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## CORPORATE INVESTMENT AND TAX PLANNING DECISIONS: A MARKET EVALUATION

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### ABSTRACT

This study aims to provide empirical evidence on the impact of firm characteristics, such as capital structure, size, profitability, and tax planning, on firm value. It also examines how investment decisions impact the relationship between these characteristics and firm value. Utilizing a sample of consumer cyclical and non-cyclical firms on the Indonesia Stock Exchange from 2019 to 2022, the research offers insights into company conditions and market evaluations amid high uncertainty, particularly during the COVID-19 pandemic. The combination of the two types of industrial sectors in this study will have a more comprehensive impact on the test results. Results indicate that capital structure and profitability positively influence firm value, while firm size and tax planning do not have a significant effect. Moreover, the study reveals that investment decisions shape the relationship between capital structure, firm size, profitability, and firm value. When making assessments, the market evaluates the quality of a firm's funding structure, profit-generating capability, investment decisions, and firm characteristics. This research holds implications for investors, aiding them in making informed investment choices that consider capital structure and profitability, along with strategic investment approaches by management to achieve optimal performance.

**Keywords:** Firm Value, Capital Structure, Firm Size, Profitability, Cash ETR, Book Tax Difference, Investment Decision.

### INTRODUCTION

Every company strives to improve its performance and enhance its value to remain competitive. Therefore, businesses must increase their value and achieve optimal profits to meet their goals. The immediate aim focuses on generating profit, while the long-term emphasis is on maximizing the company's value, facilitating practical performance assessment, and signaling positive information to investors that aids their decision-making. A company's value is defined by its market value or growth potential, which arises from evaluating, measuring, and communicating its performance, ultimately reflecting public trust in the organization (Wulandari et al., 2018).

The variations in a company's value greatly affect stakeholder welfare. As a result, management strives to increase this value by optimizing resources and enhancing efficiency. It can be achieved by improving funding sources, boosting profits, and implementing efficiency strategies such as tax planning. Previous research has shown mixed outcomes regarding capital structure; one study revealed a negative impact of the debt-to-equity ratio on firm value (Mahdaleta et al., 2016), while another showed no significant effects. In contrast, profitability, as measured by return on assets, positively affects firm value. Tax planning, indicated by Cash Effective Tax Rate (Cash ETR), also positively influences value; effective tax strategies often align with increased company value, although the Book Tax Difference can have an adverse effect. A rise in total tax difference may result in higher tax liabilities, consequently lowering the firm's net profit. However, another study found no significant impact of tax planning on firm value. In the context of tax avoidance, capital structure and profitability yield favorable results, while firm size does not show a meaningful effect. The inconsistencies in previous studies regarding the impact of capital structure, firm size, and profitability on firm value may arise from other factors that influence these relationships.

Investment decisions influence the relationship between capital structure, firm size, profitability, and firm value. These choices are crucial for determining firm value, as opting for appropriate investments results in future profits. Additionally, wise investment decisions impact the firm's sustainability (Triani & Tarmidi, 2019)

This study investigates how firm characteristics such as capital structure, size, profitability, and tax planning affect firm value, an area where research findings often vary. Additionally, it explores how investment decisions influence the connection between these firm characteristics and firm value, a relatively under-researched topic. The study contributes to theory by expanding the literature on the links between capital structure, firm size, profitability, tax planning, and firm value, and how investment choices impact the relationships among these elements and firm value, which has shown inconsistent testing outcomes. Practically, this research aids users of financial statements, such as investors and creditors, in making informed decisions. While prior studies primarily examined manufacturing firms, this research focuses on consumer cyclical and non-cyclical firms listed on the Indonesia Stock Exchange from 2019 to 2022. Cyclical sector firms, for example, include firms in the tourism, hospitality, automotive, and non-essential retail sectors, which are more vulnerable to economic fluctuations than non-cyclical sector firms, such as those in the food and beverage, healthcare, utilities, and essential consumer products sectors, which tend to have more stable market demand even in challenging economic conditions. The combination of these two types of industrial sectors will produce more comprehensive and relevant test results, especially in the context of the Corona Virus Disease-2019 (COVID-19) period, which has caused global economic fluctuations. This timeframe effectively captures the variations in firm conditions due to the COVID-19 pandemic, providing insights into the dynamics of firm performance during that period. The choice to study the COVID-19 era aimed at generating a deeper understanding of investment decisions, capital structure, firm characteristics, and tax planning strategies within the context of market assessments amid global crises and significant uncertainty.

Firm value refers to the state of a company that investors evaluate based on its financial results (Mardiyati et al., 2015). That indicates a company's success, commonly demonstrated through its stock prices. As stated, maximizing profit is a firm's primary objective, leading to larger shareholder dividends (Purnamasari & Fauziah, 2022). This, in turn, attracts more investors and boosts their confidence in making investments.

A high firm value corresponds with increased shareholder wealth (Arsyad et al., 2021). Shareholder and firm incomes can be evaluated through stock market prices, reflecting decisions on investments, funding, and asset management (Nurwanah et al., 2021). Numerous factors can affect a firm's value, such as basic elements, macroeconomic conditions, stock exchange dynamics, and the state of the global economy (R. P. Sari et al., 2020). Financial decisions significantly impact a firm's value; thus, enhanced firm value means more valuable information for shareholders (Hasanuddin et al., 2021).

Capital structure refers to how much a firm relies on debt to secure large amounts of funding from external sources, which helps enhance its operating capacity (Dhani & Utama, 2017). It also outlines the firm's funding policy, particularly its debt-to-equity ratio (Wardani et al., 2022). A firm's funding requirements are fulfilled through various capital sources, including share capital, retained earnings, and reserves (Meidiawati & Mildawati, 2016). Thus, the capital structure consists of the different funding sources utilized for operational activities, business growth, or investments in other companies (Afinindy et al., 2021).

Leveraging an optimal capital structure can generate high returns, benefiting the company and its shareholders. According to agency theory, a firm's capital structure influences its financial stability and long-term viability, making prudent debt usage crucial as it can enhance its value. Simultaneously, signaling theory highlights that an optimal capital structure conveys a reassuring message to the public, fostering a perception of low bankruptcy risk (Sofian et al., 2020). Furthermore, increasing debt in a company's capital planning can boost its value (Mubyarto, 2020). Conversely, some studies indicate that capital structure does not influence firm value, suggesting that investors do not assess a firm's worth based on its capital structure (Wijayaningsih & Yulianto, 2021). It contradicts findings by Hirdinis (2019), Pangestuti & Tindangen (2020), and Sari & Sedana (2020), which point to a positive relationship between capital structure and firm value. Firms that utilize debt may communicate to investors that anticipated cash outflows are rising, signaling favorable prospects. Other studies, however, support the idea that capital structure negatively impacts firm value, as investors may overlook the firm's capital configuration (Mubyarto, 2020; Nurwulandari et al., 2021; Pratiwi, 2020; Sudiyatno et al., 2020; Wardani et al., 2022). Given these variances in previous research, the following hypothesis emerges:

**H<sub>a1</sub> : Capital Structure Has an Impact on Firm Value**

The firm's size is a key metric for evaluating its value (Pratama & Wiksuana, 2018). It is measured through various indicators such as total assets, sales volume, total sales, and average total assets (Hashmi et al., 2020). Larger firms are typically considered more credible by creditors, as they possess more extensive and superior resources. More likely to trust. A large firm will have more and better resources (Zuhroh, 2019).

The size of a firm suggests growth, which triggers favorable reactions from investors, ultimately enhancing the firm's value (Daromes et al., 2022). Agency theory posits that larger firms have better access to internal and external funding opportunities, allowing management more leeway in boosting the firm's value. Furthermore, signal theory emphasizes the importance of management effectively communicating consistent information regarding the firm's size as reflected in total assets to shareholders (Wijayaningsih & Yulianto, 2021).

Reschiwati et al. (2020) and Wijayaningsih & Yulianto (2021) indicate that firm size negatively affects firm value, as companies with many assets may not utilize them

efficiently. Conversely, Chukwudi et al. (2020); Kristi & Yanto (2020); Nurwulandari et al. (2021); Sudiyatno et al. (2020); Wardani et al. (2022) argue that firm size positively influences firm value, asserting that larger firms can achieve more stable profits and distribute higher dividends, which tend to attract investors and enhance the firm value. Meanwhile, Afinindy et al. (2021), Akhyar et al. (2023), Bon & Hartoko (2022), Pratiwi (2020), and Santoso & Pratiwi (2023) claim that firm size does not impact firm value, asserting that asset value is not the primary consideration for investors when evaluating a firm. Given the discrepancies in prior research, the following hypothesis can be proposed:

**H<sub>a2</sub> : Firm Size Affects Firm Value**

Profitability indicates how well a firm can generate profits and assess its efficiency in utilizing owned assets (Meidiawati & Mildawati, 2016). It also reflects the management's effectiveness in managing the firm's assets as seen by the profits earned (Dhani & Utama, 2017). Strong profitability shows the company's capacity to deliver significant returns to investors (Dewi & Suryono, 2019). A high profitability ratio attracts investors interested in substantial profits (Ahmad et al., 2022). Per signal theory, high profits can signal positively to investors, potentially enhancing the firm's value (Wijayaningsih & Yulianto, 2021).

Wijayaningsih & Yulianto (2021) indicate that profitability positively influences firm value, aligning with signal theory, which posits that higher profits create stronger positive signals for investors, subsequently enhancing the firm's value. Previous studies (Afinindy et al., 2021; Akhyar et al., 2023; Bon & Hartoko, 2022; Kristi & Yanto, 2020; Mubyarto, 2020; Nurwulandari et al., 2021; Pratiwi, 2020; Santoso & Pratiwi, 2023; I. A. G. D. M. Sari & Sedana, 2020; Sudiyatno et al., 2020) corroborate these findings. Conversely, Ismiyatun et al. (2021) view that profitability negatively impacts firm value; this perspective suggests that firms with high profits tend to decrease dividend payouts. Consequently, internal funds generated from profits are often allocated toward investments or operational expenses, which can lead to adverse market reactions and investor sentiments. Furthermore, profitability does not directly impact firm value, since the efficiency of a firm's asset use in generating net profit after tax is not the prominent factor investors consider when evaluating a firm (Reschiwati et al., 2020). The effectiveness of the firm's asset utilization in generating net profit after tax is not a primary consideration for investors when assessing a firm. Based on the inconsistency of previous studies, the following hypothesis can be formed:

**H<sub>a3</sub> : Profitability Affects Firm Value**

The effective cash tax rate (ETR) is essential for outlining tax planning strategies (Darmawan & Angelina, 2021). Tax planning involves a deliberate approach by individuals and corporations to take advantage of opportunities that minimize their tax liabilities under applicable laws (Slemrod, 2019). This process is executed through analysis and the strategic use of opportunities defined by government regulations, on the rules set by the government (Darmawan & Angelina, 2021).

Companies engage in tax planning to minimize their tax burden rather than evade taxes entirely, focusing instead on the exact amount owed (Darmawan & Angelina, 2021). By evaluating a firm's cash ETR, one can gauge its tax planning strategies and calculate the overall tax liability, influencing its valuation. According to agency theory, when managers engage in tax planning to lower tax costs, it may create a disconnect between the managers and the firm's owners (Darmawan & Angelina, 2021).

Darmawan & Angelina (2021) show that cash ETR positively influences firm value, suggesting that more effective tax planning correlates with increased company value, as reflected in cash ETR. Conversely, other studies indicate that cash ETR negatively affects firm value, arguing that when a firm employs optimal tax planning strategies, tax liabilities decrease, thus enhancing the firm's value (Christina, 2019). Additionally, some suggest that cash ETR does not influence firm value since government tax rate regulations dictate the taxes firms owe, which investors regard as a standard practice (Herawati & Ekawati, 2016). Given the conflicting findings in prior studies, we can formulate the following hypothesis:

H<sub>a4</sub> : Cash ETR Affects Firm Value

The book tax difference refers to the variation in profit as seen through the lens of tax accounting, which is divided into two categories: permanent differences and temporary differences (Herawati & Ekawati, 2016). Companies plan to legally reduce their tax obligations without breaching tax laws. Since taxes can be deducted from a company's income, higher income results in increased tax liability, directly influencing the after-tax profit the company receives (Darmawan & Angelina, 2021).

Agency theory suggests that managers (agents) often pursue tax planning to lower the company's tax liabilities. A larger book-tax difference (BTD) indicates reduced profit quality, which can ultimately lead to a decline in the firm's value. In contrast, a smaller BTD signifies a higher level of tax planning, enabling the firm to diminish its tax burden on profits and enhance its overall value (Darmawan & Angelina, 2021).

The book-tax difference (BTD) negatively affects company value because the market perceives an increase in the total tax difference as likely to raise the company's tax payments (Darmawan & Angelina, 2021). This perception diminishes net profit and impacts dividend amounts (Herawati & Ekawati, 2016). Research supports this finding. From this, we can formulate the following hypothesis:

H<sub>a5</sub> : Book Tax Difference Affects Company Value

Investment decisions involve how managers direct funds to generate future profits (Hasanuddin et al., 2021). These decisions are essential for a firm's survival (Triani & Tarmidi, 2019). They significantly influence shareholders' willingness to invest, aiming for profit (Rahmi & Danantho, 2022). Moreover, effectively showcasing the firm's strength and management performance through successful investment decisions allows investors to evaluate its stock performance based on its earnings per share (Basuki & Yulianah, 2019).

The effect of capital structure on firm value is more pronounced when backed by investment choices. A well-balanced capital structure can enhance a firm's value, drawing interest from investors, creditors, and various financial information users, thus prompting them to make educated investment decisions (Wijayaningsih & Yulianto, 2021).

Wijayaningsih & Yulianto (2021) demonstrate that investment decisions do not enhance the influence of capital structure on firm value. Conversely, sound investment decisions positively affect the firm's asset balance, bolstering the firm's operations so that an optimal capital structure draws in investors and boosts the firm's value. Consequently, informed investment decisions can improve the effect of capital structure on firm value. From this discussion, the following hypothesis emerges:

H<sub>a6</sub> : Investment Decisions as a Moderating Factor in The Association between Capital Structure and Firm Value

As a firm grows, its influence on value increases, facilitating access to funding sources and offering management greater flexibility. It can improve investment returns and enhance firm value (Wijayaningsih & Yulianto, 2021).

Wijayaningsih & Yulianto (2021) demonstrate that investment choices do not enhance the impact of firm size on its value. Moreover, making well-informed investment decisions about the balance between current and fixed assets can be crucial for maximizing profits, supporting operational functions, and uncovering funding sources for the business. Nevertheless, optimal investment choices will fortify the company by boosting total assets, drawing in investors, and elevating the firm's overall value. From this analysis, we can derive the following hypothesis:

H<sub>a7</sub> : Investment Decisions as a Moderating Factor in The Association Between Firm Size and Firm Value

When backed by investment choices, profitability's impact on firm value becomes even greater, allowing managers to execute operational tasks and build a favorable perception of the firm's performance. This, in turn, draws interest from investors, creditors, and other stakeholders, thus enhancing the firm's value (Wijayaningsih & Yulianto, 2021).

Wijayaningsih & Yulianto (2021) illustrate that investment decisions can enhance the impact of profitability on a firm's value. Consequently, making appropriate investment choices will bolster the company's endeavors to maximize profits, leading to a strong level of profitability that signifies positive performance, draws in investors, and elevates the firm's value. Hence, from this analysis, we can propose the following hypothesis:

H<sub>a8</sub> : Investment Decisions are a Moderating Factor in The Association Between Profitability and Firm Value

## RESEARCH METHODS

The study analyzes consumer cyclical and non-cyclical firms listed on the Indonesia Stock Exchange from 2018 to 2022, including the COVID-19 pandemic. Firms in the cyclical sector, such as tourism, hospitality, automotive, and non-essential retail, tend to be more impacted by changes in economic conditions compared to firms in non-cyclical sectors like food and beverages, healthcare, utilities, and essential consumer goods, where demand stays relatively stable even during economic downturns. Combining these two sectors in the analysis, especially during the COVID-19 pandemic, which has caused global economic uncertainty, makes the results more comprehensive and meaningful. The COVID-19 period was chosen because it shows significant shifts in firm conditions and allows a focused analysis of performance, investment decisions, capital structure, firm characteristics, and tax strategies amid crisis and market uncertainty. A purposive sampling method was employed, with the sampling criteria outlined in Table 1. In total, 44 firms were included in the sample, offering 176 data points.

**Table 1.1. Sample Selection**

Information	Firms number	Total data
- From 2018 to 2022, consumer cyclical and non-cyclical firms were consistently listed on the Indonesia Stock Exchange.	173	865

**Table 1.2. Sample Selection (Continuation)**

Information	Firms number	Total data
- Consumer cyclical and non-cyclical firms that do not consistently present publicly accessible annual reports.	(12)	(60)
- Consumer cyclical and non-cyclical firms that do not consistently present complete financial statements in the Rupiah currency.	(18)	(90)
- Consumer cyclical and non-cyclical firms with negative profits from 2019 to 2022.	(90)	(360)
- Consumer cyclical and non-cyclical firms with a CETR value of > 1 from 2019 to 2022.	(9)	(27)
Number of samples obtained	44	176

Source: Data processed

Wijayaningsih & Yulianto (2021) state that a firm's value can be seen and assessed from its high and low share price, which reflects its value. One alternative method for measuring a firm's value is Tobin's Q ratio (Sabrin et al., 2016). The ratio is the scale used to measure a firm's value. Tobin's Q proxy is calculated using the market value and debt, which is then compared to the firm's total assets.

$$\text{Tobin's Q} = \frac{(\text{Closing Price X Outstanding Share}) + \text{Total Liabilities}}{\text{Total Assets}}$$

A capital structure refers to the proportion of total debt relative to capital, evaluated using the debt-to-equity ratio (DER). This ratio helps assess the level of risk associated with the equity ratio (Wulandari et al., 2018). It serves as a metric to evaluate the capital structure. Below are the proxies for measurement (Wijayaningsih & Yulianto, 2021):

$$\text{DER} = \frac{\text{Total Liability}}{\text{Total Equity}}$$

Firm size is used to determine the firm's total assets. Henriansyah & Dharmayuni (2017) and Wijayaningsih & Yulianto (2021) state that firm size is measured using total firm assets (SIZE). The ratio is the scale used to measure a firm's size. Here are the measurement proxies:

$$\text{SIZE} = \text{Ln}(\text{Total Asset})$$

Profitability refers to a firm's ability to generate profits through its operational activities by utilizing its assets over a specified period (Cendrawan & Waluyo, 2022). According to Wijayaningsih & Yulianto (2021), the measure of profitability uses the return on assets ratio, which compares profit after tax with the firm's total assets. The scale used to measure profitability is the ratio. Here are the measurement proxies:

$$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

The measurement used for Cash ETR is by adding up the payment of taxes (total cash paid) in a specific period, divided by the total profit before tax (pretax income) in the same period (Herawati & Ekawati, 2016). The scale used to measure cash ETR is a ratio. Here are the measurement proxies:

$$\text{Cash ETR} = \frac{\text{Cash Paid}}{\text{Pretax Income}}$$

The book-tax difference refers to the disparity between profit reported in accounting and profits determined for tax purposes, meaning that specific components included in accounting profit are excluded from the calculation of fiscal profit (Darmawan & Angelina, 2021). The ratio serves as the metric for assessing the differences in book and tax values. Below are the measurement proxies:

$$\text{BTD} = \frac{\text{Pretax Income} - \text{Tax Income}}{\text{Average Asset}}$$

Investment decisions enable investors to understand how the market evaluates a firm's share performance based on its earnings per share (EPS). According to Basuki & Yulianah (2019) and Wijayaningsih & Yulianto (2021), investment decisions are measured by the price-earnings ratio (PER). The scale investment decision is the ratio. Here are the measurement proxies:

$$\text{PER} = \frac{\text{Stock Price}}{\text{EPS}}$$

This study will conduct the hypothesis test through a multiple coefficient analysis, which includes the R test, Adjusted R-squared, F-test, and t-test. Typically, multiple regression analysis uses a significance level ( $\alpha$ ) of 5%. Data testing in this study used a pooled cross-section. Below is the regression equation model utilized:

$$\text{TOBIN'S Q} = \beta_0 + \beta_1\text{DER} + \beta_2\text{SIZE} + \beta_3\text{ROA} + \beta_4\text{CETR} + \beta_5\text{BTD} + \beta_6\text{PER} + \beta_7\text{DER*PER} + \beta_8\text{SIZE*PER} + \beta_9\text{ROA*PER} + \varepsilon$$

Information:

TOBIN'S Q	= Firm value
DER	= Capital structure
SIZE	= Firm size
ROA	= Profitability
CETR	= Cash effective tax rate
BTD	= Book tax difference
PER	= Investment decision
$\varepsilon$	= Error

## RESULTS AND DISCUSSION

The descriptive statistics indicate that the average firm value (Tobin's Q) is 2.281, suggesting that investors generally viewed the sample companies favourably, as their market values exceed their book values. The average debt-to-equity ratio (DER) is 0.801, indicating that most companies in the sample primarily rely on debt for funding. The average firm size (SIZE) is 29.54, with profitability (ROA) averaging 0.094, demonstrating that these companies consistently generated profits over the observation period. The cash effective tax rate (CETR) averages 0.254, which suggests that, on the whole, these companies did not engage in tax avoidance, as the CETR is higher than the applicable tax rate. The average book tax difference (BTD) is 0.031, indicating limited tax avoidance due to this relatively small figure. Lastly, the average investment decision (PER) is 28.768, reflecting substantial investment value among the sample companies.

**Table 2. Hypothesis Test Results**

Variable	B	t	Sig.
Constant	-0.424	-0.441	0.660
DER	0.231	2.755	0.007***
SIZE	0.017	0.519	0.605
ROA	3.225	2.975	0.003***
CETR	0.218	0.786	0.433
BTD	0.665	0.582	0.561
PER	0.067	2.998	0.003***
DER*PER	0.007	2.721	0.007***

\*\*\*) sig.  $\leq$  1%

Adj. R<sup>2</sup> = 0,957; F = 431,457; Sig. = 0.000

Source: Data processed

Table 2 shows that the F-test results yield a p-value of 0.000 below  $\alpha$  ( $0.000 < 0.050$ ). The regression model is fit. The adjusted R<sup>2</sup> value is 0.958, indicating that the independent variable accounts for 95.7% of the variability in firm value. Consequently, the remaining 4.3% is attributed to other factors not captured in the regression model.

The t-test results indicate that the capital structure (DER) coefficient is 0.231 and a p-value that is lower than  $\alpha$  ( $0.007 < 0.050$ ), thus supporting the acceptance of Ha1. Therefore, capital structure positively impacts the firm value: a more optimal capital structure is associated with a higher firm value. According to signal theory, maintaining an optimal capital structure sends a positive message to investors, indicating a low bankruptcy risk for the firm (Wijayaningsih & Yulianto, 2021). The results are consistent with Afinindy et al. (2021); Akhyar et al. (2023); Hirdinis (2019); Mubyarto (2020); Nurwulandari et al. (2021); Pangestuti & Tindangen (2020); Pratiwi (2020); Sari & Sedana (2020); Sudiyatno et al. (2020).

The firm size (SIZE) coefficient is 0.017, with a p-value of 0.605, surpassing the  $\alpha$  level of 0.050. This implies that Ha2 is unsupported, meaning firm size does not impact its value. Therefore, investors do not consider firm size in their investment decisions (Santoso & Pratiwi, 2023). The results are consistent with Afinindy et al. (2021), Akhyar et al. (2023), Bon & Hartoko (2022), Pratiwi (2020), and Santoso & Pratiwi (2023).

The profitability coefficient is 3.225 and a p-value below  $\alpha$  ( $0.003 < 0.050$ ), which supports the acceptance of Ha3. This indicates that profitability positively impacts a firm's value; as its profits grow, its value also increases. High profitability signifies a robust firm condition, drawing investor interest in equity ownership (Wijayaningsih & Yulianto, 2021). The results of this study support the signaling theory that high profit performance provides a positive signal to investors regarding the company's prospects, thus encouraging an increase in share prices. The results are consistent with Afinindy et al. (2021); Akhyar et al. (2023); Bon & Hartoko (2022); Kristi & Yanto (2020); Mubyarto (2020); Nurwulandari et al. (2021); Pratiwi (2020); Santoso & Pratiwi (2023); Sari & Sedana (2020); Sudiyatno et al. (2020).

The cash effective tax rate (Cash-ETR) coefficient is 0.218, with a p-value exceeding  $\alpha$  ( $0.433 > 0.050$ ). It suggests that Ha4 is unsupported, indicating that the cash-effective tax rate does not affect the firm's value. The amount the firm allocates for tax expenses according to the accepted tax rate does not influence the firm's value (Herawati & Ekawati, 2016). The results are consistent with Herawati & Ekawati (2016).

The book tax difference (BTD) coefficient is 0.665, accompanied by a p-value of 0.561, which surpasses  $\alpha$  (0.050). It indicates that Ha5 is invalid, suggesting that the book-tax difference does not impact the firm value. Shareholders interpret the book-tax difference as indicating that the firm's profits may be influenced by differing accounting practices per the Financial Accounting Standards, rendering profitability insignificant and consequently not affecting the firm's value (Marsaid & Pesudo, 2019).

The correlation between investment decisions and firm value (DER\*PER) has a p-value of 0.007, less than  $\alpha$  (0.050), supporting Ha6. Investment decisions (PER) can influence the relationship between capital structure (DER) and firm value. A p-value of 0.007 suggests that these decisions strengthen the link between capital structure and firm value. Careful investment choices can improve asset management and boost operational strength. Consequently, a strong capital structure attracts investors and enhances the firm's value (Wijayaningsih & Yulianto, 2021). The results support signaling theory, indicating that good investment decisions and an optimal capital structure signal market confidence in the firm's prospects.

The investment decisions regarding the relationship between firm size and firm value (SIZE\*PER) show a p-value of 0.004, below  $\alpha$  (0.050). This supports the acceptance of Ha7. The variable assesses the connection between firm size and firm value, with a coefficient of -0.002, indicating that investment choices weaken the link between these two aspects. This suggests that managers are not optimally allocating the firm's assets. Investment decisions pertain to managers distributing funds across different opportunities to generate profits. Larger firms do not necessarily manage their assets well or achieve higher profits. Investors focus on a firm's potential for significant profits rather than the mere size of its assets. Therefore, firm size does not guide investors' decisions or impact the firm value (Hasanuddin et al., 2021; Nurwulandari et al., 2021; Santoso & Pratiwi, 2023). The higher the investment decision, the less impactful the reputation and market capacity effects typically associated with large companies. It aligns with signaling theory, which states that when investment decisions are high, the market's focus can shift from structural factors like size to earnings growth expectations.

The investment decision regarding profitability and firm value (ROA\*PER) presents a p-value below  $\alpha$  ( $0.000 < 0.050$ ), resulting in the acceptance of Ha8. This investment decision variable demonstrates the connection between profitability and firm value, with a coefficient value of 0.814, indicating that investment decisions amplify the effect of profitability on firm value. Making investment choices involves how a company allocates its resources to enhance profits (Hasanuddin et al., 2021). High profit levels signify effective management of company assets. Investors generally prefer firms that provide substantial returns. Therefore, increased profitability signifies enhanced performance in generating profits, which helps the company gain the trust of investors and prospective shareholders, ultimately elevating the firm's value (Wijayaningsih & Yulianto, 2021). This finding aligns with signaling theory, which suggests that a high investment decision strengthens the performance signal from profitability, leading investors to believe that the firm's profits increasingly reflect good prospects.

## CONCLUSION

This study explores how firm characteristics like capital structure, size, profitability, and tax planning impact company value. It also examines the effects of investment decisions on the relationship between these characteristics and firm value. The

findings suggest that capital structure and profitability positively impact firm value, while firm size and tax planning have no significant impact. Additionally, investment decisions enhance the relationship between capital structure, profitability, and firm value but diminish the effect of firm size on firm value.

This study is essential for various stakeholders, particularly investors allocating capital to businesses. Capital structure and profitability, shaped by management's astute investment decisions, indicate optimal performance, leading to higher profits and potential dividends. Conversely, ineffective investment choices reflect poor asset management, suggesting that firms with significant assets may not necessarily realize high profits. Thus, investors should evaluate which companies effectively manage these elements before investing to improve their chances of generating profits.

The study acknowledges some limitations, including a small sample size of 44 firms covering both cyclical and non-cyclical companies listed on the Indonesia Stock Exchange, resulting in 176 data points. Future research could expand the scope by including a variety of industries beyond just consumer cyclical and non-cyclical sectors, such as non-financial firms. Additional studies may also explore other variables, such as corporate governance, leadership traits, and Corporate Social Responsibility, which could impact firm value.

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