

Corporate Financial and Strategic Determinants of Firm Value: Evidence from Indonesian Food and Beverage Companies

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ABSTRACT

Enhancing firm value remains a primary objective for corporations because it reflects market confidence in long-term business sustainability and future performance. This research investigates the influence of financial and strategic factors on the market value of food and beverage companies listed on the Indonesia Stock Exchange between 2018 and 2022. The financial dimension is represented by financing decisions and dividend policy, whereas the strategic dimension comprises diversification strategy, operational efficiency, and innovation capability. A quantitative explanatory research design was employed using secondary data extracted from audited annual reports and published financial statements. Based on purposive sampling, the study obtained 135 firm-year observations from 27 listed companies. Firm value was proxied by the Price-to-Book Value (PBV) ratio, and the proposed relationships were evaluated using Partial Least Squares Structural Equation Modeling (PLS-SEM) with WarpPLS 8.0. The empirical findings reveal that financing decisions, dividend policy, and innovation capability contribute positively to firm value. In contrast, diversification strategy and operational efficiency do not demonstrate statistically significant relationships with market valuation. These findings imply that capital market participants place greater emphasis on sound financial policies, continuous innovation, and consistent dividend distribution than on business diversification or efficiency improvements when assessing corporate worth. This study extends the existing literature by providing evidence from Indonesia's food and beverage sector while offering practical guidance for corporate managers in formulating financial and strategic policies aimed at maximizing shareholder value.

1. Introduction

Maximizing firm value remains one of the primary objectives of corporate management because it reflects shareholders' wealth and signals the firm's long-term sustainability. A higher firm value not only increases market confidence but also improves the company's ability to obtain external financing, expand business operations, and maintain competitive advantages. In capital markets, investors commonly evaluate firm value as an indicator of managerial effectiveness in utilizing corporate resources to generate future economic benefits. Consequently, understanding the factors that determine firm value has

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become an important topic in corporate finance and strategic management research.

Indonesia's food and beverage industry has remained one of the country's most important manufacturing sectors, demonstrating strong resilience and making a significant contribution to economic development even during periods of economic instability. Expanding domestic demand, population growth, technological advancement, and evolving consumer lifestyles have transformed the competitive landscape, requiring companies to continuously improve both their financial management and business strategies. Although firms operate within the same industry, substantial differences in market valuation continue to exist, suggesting that internal managerial decisions are important factors influencing how investors assess corporate value.

Firm value is largely determined by the quality of financial decisions made by management. Among these decisions, financing policy plays a critical role because it defines the balance between debt and equity used to finance corporate activities. An efficient capital structure may lower financing costs, generate tax benefits, and improve expected shareholder returns. In contrast, excessive reliance on debt can increase financial risk, weaken financial flexibility, and reduce investor confidence. Dividend policy also represents an important component of financial decision-making, as dividend payments are frequently interpreted by the capital market as a signal of stable financial performance and favorable future prospects. Consequently, both financing decisions and dividend policy are expected to shape investors' assessments of corporate value.

In addition to financial considerations, strategic capabilities have become increasingly important in sustaining competitive advantage and improving market performance. Business diversification allows firms to broaden their sources of revenue and reduce exposure to risks associated with a single product or market. Operational efficiency reflects the organization's ability to utilize available resources effectively to generate higher returns, whereas innovation enhances long-term competitiveness through product improvement, technological advancement, and the development of valuable intangible assets. Together, these strategic capabilities may strengthen future growth potential and positively influence market valuation.

Although numerous empirical studies have investigated the determinants of firm value, their conclusions remain inconclusive. Previous research has reported inconsistent evidence regarding the effects of financing decisions, diversification strategy, operational efficiency, innovation, and dividend policy, with positive, insignificant, and even negative relationships being documented across different studies. Such inconsistencies suggest that the impact of these determinants may depend on industrial characteristics, institutional settings, and

prevailing economic conditions. Therefore, further empirical investigation focusing on Indonesia's food and beverage industry is warranted to provide a more comprehensive understanding of the factors that influence corporate value within this specific context.

This study addresses these inconsistencies by integrating financial and strategic determinants into a single empirical framework. Unlike many previous studies that concentrated exclusively on financial variables or strategic variables, this research simultaneously investigates financing decisions, diversification strategy, operational efficiency, innovation, and dividend policy in explaining firm value. Furthermore, the study focuses specifically on Indonesian food and beverage companies listed on the Indonesia Stock Exchange during the 2018–2022 period, providing updated evidence from an industry characterized by dynamic market competition and continuous structural transformation. This integrated perspective represents the principal novelty of the study because it combines financial and strategic dimensions within one comprehensive analytical model.

Building upon the identified research gap, this study seeks to determine whether financing decisions, diversification strategy, operational efficiency, innovation, and dividend policy contribute to the firm value of Indonesian food and beverage companies. Specifically, the study investigates the individual effect of each determinant on market valuation within the Indonesian capital market context.

The study is designed to provide a comprehensive understanding of how financial and strategic corporate decisions shape firm value. Academically, the findings are expected to broaden existing knowledge in the fields of corporate finance and strategic management by offering recent empirical evidence from an emerging economy. From a managerial perspective, the results may assist corporate decision-makers in developing effective financial and business strategies that support sustainable value creation. In addition, the findings provide investors with relevant information for assessing corporate quality, evaluating future growth potential, and making more informed long-term investment decisions.

2. Theoretical Framework and Hypotheses Development

2.1. Theoretical Framework

Firm value reflects the market's assessment of a company's ability to generate sustainable economic benefits and create wealth for shareholders. In competitive business environments, firm value is influenced not only by financial decisions but also by strategic managerial initiatives that enhance organizational competitiveness and future growth opportunities. Therefore, understanding the interaction between financial policies and strategic capabilities provides a comprehensive explanation of corporate value creation.

This study primarily adopts Agency Theory to explain the relationship between managerial decisions and firm value. Agency Theory argues that conflicts may arise because managers possess greater information than shareholders and may pursue objectives that differ from owners' interests. Consequently, corporate financial and strategic decisions serve as mechanisms for reducing information asymmetry and aligning managerial actions with shareholder wealth maximization. Financing decisions, dividend policy, diversification strategy, operational efficiency, and innovation represent managerial policies that can signal management quality while influencing investors' evaluation of corporate performance.

The study is further supported by Signaling Theory, which suggests that managers communicate private information regarding corporate prospects through observable financial policies. Financing decisions may indicate management's confidence in future investment opportunities, while dividend payments signal financial strength and earnings sustainability. Positive market responses to these signals are expected to increase firm value because investors perceive lower uncertainty regarding future corporate performance.

To explain strategic determinants, this research also incorporates the Resource-Based View (RBV). RBV proposes that sustainable competitive advantage originates from valuable, rare, inimitable, and well-organized organizational resources. Strategic initiatives such as innovation, efficient utilization of corporate assets, and effective diversification enable firms to strengthen competitive capabilities and improve long-term performance. Consequently, these strategic resources are expected to contribute positively to firm value by creating superior economic returns relative to competitors.

Integrating Agency Theory, Signaling Theory, and the Resource-Based View provides a comprehensive theoretical foundation for examining how financial and strategic determinants jointly explain variations in firm value among Indonesian food and beverage companies.

2.2. Hypotheses Development

Financing decisions determine the proportion of debt and equity used to finance corporate activities. Appropriate leverage enables firms to benefit from tax advantages, optimize capital structure, and finance profitable investment opportunities. According to Signaling Theory, management's willingness to utilize debt may communicate confidence regarding future cash flows and corporate growth. When investors interpret debt financing as evidence of positive future prospects rather than financial distress, market valuation is likely to increase. Therefore, financing decisions are expected to positively influence firm value.

H1: Financing decisions positively affect firm value.

Diversification strategy refers to a firm's expansion into multiple business segments to reduce operational dependence and broaden revenue sources. From the Resource-Based View, diversification enables organizations to exploit existing capabilities across different markets and improve competitive resilience. However, diversification also introduces coordination costs and managerial complexity that may reduce organizational efficiency when poorly implemented. Despite these challenges, strategically managed diversification is expected to strengthen corporate competitiveness and enhance firm value.

H2: Diversification strategy positively affects firm value.

Operational efficiency reflects management's ability to maximize asset utilization in generating sales and corporate income. Efficient operations reduce resource waste, improve profitability, and strengthen financial performance. Investors generally perceive efficient asset management as evidence of managerial competence and sustainable operational capability. Consequently, companies that achieve higher operational efficiency are expected to receive more favorable market valuations.

H3: Operational efficiency positively affects firm value.

Innovation represents a firm's capability to develop new products, improve production processes, and create intangible assets that generate sustainable competitive advantages. Under the Resource-Based View, innovation constitutes a strategic capability that is difficult for competitors to imitate and therefore contributes to long-term value creation. Firms with stronger innovation capabilities are more likely to improve future earnings potential and attract investor confidence.

H4: Innovation positively affects firm value.

Dividend policy determines the proportion of earnings distributed to shareholders versus retained for future investment. Signaling Theory explains that dividend payments communicate management's confidence regarding current profitability and future financial stability. Regular dividend distributions reduce uncertainty faced by investors and strengthen market confidence. Consequently, firms that maintain appropriate dividend policies are expected to experience higher market valuations.

H5: Dividend policy positively affects firm value.

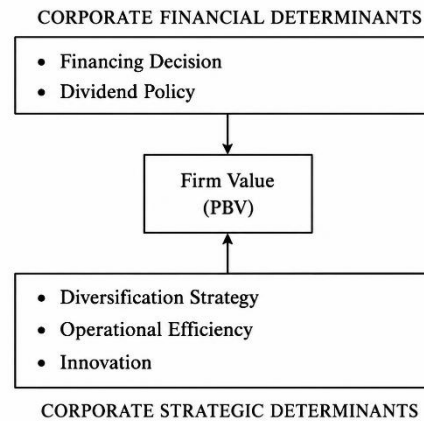


Figure 1. Conceptual Framework

The conceptual framework developed in this study integrates financial and strategic perspectives to explain the mechanisms through which corporate decisions contribute to firm value. It assumes that investors evaluate not only a firm's financial policies but also its strategic capabilities when assessing long-term corporate performance and market valuation. Consequently, firm value is conceptualized as the outcome of managerial decisions that simultaneously reflect financial soundness and strategic competitiveness.

Corporate financial determinants are represented by financing decisions and dividend policy. Financing decisions illustrate how firms allocate debt and equity to support business expansion and operational activities, while dividend policy reflects management's approach to distributing corporate earnings to shareholders. Both decisions are considered important financial signals because they provide information regarding corporate stability, future growth expectations, and management's confidence in sustaining business performance. Investors are therefore expected to incorporate these financial policies into their valuation of the company.

Strategic determinants consist of diversification strategy, operational efficiency, and innovation. Diversification strategy demonstrates management's effort to expand business activities across different market segments in order to reduce business concentration and improve growth opportunities. Operational efficiency represents the firm's capability to optimize available resources and convert assets into revenue effectively. Innovation reflects the organization's commitment to developing new products, improving production processes, and strengthening competitive capabilities through continuous renewal. These strategic initiatives are expected to improve organizational performance and create sustainable competitive advantages that ultimately increase firm value.

Drawing upon Agency Theory, Signaling Theory, and the Resource-Based View, the proposed framework suggests that financial and strategic

determinants jointly explain variations in firm value among Indonesian food and beverage companies. Each independent variable is hypothesized to exert a direct influence on firm value, and these relationships are empirically examined using Partial Least Squares Structural Equation Modeling (PLS-SEM). The framework therefore provides an integrated approach for understanding how financial policies and strategic capabilities collectively contribute to enhancing shareholder wealth.

3. Research Method

This research adopted a quantitative explanatory design to evaluate the relationship between corporate financial decisions, strategic capabilities, and firm value in Indonesia's food and beverage industry. An explanatory quantitative approach was considered appropriate because the study seeks to test theoretically derived hypotheses and identify causal relationships among the proposed variables through objective statistical analysis based on corporate financial information.

The analysis relied exclusively on secondary data extracted from audited annual reports and published financial statements of companies listed on the Indonesia Stock Exchange (IDX). To obtain a comprehensive representation of corporate performance and managerial decisions, the study covered a five-year observation period from 2018 to 2022. All research data were collected from the official IDX database and the annual reports released by each sampled company.

The target population included all food and beverage firms listed on the Indonesia Stock Exchange during the study period. Sample selection followed a purposive sampling technique to ensure the availability and consistency of the required information. Companies were included in the analysis if they continuously maintained their listing status between 2018 and 2022, published audited annual reports for each fiscal year, provided complete information for all research variables, and presented their financial statements in Indonesian Rupiah. Based on these requirements, 27 companies met the selection criteria, generating a balanced dataset of 135 firm-year observations.

Firm value was specified as the dependent variable and measured using the Price-to-Book Value (PBV) ratio, which represents the market's valuation of a company's equity relative to its accounting value. The explanatory variables consisted of both financial and strategic dimensions. Financing decisions were represented by the Debt-to-Equity Ratio (DER), reflecting the firm's capital structure. Diversification strategy was assessed using the Herfindahl Index to indicate the extent of business diversification. Operational efficiency was measured through the Total Asset Turnover (TATO) ratio, representing management's effectiveness in utilizing assets to generate sales. Innovation capability was proxied by the Intangible Asset Ratio (IAR), reflecting investment

in intangible resources that support long-term competitiveness. Meanwhile, dividend policy was operationalized as a dummy variable, with a value of one assigned to companies distributing cash dividends during the fiscal year and zero assigned otherwise.

3.1 Technical Analysis and Variable Measurement

The empirical investigation adopted a quantitative analytical framework to assess the relationship between corporate financial decisions, strategic capabilities, and firm value. The study relied exclusively on secondary information obtained from audited annual reports and published financial statements of food and beverage companies listed on the Indonesia Stock Exchange (IDX) over the 2018–2022 period. After data collection, all observations were verified, coded, and arranged into a balanced panel dataset to ensure consistency throughout the analysis.

The proposed research model was evaluated using Partial Least Squares–Structural Equation Modeling (PLS-SEM) implemented in WarpPLS version 8.0. This method was considered appropriate because it allows the simultaneous estimation of multiple causal relationships and performs effectively even when data do not completely satisfy multivariate normality assumptions. Furthermore, PLS-SEM is widely applied in predictive studies that involve several explanatory variables influencing a single endogenous construct.

The statistical analysis followed a systematic three-stage procedure. The first stage involved descriptive statistical analysis to provide an overview of the distribution and general characteristics of each research variable. The second stage estimated the structural relationships among the constructs by calculating path coefficients that indicate both the strength and direction of the proposed effects. Finally, the significance of each hypothesized relationship was evaluated through the bootstrapping procedure available in WarpPLS. Hypotheses were considered statistically supported when the probability value was below the 5 percent significance threshold ($p < 0.05$).

Firm value was specified as the endogenous variable and operationalized using the Price-to-Book Value (PBV) ratio, which compares a company's market valuation with its book value. A higher PBV reflects stronger investor expectations regarding future business performance and long-term growth prospects.

The explanatory variables were classified into financial and strategic determinants. The financial dimension consisted of financing decisions and dividend policy. Financing decisions were represented by the Debt-to-Equity Ratio (DER), indicating the extent to which corporate activities are financed through debt relative to shareholders' equity. Dividend policy was measured using a binary indicator, assigning a value of one to firms that distributed cash dividends during the fiscal year and zero to those that did not.

The strategic dimension included diversification strategy, operational efficiency, and innovation capability. Diversification strategy was measured using the Herfindahl Index to represent the level of business diversification across operating segments. Operational efficiency was evaluated through the Total Asset Turnover (TATO) ratio, reflecting management's ability to utilize corporate assets efficiently in generating revenue. Innovation capability was proxied by the Intangible Asset Ratio (IAR), representing the firm's investment in intangible resources that contribute to sustainable competitive advantage and long-term value creation.

The operational definitions and measurement indicators for all variables are summarized in Table 1. Table 1. Variable Measurement

Variable	Classification	Proxy	Measurement
Firm Value	Dependent	Price-to-Book Value (PBV)	Market Price per Share ÷ Book Value per Share
Financing Decision	Independent	Debt-to-Equity Ratio (DER)	Total Debt ÷ Total Equity
Diversification Strategy	Independent	Herfindahl Index	Revenue concentration across business segments
Operational Efficiency	Independent	Total Asset Turnover (TATO)	Net Sales ÷ Total Assets
Innovation	Independent	Intangible Asset Ratio (IAR)	Intangible Assets ÷ Total Assets
Dividend Policy	Independent	Dividend Dummy	1 = Dividend distributed; 0 = No dividend

4. Results and Discussion

Descriptive statistical analysis reveals considerable differences in the financial and strategic characteristics of Indonesian food and beverage companies throughout the 2018–2022 observation period. Variations were observed in firm value, capital structure, diversification practices, operational efficiency, innovation capability, and dividend distribution policies, indicating that the sampled firms adopted diverse managerial approaches and business

strategies. This level of heterogeneity provides a reliable empirical foundation for examining the proposed relationships among the research variables.

The hypothesized relationships were subsequently evaluated using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with WarpPLS version 8.0. The estimation results show that financing decisions, innovation capability, and dividend policy have positive and statistically significant effects on firm value. Conversely, diversification strategy and operational efficiency do not exhibit significant relationships with market valuation, suggesting that these factors are not primary drivers of firm value within the observed companies.

These findings imply that capital market participants assign greater value to corporate policies that demonstrate sound financial management, continuous innovation, and consistent shareholder returns. In contrast, business diversification and improvements in operational efficiency alone appear insufficient to strengthen market valuation unless they generate observable economic benefits recognized by investors.

Overall, the empirical evidence indicates that the contribution of financial and strategic determinants to firm value is not uniform. Among the variables examined, financing decisions, innovation capability, and dividend policy emerge as the most influential factors affecting investors' assessments of corporate value in Indonesia's food and beverage industry.

5. Conclusions, Limitations, and Recommendations

This research provides empirical evidence regarding the role of financial and strategic determinants in explaining firm value among food and beverage companies listed on the Indonesia Stock Exchange during the 2018–2022 period. The results demonstrate that financing decisions, innovation capability, and dividend policy are significant drivers of market valuation, indicating that investors respond more favorably to firms with sound financial management, continuous innovation, and consistent dividend distributions. In contrast, diversification strategy and operational efficiency were not found to have a statistically significant influence on firm value within the observed sample, suggesting that these strategic initiatives may require additional supporting factors before they are reflected in market valuation.

Despite these contributions, several limitations should be acknowledged. The analysis was confined to a single manufacturing subsector, which may limit the applicability of the findings to companies operating in other industries. In addition, the five-year observation period may not fully capture long-term changes in corporate strategies and financial policies. Furthermore, the research focused primarily on internal determinants of firm value, while potentially influential external factors—including macroeconomic conditions, industry

competition, and regulatory developments—were not incorporated into the analytical model.

Future studies are encouraged to broaden the scope of investigation by extending the observation period, examining firms from multiple industrial sectors, and integrating additional explanatory variables related to corporate governance, financial performance, sustainability, and the macroeconomic environment. Such efforts are expected to provide more comprehensive empirical evidence, improve the generalizability of the findings, and further advance the literature on corporate finance and strategic management.

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