



The Impact of Firm Size, Dividend Policy, Profitability, and Investment Decisions on Firm Value in Indonesian SRI-KEHATI Index Companies
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ABSTRACT

This study aims to examine the effect of company size, dividend policy, profitability, and investment decisions on company value in companies listed in the SRI-KEHATI Index for the 2021–2024 period. The data for this study are secondary panel data from the financial statements of SRI-KEHATI companies. The method used is multiple linear regression with the help of SPSS 26. The classical assumption test shows that the data is normally distributed, there is no multicollinearity, heteroscedasticity, or autocorrelation. The results of the regression analysis show a significant regression model ($F = 8.959$; $p < 0.01$) with a coefficient of determination $R^2 = 0.366$. There is a significant negative effect of company size ($\beta = -0.447$, $p = 0.001$), profitability ($\beta = -0.764$, $p < 0.001$), and investment decisions ($\beta = -0.358$, $p = 0.001$) on company value. In contrast, dividend policy had no significant effect ($\beta = 0.098$, $p = 0.365$). In conclusion, larger company size, profitability, or investment volume tended to decrease firm value in this sample, while dividend policy had no impact.

Keywords: investment decisions, dividend policy, firm value, profitability, firm size.

INTRODUCTION

In recent years, Sustainable and Responsible Investment (SRI) has gained traction among institutional and retail investors worldwide, reflecting a growing recognition of the necessity of environmental, social, and governance (ESG) factors in investment decision-making. This shift has been particularly pronounced in emerging markets like Indonesia, which launched the SRI-KEHATI Index in 2009. Developed by the KEHATI Foundation in collaboration with the Indonesia Stock Exchange, the SRI-KEHATI Index utilizes the United Nations’ Principles for Responsible Investment (PRI) and core ESG criteria to identify companies demonstrating exceptional practices in environmental stewardship, social responsibility, and corporate governance (Ali Fikri 2023). By 2022, this index included 25 firms across diverse sectors, from renewable energy to consumer staples, serving as a benchmark for investors seeking both financial returns and sustainability impact (Ali Fikri 2023).

Despite the rising interest in ESG investment strategies, empirical research examining the interplay between traditional financial metrics and ESG frameworks has yielded mixed results (Faisal 2023); (Dua and Sharma 2024) For instance, larger firms typically enjoy higher valuations attributed to economies of scale; however, within the realm of socially responsible investments, these larger entities might face increased compliance costs or

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sustainability-related expenditures that could suppress market value (Faisal 2023); (Sukma Hermansyah 2023).

Furthermore, firm size is also thought to influence firm value, as larger companies generally have more stable resources, broader access to funding, and greater resilience in the face of crises. However, the relationship between financial performance, firm size, and firm value has not shown consistent results in previous studies, particularly in emerging markets like Indonesia. Several studies have found that firm size has a positive effect on firm value (Rahma 2024).

Therefore, dividend policy, traditionally viewed as indicators of financial robustness, have demonstrated varied impacts on stock performance. The *Bird-in-the-Hand Theory* (Miller 1961) argues that investors prefer certain dividend income over uncertain capital gains, thus associating higher dividends with higher firm value. In the context of ESG investments, suggesting that shareholder expectations may differ significantly based on sustainability commitments (Almulhim et al. 2024); (Dua and Sharma 2024).

Based on these considerations, this study aims to examine the impact of firm size, dividend policy, profitability, and investment decisions on firm value among companies listed in the Indonesian SRI-KEHATI Index during the 2020–2023 period. By integrating traditional corporate finance theories with the ESG investment perspective, this research seeks to contribute to the ongoing discussion on sustainable financial performance in emerging markets. The findings are expected to provide theoretical insights into value creation mechanisms in sustainability-oriented firms and practical implications for investors, managers, and policymakers seeking to balance profitability with social and environmental responsibility.

LITERATURE REVIEW

Signaling Theory

The signaling theory proposed by (Ross 1977) emphasizes that corporate financial decisions act as signals that convey information to external stakeholders, especially investors, regarding the firm's internal conditions and future prospects. In an environment where asymmetric information exists between managers and investors, financial policies such as dividend payments, debt issuance, and investment decisions serve as credible indicators of a company's expected performance. For example, an increase in dividends can be interpreted by investors as management's confidence in the firm's future profitability and cash flow stability. Similarly, large-scale investments may signal strong growth opportunities and a positive outlook on future returns. Hence, signaling theory provides a theoretical basis for linking financial decisions—such as dividend policy, profitability, and investment choices to firm value, as these decisions help reduce information asymmetry and influence investor perceptions.

Bird-in-the-Hand Theory

The Bird-in-the-Hand theory introduced by (Miller 1961) argues that investors prefer certain and immediate returns from dividends rather than uncertain future capital gains. According to this view, dividends are valued more highly than retained earnings because they provide tangible evidence of profitability and reduce uncertainty about future cash flows. Consequently, companies with a consistent and generous dividend payout policy

are perceived as less risky and more attractive to investors, potentially leading to a higher market valuation. This theory suggests that an increase in dividend payments enhances investor confidence and contributes positively to firm value.

Firm Size and Firm Value

Firm size represents the scale and capacity of an organization, commonly measured by total assets, sales, or market capitalization. Larger firms generally have better access to capital markets, stronger bargaining power, and more diversified business operations, which tend to make them more stable compared to smaller firms. Studies have consistently shown that larger companies are often associated with lower risk, higher operational efficiency, and greater investor trust (Margono and Gantino 2021); (Imery Wata 2023); (Nauli, Halim, and Sonia 2021) From an investment standpoint, company size also acts as a proxy for information transparency larger firms are more likely to be followed by analysts and monitored by the public, which reduces information asymmetry. Therefore, it can be expected that firm size exerts a positive influence on firm value (H1).

Dividend Policy and Firm Value

Dividend policy is one of the most debated topics in corporate finance. It concerns the decision of how much profit should be distributed to shareholders versus retained for reinvestment. According to signaling theory, dividend payments can signal management's optimism about the firm's future performance. However, empirical evidence on the relationship between dividend policy and firm value remains mixed. Some studies (Ayu Septia Ardianti and Rahyuda 2024); (Nurfadillah and Anitra 2020) find a positive association, indicating that consistent dividends improve investor perception and firm valuation. Others suggest an insignificant or even negative relationship, arguing that investors may not consider dividend payments a strong determinant of value, especially when reinvested earnings generate higher growth opportunities. Despite the ambiguity, the theoretical foundation implies that dividend policy may still contribute positively to firm value (H2).

Profitability and Firm Value

Profitability reflects a firm's ability to generate returns from its assets or equity. Common measures include Return on Assets (ROA) and Return on Equity (ROE). Profitability signals managerial efficiency and operational success, both of which are essential indicators for investors when assessing the firm's intrinsic value. According to signaling theory, high profitability sends a positive signal to the market about the firm's competence in managing resources effectively. Numerous studies (Nurhidayah et al. 2024); (Ayu Septia Ardianti and Rahyuda 2024); (Rofifudin 2025) have confirmed a positive and significant relationship between profitability and firm value, suggesting that more profitable firms tend to enjoy higher investor confidence and better market performance. Therefore, it is hypothesized that profitability has a positive impact on firm value (H3).

Investment Decision and Firm Value

Investment decisions determine how a firm allocates its resources among competing projects and are crucial in shaping long-term value creation. From a theoretical perspective, investment in productive and high-return projects enhances future earnings potential and, consequently, firm value. In signaling theory, a firm’s decision to undertake new investments—especially in strategic or expansionary projects—communicates management’s belief in future growth opportunities and competitive strength. Empirical findings (Syamsudin et al. 2020); (Yuswandani et al. 2024) indicate that effective investment decisions contribute significantly to firm value by aligning managerial actions with shareholder wealth maximization. Thus, it can be expected that investment decisions exert a positive influence on firm value (H4).

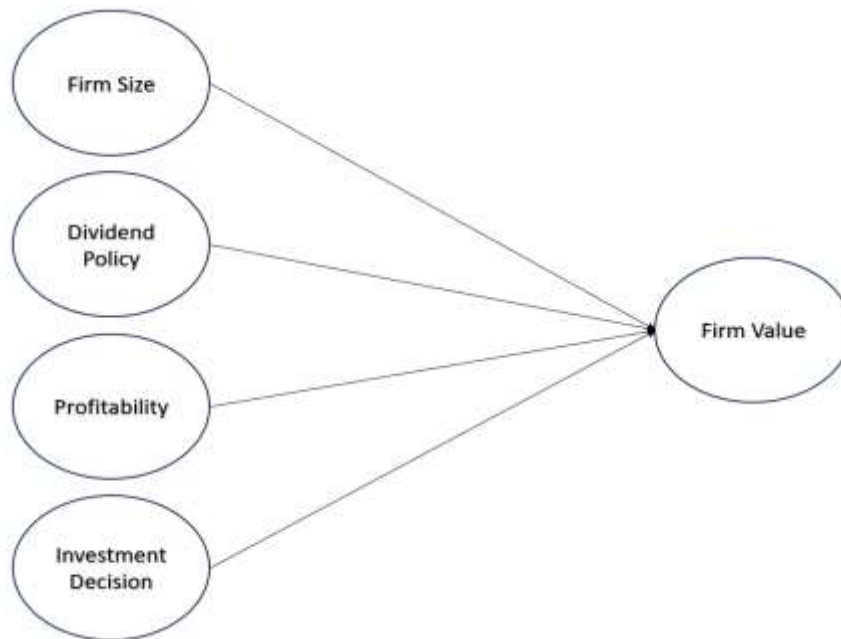


Figure 1. Hypothesis framework

METHODS

This study adopts a quantitative research approach to examine the relationship between key financial decision variables and firm value. Quantitative methods allow for objective measurement and statistical analysis of numerical data, making them well-suited for studies involving financial indicators and firm performance over time (Suliyanto 2018). The research is explanatory in nature, aiming to test hypotheses and provide empirical evidence regarding how corporate financial decisions contribute to value creation in sustainability-oriented firms.

The target population comprises all companies listed in the SRI-KEHATI Index on the Indonesia Stock Exchange (IDX) during the period 2021–2024. This index includes firms that adhere to Environmental, Social, and Governance (ESG) criteria, making it particularly relevant for examining sustainable financial performance. The population is selected based on the assumption that ESG-compliant firms exhibit unique financial behaviour and value dynamics compared to conventional firms.

The study employs secondary data sources, which include audited financial statements, annual reports, official publications from the IDX, and supporting data from academic journals and other reputable databases. The use of secondary data ensures consistency, reliability, and relevance to the research context (Suliyanto 2018).

A purposive sampling method was used to select the sample from the population, combined with a time-series framework. The sampling criteria were as follows:

- Firms must be listed in the SRI-KEHATI Index between 2020–2023.
- Firms must have published complete and audited financial reports for each year of observation.
- Firms must report positive net income and have distributed dividends during the study period.

These inclusion criteria ensure that the sampled firms are financially stable and active in shareholder return practices, allowing for more accurate assessment of the impact of investment, dividend, and profitability decisions on firm value.

RESULTS

This study is based on 74 firm-year observations of companies listed in the Indonesian SRI-KEHATI Index.

	N	Descriptive Statistics			
		Minimum	Maximum	Mean	Std. Deviation
Y	74	.001	20.365	1.22950	3.012869
X1	74	29.034	35.426	32.38761	1.740439
X2	74	.000	4.785	.56985	.599301
X3	74	.017	30.988	7.92197	7.377460
X4	74	.501	57013.443	956.42386	6693.696394
Valid N (listwise)	74				

The variable Firm Size (X1) ranges from 29.034 to 35.426, with a mean value of 32.38761 and a standard deviation of 1.740439, indicating relatively low variability in company size within the sample.

Dividend Policy (X2) records a minimum value of 0.000 and a maximum of 4.785, with a mean of 0.56985 and a standard deviation of 0.599301, suggesting noticeable differences in dividend distribution practices among the firms.

Profitability (X3) shows a wider dispersion, with values ranging from 0.017 to 30.988, a mean of 7.92197, and a standard deviation of 7.377460, reflecting substantial variation in firms' profitability levels.

The dependent variable, Investment Decisions on Firm Value (Y), ranges from 0.001 to 20.365, with a mean of 1.22950

and a standard deviation of 3.012869, indicating considerable variation in investment decisions and their impact on firm value within the sample.

No	Test Instrument	Results	Standard	Conclusion
1	Normality test One Sample Kolmogorov Smirnov	Asymp.Sig.(2 tailed) .200	> 0.05	Normally distributed
2	Multicollinearity Test - VIF	VIF X1= 1.689 VIF X2= 1.129 VIF X3= 1.852 VIF X4= 1.089	< 10	Not occur multicollinearity
3	Heteroscedasticity Test Glejser	X1= 0.497 X2= 0.518 X3= 0.354 X4= 0.576	> 0.05	Not occur heteroscedasticity
4	Durbin-Watson autocorrelation	DW = 2.597	-2>DW<2	Not any autocorrelation

Table 2. Classic assumption test

The classical assumption tests were conducted to ensure the validity of the regression model. Based on the standard testing criteria, the results show that the data meets all key assumptions: the data is normally distributed, there is no multicollinearity, it does not experience heteroscedasticity, and there is no autocorrelation.

The normality test is essential for determining whether the residuals follow a normal distribution, which is a prerequisite for many parametric statistical analyses. In this case, the Kolmogorov-Smirnov test yielded a significance value of 0.200, which is greater than the 0.05 threshold. This result indicates that the data is normally distributed and thus appropriate for further regression analysis.

Multicollinearity refers to a situation where two or more independent variables in a regression model are highly correlated, which can distort the results of the analysis. The Variance Inflation Factor (VIF) measures the extent of this multicollinearity. A VIF value of less than 10 indicates that multicollinearity is not a concern. In this study, all VIF values are significantly below the threshold, confirming that the independent variables are not collinear. This lack of multicollinearity ensures that each independent variable contributes unique information to the regression model, allowing for a clear interpretation of the relationships between variables.

Heteroscedasticity refers to the presence of non-constant variance in the error terms of a regression model, which can lead to inefficient estimates and unreliable hypothesis tests. The Glejser test is used to detect heteroscedasticity by regressing the absolute values of residuals on the independent variables. In this study, the significance values for all independent variables are greater than 0.05, indicating the absence of heteroscedasticity. This result implies that the variance of the residuals is constant across observations, supporting the validity of the regression model.

Lastly, autocorrelation occurs when residuals are correlated with one another, violating the independence assumption of regression. The Durbin-Watson (DW) statistic for this study is 2.597, which falls outside the commonly accepted range of 1.5 to 2.5. However, since it is not below 1.5 or close to 0, this value does not indicate serious autocorrelation and is considered acceptable in practice—especially when supported by a random residual plot.

In conclusion, all classical assumptions have been met, supporting the validity and reliability of the regression model used in this study

The multiple linear regression analysis was conducted to examine the influence of firm size (X1), dividend policy (X2), profitability (X3), and investment decisions (X4) on firm value (Y) among companies listed on the SRI-KEHATI Index. The results from the model summary indicate that the R Square value is 0.366, which means that approximately 36.6% of the variation in firm value can be explained by the four independent variables included in the model. The adjusted R Square value is 0.325, indicating a moderate level of explanatory power after adjusting for the number of predictors. The standard error of the estimate, which measures the average distance between the observed and predicted values, is 0.366805.

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	4.822	4	1.205	8.959	.000 ^b
Residual	8.342	62	.135		
Total	13.164	66			

a. Dependent Variable: Y

b. Predictors: (Constant), X4, X1, X2, X3

Table 3. F Test

The ANOVA table reveals that the regression model is statistically significant, with an F-statistic value of 8.959 and a significance level (p-value) of 0.000. This suggests that the independent variables, when considered together, significantly predict firm value. In other words, the model is effective in explaining the variations in firm value based on the included predictors.

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	4.680	1.107		4.229	.000
	X1	-.111	.033	-.447	-3.399	.001
	X2	.072	.078	.098	.913	.365
	X3	-.046	.008	-.764	-5.554	.000
	X4	-2.279E-5	.000	-.358	-3.394	.001

a. Dependent Variable: Y

The coefficient table provides insights into the individual contributions of each variable. Firm size (X1) shows a negative and statistically significant effect on firm value, with a coefficient of -0.111 and a p-value of 0.001. This implies that an increase in firm size is associated with a decrease in firm value, assuming other variables remain constant. Dividend policy (X2), on the other hand, has a positive but statistically

insignificant effect on firm value (coefficient = 0.072; $p = 0.365$), suggesting that dividend policy does not play a meaningful role in determining firm value in this sample. Interestingly, profitability (X3) has a negative and highly significant influence on firm value, with a coefficient of -0.046 and a p-value of 0.000. This result is counterintuitive, as profitability is generally expected to enhance firm value; however, this finding may reflect specific conditions or investor perceptions within the SRI-KEHATI-listed firms. Finally, investment decisions (X4) also show a statistically significant negative effect on firm value (coefficient = -0.00002279; $p = 0.001$), indicating that higher investment levels may be perceived as value-reducing in this context, potentially due to inefficiencies or long payback periods.

In conclusion, the analysis demonstrates that firm size, profitability, and investment decisions significantly influence firm value among companies in the SRI- KEHATI Index, with all three variables exhibiting negative relationships. Meanwhile, dividend policy does not have a significant impact on firm value. These findings offer valuable insights for investors and managers, particularly in understanding how internal financial decisions are perceived in the context of socially responsible investment criteria.

DISCUSSION & CONCLUSION

The results of the study indicate that company size has a significant negative effect on firm value, contradicting H1 (which was predicted to be positive). This contrasts with several previous findings that suggested a positive effect of large size (Imery Wata 2023); (Nurfadillah and Anitra 2020) One explanation may be the specific characteristics of SRI-KEHATI companies: larger companies in this index may face higher sustainability cost pressures, resulting in lower firm value. This finding aligns with the findings of (Nauli, Halim, and Sonia 2021), who found no effect on firm size when tested partially. Dividend policy

had no significant effect (H2 was rejected), in line with studies by (Imery Wata 2023) which also reported that dividends do not affect firm value. This means that among SRI-KEHATI companies, dividend distribution is not a primary consideration for investors in assessing company value. This may be because investors focus on long-term sustainability performance over current cash dividends.

Surprisingly, profitability has a significant negative effect (H3 is rejected). High profitability should increase company value, as shown by (Ayu Septia Ardianti and Rahyuda 2024) However, in the SRI-KEHATI sample, high profitability may have led to a decline in company value. A possible reason is that higher company profitability may reduce the need for sustainable investment or, conversely, create the perception that the company is investing less in ESG practices, resulting in lower market value. Investment decisions also have a significant negative effect (H4 is rejected), in contrast to previous positive findings. This means that companies that invested more in the SRI-KEHATI environment tended to have lower market values during this period. This could be because investors view large investments as risky or a short-term cost burden, especially if the investment returns have not yet shown the expected increase in profitability.

Thus, although signalling theory suggests that high investment should signal growth (Ross 1977), the empirical data show the opposite effect in this sample. Overall, only the dividend policy variable has no effect, while the other variables show a negative effect. These results largely contradict the direction of the initial hypothesis and some literature, indicating the unique characteristics of the companies in the SRI-KEHATI Index.

This study concludes that in the SRI-KEHATI company sample for the 2021–2024 period: (1) Company size has a significant negative effect on company value. (2) Dividend policy does not have a significant effect on company value. (3) Profitability has a significant negative effect on company value. (4) Investment decisions have a significant negative effect on company value. This means that the larger the company size, profitability, or investment volume, the lower the firm value.

On the other hand, dividends do not significantly impact a company's value. These findings differ from several previous studies, suggesting that the characteristics of companies in the SRI-KEHATI Index may differ. Future research is recommended to include other variables (e.g., ESG aspects of the company, cost of capital, or capital structure) and samples from different sectors to broaden generalizability.

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