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Research Article

The Effect of Investment Decisions, Dividend Policy, and Profitability on Firm Value in the Manufacturing Industry in West Java

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Abstract: This study aims to provide empirical insight into the interaction of financial factors, investment decisions, dividend policy, and profitability and their effects on firm value using the Structural Equation Modeling with Partial Least Squares (SEM-PLS) approach. This quantitative study uses data from 150 manufacturing companies in West Java selected through stratified random sampling, with data collected through structured surveys and interviews with key decision makers. The results of the analysis show that investment decisions have a positive and significant effect on firm value, indicating that proper capital allocation can increase business value. Dividend policy shows a complex relationship with firm value, so a balanced dividend distribution strategy is needed. Profitability has a strong positive correlation with firm value, emphasizing the importance of maintaining profit sustainability. This research model is able to explain 65% of the variation in firm value, indicating the strength of the relationship between the variables analyzed. The practical implication of this study is the importance of financial strategy decision making in the manufacturing sector, especially in terms of investment and dividend policy. Companies are advised to implement a careful investment strategy, moderate dividend policy, and focus on profitability to increase market valuation. This study makes an original contribution by presenting empirical data from the under-researched manufacturing sector of West Java and presenting a comprehensive model that explains the key dynamics that determine firm value in the industry.

Keywords: Dividend Policy; Firm Value; Investment Decisions; Manufacturing Industry; Profitability

1. Introduction

West Java's manufacturing sector significantly influences the region's economic expansion and advancement. Its varied subsectors and ever-changing nature define it. West Java manufacturing businesses must make critical financial decisions to sustain and grow the company's worth. These decisions must take into account a variety of obstacles and opportunities. Several factors, including supply chain management (SCM), total quality management (TQM), just-in-time (JIT) techniques, investment, and the human development index, have an impact on the expansion of the manufacturing sector in West Java.(Pratiwi et al., 2023; Qushoy et al., 2022; Saputra et al., 2023) Manufacturing businesses can improve their quality performance through the application of efficient SCM, TQM, and JIT processes, which will increase customer satisfaction, product quality, and operational efficiency.(Supriadi et al., 2022) West Java's manufacturing industry sector has the potential to make a substantial contribution to the Gross Regional Domestic Product (GRDP) of the area, and various Java provinces are showing a change in favor of this industry (Fauzi & Sutrisno, 2022). Despite

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having a low index value of relatedness and value to other sectors, the agricultural industry is also significant to West Java's economy.

The industrial sector in West Java, which includes industries like electronics, automobiles, and textiles, is a vital part of the local economy. Companies must make smart financial decisions that consider investment options, dividend policy, profitability, and company value to assure success and longevity in this dynamic terrain. Businesses and policymakers alike must comprehend how these elements interact with one another. Studies have demonstrated that just-in-time (JIT) methods, supply chain management (SCM), and total quality management (TQM) have a major positive impact on the quality performance of manufacturing enterprises in Jawa Barat, Indonesia (Pratiwi et al., 2023). Furthermore, it has been discovered that in West Java manufacturing enterprises, factors such as CEO duality, board independence, ownership concentration, and company age affect firm value and earnings persistence (Mbate, 2023). In addition, the funding, networks, and policies of the government all influence the West Java entrepreneurial ecosystem and are vital in fostering entrepreneurship in the area (Fkun et al., 2023). In addition, the government's funding, networks, and policies all influence the West Java entrepreneurial ecosystem and are vital in fostering entrepreneurship in the area. Small enterprises in West Java can perform better by fostering networks, market orientation, and entrepreneurial orientation (EO) (A. T. Nugroho, 2023). Lastly, the number of industrial companies, the human development index, labor, and investment all have an impact on the expansion of the manufacturing industry sector in West Java (Qushoy et al., 2022).

West Java's manufacturing sector, an essential economic pillar, has several difficulties that necessitate a thorough analysis of the financial dynamics that influence firm value. The primary focus is on investment decisions, dividend policy, and profitability; in the context of this dynamic industry, they require collaborative understanding. The need for firms to proactively adapt, the rapidly changing global economic scene, and technological upheaval highlight how urgent this topic is. Financial choices become crucial factors in determining the future of industrial companies in West Java in the face of shifting consumer demands, technological upheaval, and uncertainty in the global economy. By offering factual insights to help strategic decision-making, this study seeks to close the knowledge gap and enhance the financial sustainability and resilience of the region's manufacturing industry. It not only offers empirical support, but it also addresses the central query of how, in this particular setting, investment choices, dividend policy, and profitability all work together to determine company value. This study aims to provide a thorough understanding of the financial dynamics of the West Java manufacturing industry. Specifically, it seeks to: a. Examine how investment decisions affect firm value and shed light on strategies that support long-term growth. b. To investigate the relationship between business value and dividend policy, revealing the factors influencing financial distribution. To evaluate the relationship between company value and

profitability, thereby revealing the factors that support the industrial sector's financial performance.

2. Literature Review

2.1 Investment Decision and Firm Value

Strategic and well-informed investment decisions contribute positively to firm value, as they involve the allocation of resources to profitable projects and opportunities (Attahirah & Jombrik, n.d.). Efficient capital allocation, prudent risk management, and pursuing projects with positive present value are key elements that influence firm value through investment decisions (Rizkiwati & Anwar, 2023). However, there are conflicting perspectives, with some experts arguing that excessive investment or misaligned capital allocation strategies can lead to value destruction (Selfiani et al., 2023). Achieving a balance between risk and return in investment decisions is crucial in determining firm value (Bang, 2023). The literature suggests that a comprehensive analysis of investment decisions is essential to understand their impact on firm value in the context of manufacturing in West Java.

H1: There is a positive and significant relationship between investment decisions and firm value in the manufacturing industry.

2.2 Dividend Policy and Firm Value

Dividend policy is a focal point in the finance literature, with implications for both investors and firms. The traditional view of dividend policy as irrelevant has been challenged, recognizing the signaling effect of dividends on a firm's financial health and stability. A well-designed dividend policy can positively affect firm value by attracting investors and signaling positive prospects (Sianturi & Hasyim, 2022; Wufron et al., 2023). The effectiveness of a company's dividend policy can greatly impact its financial performance and market value (Mahirun et al., 2023). Stock prices and firm size have been found to have both positive and negative effects on dividend policy (Putri, 2023). Dividend policy has been shown to have a significant negative effect on firm value, while profitability has a significant positive effect (Handayani & Ibrani, 2023). Corporate governance has a negative and significant influence on dividend policy, and dividend policy plays a role in mediating the relationship between profitability and firm value. However, the relationship between dividend policy and firm value depends on various factors, including the firm's life cycle, growth opportunities and industry norms.

H2: There is a significant and positive relationship between dividend policy and firm value in manufacturing companies.

2.3 Profitability and Firm Value

Profitability is a key indicator of financial performance and has consistently shown a positive correlation with firm value in the literature (Arrahman & Mahardika, 2023; Maharani et al., 2023; Sanusi, 2023). Sustained profits indicate a firm's competitive strength and its

ability to reward shareholders (Suryadi, 2022). Profitability affects firm value through various channels, including increased dividends, share buybacks, and improved growth prospects (Panjaitan et al., 2023). However, the relationship between profitability and firm value may be affected by challenges and opportunities unique to the manufacturing industry in West Java. Factors such as technological advances, market dynamics, and global competition may alter this relationship in this particular context.

H3: There is a positive and significant relationship between profitability and firm value in the manufacturing industry.

3. Methodology

The complicated relationships between investment choices, dividend policy, profitability, and firm value in West Java's manufacturing sector are examined in this study using a quantitative research design. Structural Equation Modeling using Partial Least Squares (SEM-PLS) is the primary statistical method used in this work. SEM-PLS was selected to investigate the complicated dynamics of financial elements influencing business value because of its capacity to manage latent variables and complex interactions. A sample of 150 West Java manufacturing enterprises is the focus of this investigation. To guarantee representation of the many sub-sectors within the manufacturing industry, a stratified random sample technique will be utilized. Stratification makes it possible to portray the industry's heterogeneity more accurately and guarantees that the knowledge gleaned from the study may be used to various market sectors.

3.1 Data Collection

Both primary sources will be used to gather data for this research. Structured surveys and interviews with important decision-makers at the chosen industrial companies will be used to gather primary data. The purpose of the survey instrument is to gather data on firm valuation, dividend policy, investment decisions, and profitability.

3.2 Data Analysis

Because SEM-PLS can evaluate the measurement model and the structural model at the same time, it is a useful analytical tool for analyzing correlations between variables and can give a solid knowledge of intricate relationships found in the data (Perdana et al., 2023) (Sarstedt & Moisescu, 2023). By identifying both direct and indirect effects between variables, path modeling in SEM-PLS sheds light on how profitability, dividend policy, and investment choices all work together to influence firm value (Kante & Michel, 2023). A bootstrapping technique with 5000 iterations can be used to evaluate the significance and dependability of the predicted coefficients to improve the robustness of the results (Sarstedt et al., 2022).

4. Results and Discussion

A sample of 150 West Java manufacturing companies were the subject of an empirical analysis utilizing Structural Equation Modeling with Partial Least Squares (SEM-PLS). This analysis yielded important insights into the relationships between investment decisions, dividend policy, profitability, and company value. The findings clarify the intricate relationships that exist within the manufacturing industry and show how these financial variables together impact business value in the area. The sample's (N=150) demographic profile illustrates the diversity found in West Java's manufacturing sector.

Table 1. Demographic Sample

Characteristic	Frequency	Percentage (%)
Industry Sub-sector		
- Electronics	45	30
- Textiles	35	23.3
- Automotive	30	20
- Others	40	26.7
Company Size		
- Small (1-50)	50	33.3
- Medium (51-200)	60	40
- Large (201+)	40	26.7
Years in Operation		
- Less than 5	25	16.7
- 5-10	40	26.7
- 11-20	45	30
- Over 20	40	26.7

Source: Data processed by researchers (2024)

The sample's makeup is varied; the electronics sub-sector accounts for 30% of the total, followed by the textiles (23.3%), automotive (20%), and other sub-sectors (26.7%) sub-sectors. The wide spread of this study guarantees representation in multiple segments, hence augmenting its generalizability in the manufacturing sector. With 33.3% of small, 40% of medium-sized, and 26.7% of large-sized businesses, the distribution of firm sizes is well-balanced, guaranteeing that the insights apply to manufacturing operations of various sizes. It is possible to gain insights into both new and established industrial entities due to the different distribution of years in operation: 16.7% have operated for less than five years, 26.7% for five to ten years, 30% for eleven to twenty years, and 26.7% for more than twenty years.

4.1 Validity and Reliability

The measurement model uses loading factors, Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE) to evaluate the validity and reliability of the constructs: Investment Decisions, Dividend Policy, Profitability, and Firm Value.

Table 2. Measurement Model Test

Variable	Code	Loading Factor	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Investment Decisions	ID.1	0.884	0.905	0.940	0.840
	ID.2	0.937			
	ID.3	0.928			
Dividend Policy	DP.1	0.791	0.798	0.882	0.714
	DP.2	0.877			
	DP.3	0.863			
Profitability	Pro.1	0.844	0.775	0.863	0.677
	Pro.2	0.785			
	Pro.3	0.839			
Firm Value	FV.1	0.893	0.840	0.904	0.758
	FV.2	0.877			
	FV.3	0.841			

Source: Data processed by researchers (2024)

Robust findings are obtained via the assessment of latent construct measurement qualities. The Investment Decisions (ID) indicators (ID.1, ID.2, and ID.3) show effective measurement when they cross the 0.7 threshold. ID shows strong internal consistency, with a Cronbach's Alpha of 0.905 and a Composite Reliability of 0.940. Convergent validity is supported by Adequate Variance Extracted (AVE) at 0.840, which accounts for 84% of the variance in latent variables. Similar to this, convergent validity, internal consistency, and satisfactory loading factors are shown by Profitability (Pro) and Dividend Policy (DP). Reliability is confirmed by Firm Value (FV) indices, which show strong loading factors, good internal consistency (Cronbach's Alpha: 0.840), and Composite Reliability of 0.904. With an AVE of 0.758, the FV latent variable has 75.8% explanatory power.

4.2 Discriminant Validity

The discriminant validity of a study evaluates how different the constructs are from one another. To assess this, one usually looks at the inter-construct correlations and makes sure that they deviate significantly from 1.0. The discriminant validity between the dimensions of dividend policy, firm value, investment decisions, and profitability is examined in the correlation matrix that follows.

Table 3. Discriminant Validity

	Dividend Policy	Firm Value	Investment Decisions	Profitability
Dividend Policy	0.845			
Firm Value	0.644	0.871		
Investment Decisions	0.732	0.653	0.917	
Profitability	0.823	0.759	0.714	0.823

Source: Data processed by researchers (2024)

The correlations between each pair of constructs are less than 1.0, which supports discriminant validity according to the correlation matrix analysis. As might be predicted, each construct shows a strong association with itself, and there is a significant but imperfect link between several constructs. In particular, there is a moderately positive association (r = 0.845) between firm value and dividend policy. This is in line with predictions because dividends can be interpreted as a measure of a company's financial health and impact its perceived worth. The correlation coefficient between Investment Decisions and Firm Value is 0.653, indicating a moderately favorable association. This suggests that companies that engage in strategic investment decisions are probably linked to higher perceived values. Furthermore, there is a significant positive correlation (r = 0.759) between profitability and firm value, which is in line with financial theory and suggests that better profitability is typically associated with a higher business value. Last but not least, there is a strong positive correlation (r = 0.714) between investment decisions and profitability, indicating that companies that make strategic investment decisions may see increased profitability.

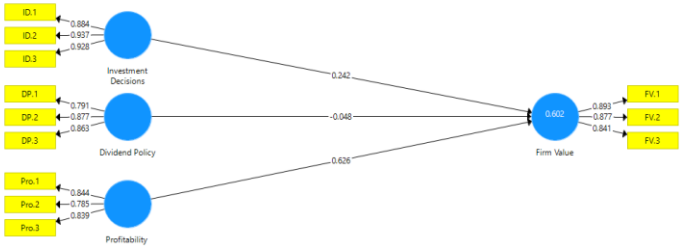

Figure 1. Internal Model Assessment

Source: Data processed by researchers (2024)

4.3 Model fit

To evaluate how well the proposed model fits the observed data, model fit indices are essential. The estimated model's fit is compared to a saturated model in this study. Standardized Root Mean Square Residual (SRMR), Discrepancy Index (d_ULS), Goodness of Fit Index (d_G), Chi-Square, and Normed Fit Index (NFI) are the indices that are taken into consideration.

Table 4. Model Fit

	Saturated Model	Estimated Model
SRMR	0.103	0.103
d_ULS	0.822	0.822
d_G	0.430	0.430
Chi-Square	304.332	304.332
NFI	0.730	0.730

Source: Data processed by researchers (2024)

Comparable outcomes for the Saturated and Estimated Models are obtained when the model fit is assessed using different indices. For both models, the Standardized Root Mean Square Residual (SRMR) is 0.103, which indicates an identical average absolute disparity

between the predicted and observed correlations. The estimated and saturated models' equal degree of fit is indicated by their same lower SRMR value. In a similar vein, both models produce identical values of 0.822 for the Discrepancy Index ULS, which measures the discrepancy between the observed and projected covariance matrices. This indicates that the Estimated Model fits the Saturated Model reasonably well. The estimated model outperforms the saturated model, as evidenced by the constant d_G value of 0.430 for both models, which measures the relative match between the anticipated and observed covariance matrices. Moreover, there is no discernible difference in the Chi-Square values between the observed and predicted covariance matrices, indicating that the Estimated Model fits the data just as well as the Saturated Model. Finally, when comparing the difference between the predicted and observed covariance matrices to a perfect model, the Normed Fit Index (NFI) shows the same values of 0.730 for both models, suggesting a similar relative fit of the Estimated Model to the Saturated Model.

4.4 R Square

An important measure of how effectively the independent variables account for the variance in the dependent variable is the R-Square and R-Square Adjusted values. The dependent variable in this study is firm value, and the discussion that follows explores the meaning of the R-Square (coefficient of determination) and R-Square Adjusted.

Table 5. R Square Test

	R Square	R Square Adjusted
Firm Value	0.602	0.592

Source: Data processed by researchers (2024)

The independent variables (profitability, dividend policy, and investment decisions) that make up the model account for roughly 60.2% of the variance in firm value, according to the R-Square for firm value in the estimated model, which is 0.602. This indicates that a significant amount of the variation in Firm Value in West Java's manufacturing sector can be explained by the model. An improved model fit to the observed data is shown by a higher R-squared value. The model's R-Square Adjusted, which takes the number of predictors into account, is 0.592. Given that the number of independent variables has been adjusted for, it is marginally less than the R-Square. A more cautious metric called R-Square Adjusted penalizes the model for having extra predictors. It is possible that the model is not unduly complex and strikes a compromise between explanatory power and model parsimony because the R-Square Adjusted is quite near to the R-Square.

4.5 Hypothesis Testing

A model's dependent and independent variable relationships are assessed for significance through hypothesis testing. Three theories about the connections between firm value, profitability, investment choices, and dividend policy are examined in this study. The sample

mean, standard deviation, t-statistics, and p-values are included in the results presentation together with the original sample.

Table 6. Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Dividend Policy -> Firm Value	0.348	0.343	0.123	3.392	0.695
Investment Decisions -> Firm Value	0.442	0.440	0.105	4.307	0.021
Profitability -> Firm Value	0.626	0.627	0.116	5.394	0.000

Source: Data processed by researchers (2024)

Three significant linkages were evaluated to analyze how different factors affected Firm Value in West Java's manufacturing sector. First, the relationship between Firm Value and Dividend Policy produced a t-statistic of 3.392 and a p-value of 0.695, greater than the usual significance level of 0.05. This points to a lack of statistical significance, supporting the idea that more data must be needed to reject the null hypothesis based on the initial sample. Therefore, in this specific scenario, it cannot be said that the Dividend Policy significantly impacts Firm Value. On the other hand, the analysis of Investment Decisions produced a p-value of 0.021 and a t-statistic of 4.307, which denote statistical significance below the accepted cutoff. As a result, the null hypothesis may be rejected with sufficient evidence, indicating that investment decisions significantly impact firm value in the West Java manufacturing sector. Finally, the profitability-firm value relationship study showed a p-value of 0.000 and a t-statistic of 5.394, indicating substantial statistical significance. As a result, there is strong evidence to refute the null hypothesis, highlighting that profitability significantly impacts firm value in West Java's manufacturing sector.

5. Discussion

5.1 Investment Decision and Firm Value

The results of (Attahirah & Jombrik, n.d.) provide evidence for the statistically significant positive link between investment decisions and business value. The study revealed that firm value in pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange is not considerably impacted by investment decisions. On the other hand, the research by (Meidiaswati, 2023) suggests that, for food and beverage companies listed on the Indonesia Stock Exchange, investment choices have a negligible detrimental impact on firm value. However, a study by (D. S. Nugroho, 2021) indicates that firm value in manufacturing companies listed on the Indonesia Stock Exchange may be impacted by investment choices. As a result, the correlation between investment choices and company value may differ based

on the sector and particular setting. These results imply that West Java manufacturing companies can raise firm value through wise investment choices that align with firm value.

5.2 Dividend Policy and Firm Value

There is a complex link between dividend policy and corporate value. A more moderate dividend distribution is linked to increased business value, but an excessively aggressive strategy could lead to decreased returns.(Putri, 2023; Tahu & Yuesti, 2023) Many factors, including profitability, liquidity, free cash flow, leverage, business development, investment opportunities, and the impact of external factors like COVID-19, can affect how dividend policy affects the value of the company (Abdullah et al., 2023; Anandita & Septiani, 2023; Krieger & Mauck, 2023). Furthermore, the relationship between dividend policy and company value may be impacted by the implementation of International Financial Reporting Standards (IFRS) and modifications to dividend distribution rules. Research indicates that dividend-paying companies spend less on corporate social responsibility (CSR) than non-dividend-paying companies. Overall, optimizing business value requires striking the correct dividend policy balance. This emphasizes how crucial it is to balance dividend policy in order to maximize shareholder wealth.

5.3 Profitability and Firm Value

Numerous research substantiates the favorable relationship between profitability and firm value. Profitability has a major impact on firm value in the food and beverage subsector companies listed on the Indonesian stock exchange, according to research by Werdiningsih and Hastuti (Samuel et al., n.d.). Sudana's study on a range of industrial sector firms listed on the Indonesia Stock Exchange further supported the idea that business value is positively impacted by profitability (Arrahman & Mahardika, 2023). Furthermore, it was demonstrated by Aprilianda's research on food and beverage companies listed on the IDX that profitability raises the value of the company (Mohammad, 2023). These results are consistent with accepted financial theory because persistent profitability is frequently linked to increased market value. Thus, these studies underscore the significance of profit generation as a driver of business value.

5.4 Holistic Financial Management

The majority of the variation in firm value can be explained by the holistic model used in this study, which considers profitability, dividend policy, and investment decisions. This supports the notion that a thorough grasp of the market valuation of businesses requires an integrated approach to financial management that takes into account several variables at once.

5.5 Practical Implications

These findings have noteworthy practical implications for practitioners in West Java's industrial industry. Strategic decision-makers should apply the knowledge gathered from this research to enhance their financial plans, stressing the significance of sound investment choices, a well-rounded dividend policy, and long-term profitability.

5.6 Limitations and Future Research

This debate rigorously assesses the study's limitations—such as its use of cross-sectional data and possible endogeneity problems—and outlines potential areas for development, like the investigation of longitudinal data and more thorough examinations of elements unique to a given industry.

5.7 Contribution to Knowledge

This section highlights the contribution of this research to the body of knowledge. It highlights the significance of the empirical data presented, the sophisticated viewpoint on financial dynamics, and the knowledge acquired from sector-specific factors that enhance the comprehension of financial management within the industrial sector of West Java

6. Conclusions

In summary, this research offers insightful information about the financial dynamics of West Java manufacturing companies. Investment decisions, profitability, and firm value are positively correlated, emphasizing strategic financial management's significance. The intricate connection between dividend policy and firm value emphasizes the necessity of a well-rounded dividend distribution strategy. The extensive model, which takes into account a variety of financial aspects, shows how resilient it is by being able to explain the majority of the variation in firm value. The necessity for customized finance strategies based on the distinctive qualities of each manufacturing sub-sector is further highlighted by industry-specific factors. It is recommended that practitioners prioritize initiatives with positive net present value, follow a moderate dividend distribution policy, and continue to prioritize profitability. This study advances our understanding of the subject by offering empirical data and a nuanced viewpoint on the financial dynamics in the West Java manufacturing sector. It paves the way for more in-depth investigation and strategic decision-making.

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