negative effect on firm value.

This finding is demonstrated by a negative path coefficient of -0.245, a p-value below 0.05, and a t-statistic exceeding 1.96. Therefore, Hypothesis 5 is rejected, indicating that profitability exerts a significant negative influence on firm value.

To provide a clearer illustration of the overall analytical results, the complete SEM-PLS model is presented in Figure 1.

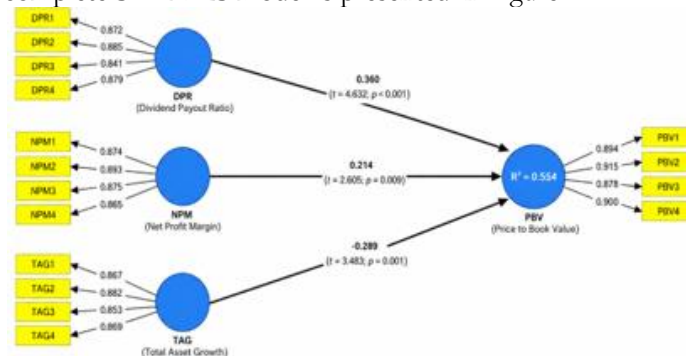


Figure 1. Full SEM-PLS Model of the Research Results.

Results of Indirect Testing via Mediating Variables

Table 8. Hypothesis Test Results for the Indirect Effect.

No.	Hubungan antar Variabel	Koefisien Jalur (Bootstrapping)	T-Statistics	P Values	Ket
1	Investment Decisions (X ₁) → Profitability (Z) → Firm Value (Y)	-0.102	1,412	0,159	H ₆ Rejected
2	Dividend Policy (X ₂) → Profitability (Z) → Firm Value (Y)	-0.066	1,283	0,201	H ₇ Rejected

Source: (Data processed)

Discussion

Based on the results of the PLS analysis, this section discusses the findings of the study. The objective of this research was to examine the effects of investment decisions and dividend policy on the firm value of LQ45 companies during the 2023–2025 period, with profitability serving as a mediating variable. The discussion is organized according to the proposed hypotheses to explain the relationships among the variables.

The Effect of Investment Decisions on Firm Value

The results indicate that investment decisions have a significant negative effect on firm value. This finding implies that an increase in investment decisions is associated with a significant decline in firm value.

The result suggests that the market does not always respond positively to corporate investment activities. Theoretically, effective investment decisions should enhance corporate prospects and increase firm value. However, several explanations may account for the findings of this study.

According to Signaling Theory, investment activities serve as positive signals regarding a firm's future growth prospects. However, when investments fail to generate optimal returns, are perceived as highly risky, or place pressure on the firm's financing structure, investors may interpret them as negative signals. Consequently, stock prices may fail to increase, resulting in a decline in firm value.

In the context of LQ45 companies during the 2023–2025 period, economic uncertainty, interest rate fluctuations, and global economic pressures may have caused investors to become more cautious. Therefore, long-term investments may not immediately enhance market perceptions of firm value.

These findings support the studies conducted by Hasanuddin (2021) and Santoso (2020), which reported a significant negative relationship between investment decisions and firm value.

The Effect of Dividend Policy on Firm Value

The results demonstrate that dividend policy has a significant positive effect on firm value. This finding suggests that higher dividend distributions are associated with higher firm value. Furthermore, the results indicate that investors perceive dividend payments as positive signals regarding corporate performance and future prospects.

From the perspective of Signaling Theory, dividend payments signal strong cash flows, stable profitability, and favorable business prospects. Increasing dividends enhance investor confidence regarding a company's financial health, thereby increasing demand for shares and driving stock prices upward. According to the Bird-in-the-Hand Theory, investors prefer current dividend income to uncertain future capital gains because dividends are perceived as less risky. Consequently, companies that consistently distribute dividends tend to experience lower perceived risk, greater investment attractiveness, and higher firm value.

These findings are consistent with those reported by Santosa (2020), Hasanuddin (2021), and Liong (2023), who found a significant positive relationship between dividend policy and firm value.

The Effect of Investment Decisions on Profitability

The results indicate that investment decisions have a significant positive effect on profitability. This finding implies that higher levels of investment activity contribute to greater corporate profitability.

Empirically, the positive path coefficient suggests that investment activities, including fixed asset acquisitions, business expansion, and new project development, contribute positively to financial performance. Investment Theory argues that efficient investment decisions enhance asset productivity and generate future cash flows that exceed the associated investment costs. Consequently, effective investment decisions contribute to higher revenues, improved profit margins, and increased profitability measures such as Return on Assets (ROA) and Net Profit Margin (NPM).

These findings support the study conducted by Hani'ah (2025), which reported a significant positive relationship between investment decisions and profitability.

The Effect of Dividend Policy on Profitability

The findings reveal that dividend policy has a significant positive effect on profitability. This result suggests that companies capable of consistently distributing dividends tend to exhibit stronger profitability performance.

From an empirical perspective, this positive relationship indicates that highly profitable firms possess greater confidence in distributing larger dividends. Conversely, the need to maintain dividend stability encourages management to improve efficiency and profitability. Signaling Theory suggests that dividend payments signal financial strength and stable cash flows.

Similarly, Dividend Stability Theory proposes that firms attempt to maintain consistent dividend payments, motivating management to sustain or enhance profitability levels over time.

These findings support the studies of Zainuddin (2020) and Liong (2023), which reported a significant positive relationship between dividend policy and profitability.

The Effect of Profitability on Firm Value

The results indicate that profitability has a significant negative effect on firm value. This finding suggests that higher profitability is associated with lower firm value, indicating that investors do not always respond positively to increases in corporate earnings.

Although profitability is generally expected to enhance firm value by signaling strong financial performance, such a relationship may become negative under certain circumstances. According to Signaling Theory, profitability serves as a positive signal to investors. However, if earnings growth is perceived as temporary, generated primarily through short-term efficiency improvements, or unsupported by long-term growth opportunities, investors may question its sustainability. Consequently, stock prices may fail to increase despite higher profitability.

These findings support those reported by Akbar et al. (2020) and Haryanto (2022), who also found a significant negative relationship between profitability and firm value.

The Mediating Effect of Profitability on the Relationship Between Investment Decisions and Firm Value

The mediation analysis reveals that profitability does not mediate the relationship between investment decisions and firm value. Although investment decisions significantly increase profitability and profitability significantly affects firm value, the indirect effect remains statistically insignificant.

This finding indicates that while investment activities improve profitability, the resulting increase in earnings is insufficient to influence market perceptions of firm value. Therefore, profitability does not function as a significant mediating mechanism in this relationship.

These findings are consistent with those reported by Kristanty (2020) and Wijayanti (2025), who found that profitability does not mediate the effect of investment decisions on firm value.

The Mediating Effect of Profitability on the Relationship Between Dividend Policy and Firm Value

The results further demonstrate that profitability does not mediate the relationship between dividend policy and firm value. Although dividend policy exerts a significant direct effect on firm value, the indirect effect through profitability is not statistically significant.

This finding suggests that dividend policy influences firm value primarily through investors' direct perceptions of dividend distributions rather than through improvements in profitability. According to the Bird-in-the-Hand Theory, investors place greater value on current dividend payments than on uncertain future earnings. Consequently, investors may respond directly to dividend policies regardless of profitability levels.

These findings support the studies conducted by Supriyono et al. (2025) and Sukirno (2020), which also reported that profitability does not mediate the relationship between dividend policy and firm value.

Research Novelty

The novelty of this study can be summarized as follows:

This study develops an integrated model examining the relationships among investment decisions, dividend policy, profitability, and firm value in LQ45 companies during the 2023–2025 period, with profitability serving as a mediating variable. Previous studies generally focused on direct relationships, whereas this research explores the underlying mechanism linking these variables.

The study utilizes recent data from LQ45 companies during the 2023–2025 period, reflecting post-economic recovery conditions and ongoing global uncertainty. These circumstances may influence investor behavior in evaluating profitability, dividend distribution, and firm value.

The study applies Structural Equation Modeling–Partial Least Squares (SEM-PLS), which enables simultaneous examination of both direct and indirect relationships among variables. This approach provides a more comprehensive analysis than traditional regression techniques commonly employed in previous studies.

The findings extend the empirical application of Signaling Theory and the Bird-in-the-Hand Theory by providing updated evidence regarding the role of profitability and dividend policy in influencing firm value among Indonesian LQ45 companies.

4. Conclusion

Based on the results and discussion, the following conclusions can be drawn: Investment decisions have a significant negative effect on firm value, indicating that increased investment activities do not necessarily enhance firm value and may be perceived by investors as carrying substantial risk.

Dividend policy has a significant positive effect on firm value, suggesting that higher dividend distributions increase investor confidence and improve firm value.

Investment decisions have a significant positive effect on profitability, indicating that investment activities contribute positively to a company's ability to generate profits.

Dividend policy has a significant positive effect on profitability, suggesting that firms with consistent dividend distributions tend to exhibit stronger profitability performance.

Profitability has a significant negative effect on firm value, indicating that higher earnings do not necessarily lead to higher market valuations.

Profitability does not mediate the relationship between investment decisions and firm value. Although investment decisions increase profitability, the indirect effect on firm value is not statistically significant.

Profitability does not mediate the relationship between dividend policy and firm value. The effect of dividend policy on firm value occurs primarily through investors' direct perceptions of dividend distributions rather than through profitability.

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