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Revisiting Firm Value in Banking: Do Dividend Policies Still Matter?

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Abstract: This study investigates the impact of profitability and the investment opportunity set on firm value, with dividend policy as a mediating variable, in Indonesian Banking Sector during the period 2018–2025. This period captures both the COVID-19 pandemic crisis and the subsequent economic recovery, which significantly affected corporate investment and profit distribution decisions. A quantitative research approach was applied using Smart Partial Least Squares 4 (SmartPLS 4), and secondary data were sourced from annual reports and financial statements published on the official websites of the Indonesian Banking Sector. The empirical results reveal that both profitability and the investment opportunity set have a positive and significant effect on firm value, while dividend policy does not significantly influence firm value. Additionally, profitability positively and significantly affects dividend policy, whereas the investment opportunity set has no significant effect. Mediation analysis indicates that dividend policy does not mediate the relationships between profitability, the investment opportunity set, and firm value. These findings provide theoretical contributions to the literature on corporate finance in the banking sector and offer practical implications for managers, investors, and regulators in enhancing firm value sustainably.

Keyword: Profitability, IOS, Dividend Policy, Firm Value, Indonesian Banking

Abstrak: *Penelitian ini mengkaji dampak profitabilitas dan peluang investasi terhadap nilai perusahaan, dengan kebijakan dividen sebagai variabel mediasi, di Sektor Perbankan Indonesia selama periode 2018–2025. Periode ini mencakup baik krisis pandemi COVID-19 maupun pemulihan ekonomi yang terjadi setelahnya, yang secara signifikan memengaruhi keputusan investasi perusahaan dan pembagian laba. Pendekatan penelitian kuantitatif diterapkan dengan menggunakan Smart Partial Least Squares 4 (SmartPLS 4), dan data sekunder diperoleh dari laporan tahunan serta laporan keuangan yang dipublikasikan di situs web resmi Sektor Perbankan Indonesia. Hasil empiris menunjukkan bahwa baik profitabilitas maupun kumpulan peluang investasi memiliki pengaruh positif dan signifikan terhadap nilai perusahaan, sedangkan kebijakan dividen tidak secara signifikan memengaruhi nilai perusahaan. Selain itu, profitabilitas secara positif dan signifikan memengaruhi kebijakan dividen, sedangkan kumpulan peluang investasi tidak memiliki pengaruh yang signifikan. Analisis mediasi menunjukkan bahwa kebijakan dividen tidak berperan sebagai mediator dalam hubungan antara profitabilitas, peluang investasi, dan nilai perusahaan. Temuan ini*

memberikan kontribusi teoretis bagi literatur keuangan korporat di sektor perbankan serta menawarkan implikasi praktis bagi manajer, investor, dan regulator dalam meningkatkan nilai perusahaan secara berkelanjutan.

Kata Kunci*: *Profitabilitas, IOS, Kebijakan Dividen, Nilai Perusahaan, Perbankan Indonesia

INTRODUCTION

Firm value represents a critical indicator of how capital markets assess a company's future prospects and management's capability to maximize shareholder wealth. It reflects not only internal conditions such as financial performance and managerial efficiency, but also external factors including investor sentiment, macroeconomic dynamics, and industry stability. One of the most widely applied proxies of firm value is the Price to Book Value (PBV), which compares a firm's market valuation with its book value and captures the extent to which the market prices a firm above or below its accounting value (Natalia & Riwayati, 2022; Zutter & Smart, 2022).

Within the Indonesian context, the banking sector plays a pivotal role in maintaining national economic stability. State-owned banks (Bank BUMN) namely Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI), Bank Mandiri, and Bank Tabungan Negara (BTN) serve not only as financial intermediaries but also as strategic instruments of government policy in implementing development and financial inclusion programs. Consequently, the performance and firm value of these banks attract considerable attention from investors, regulators, and policymakers. In the banking industry, profitability is commonly measured by Return on Assets (ROA), which reflects management efficiency in utilizing total assets to generate earnings (Zutter & Smart, 2022). Higher profitability is generally associated with favorable investor perceptions, increased stock prices, and ultimately higher firm value.

Beyond profitability, firm value is also shaped by market expectations regarding future growth opportunities. These expectations are conceptualized through the Investment Opportunity Set (IOS), which represents the firm's potential investment prospects. IOS can be proxied by the Market-to-Book Value of Assets (MBVA), a ratio that captures market assessments of a firm's growth potential relative to its asset base (Gaver & Gaver, 1993). In addition, dividend policy constitutes a crucial mechanism through which firms communicate financial strength and stability to investors. Dividends are often interpreted as signals of managerial confidence in future cash flows (Baker & Powell, 2000). The Dividend Payout Ratio (DPR), defined as the proportion of net income distributed as dividends, is commonly employed to measure dividend policy and indicates the extent to which corporate earnings are allocated to shareholders (Zutter & Smart, 2022). From a signaling perspective, dividend policy may function as a mediating variable that links profitability and investment opportunities to firm value.

However, empirical evidence suggests that the relationships among profitability, IOS, dividend policy, and firm value are not always aligned with theoretical predictions. Banking firms exhibiting high ROA do not consistently demonstrate high PBV, while firms with substantial investment opportunities do not necessarily achieve superior market valuations. These inconsistencies indicate the possibility of indirect effects and highlight the need to examine dividend policy as a mediating mechanism (Riwayati & Aviliani, 2022). Accordingly, this study seeks to investigate whether profitability and investment opportunities influence firm value directly or indirectly through dividend policy within Indonesian state-owned banks.

Prior empirical studies have reported mixed and inconclusive findings. From the profitability perspective, several studies (Adziem et al., 2024; Fitriani et al., 2025; Rengganis & Ariani, 2025; Yuliarto et al., 2025) document a positive and significant effect of profitability on dividend policy. In contrast, other studies report a significant negative relationship between

profitability and dividend policy (Yuni, 2022). Furthermore, a number of studies (Mahirun et al., 2023; Fitriani et al., 2025; Yuliarto et al., 2025; Sabitah & Riwayati, 2025; Febrianty & Mertha, 2021) find that profitability has a positive and significant impact on firm value. However, contradictory evidence suggests that profitability has a positive but insignificant effect (Yuni, 2022), or no significant effect at all, on firm value (Wiyarni et al., 2024).

Empirical findings related to the Investment Opportunity Set (IOS) are also inconsistent. Several studies (Rengganis & Ariani, 2025; Hapsari & Aprilia, 2023; Dharmawan & Riza, 2019) report that IOS has a positive and significant effect on dividend policy. Conversely, other studies find that IOS has no significant effect on dividend policy (Adziem et al., 2024; Sajiwo & Arifin, 2023), while some document a significant negative relationship between IOS and dividend policy (Rinofah et al., 2022). With regard to firm value, prior research (Mahirun et al., 2023; Wiyarni et al., 2024; Rinofah et al., 2022; Hapsari & Aprilia, 2023; Dharmawan & Riza, 2019; Febrianty & Mertha, 2021) largely supports a positive and significant effect of IOS on firm value. Nevertheless, opposing evidence indicates a negative and significant effect of IOS on firm value (Mutmainah et al., 2024).

Dividend policy as a mediating variable also yields divergent results. Some studies (Fitriani et al., 2025; Yuliarto et al., 2025) demonstrate that dividend policy significantly mediates the relationship between profitability and firm value. In contrast, Yuni (2022) finds no mediating effect of dividend policy on the profitability–firm value relationship. Similarly, while Dharmawan and Riza (2019) show that dividend policy mediates the relationship between IOS and firm value, other studies report that dividend policy fails to mediate the effect of IOS on firm value (Rinofah et al., 2022; Hapsari & Aprilia, 2023).

The heterogeneity of these findings highlights a clear research gap, particularly within the context of Indonesian state-owned banks (Bank BUMN), which exhibit distinctive structural characteristics, strong government involvement, and heightened sensitivity to national economic dynamics. The period 2017–2024 is selected as it encompasses both the COVID-19 crisis and the subsequent economic recovery, phases that significantly influenced corporate investment decisions and profit distribution policies. Accordingly, this study aims to examine the effects of profitability and the investment opportunity set on firm value, with dividend policy serving as a mediating variable, in Indonesian state-owned banks during the 2017–2024 period. The findings are expected to contribute theoretically to the banking finance literature and provide practical implications for bank management, investors, and regulators in formulating more effective policies to enhance sustainable firm value.

THEORETICAL FRAMEWORK

Signaling theory is grounded in the presence of information asymmetry between corporate management and external parties, particularly investors. In such circumstances, management possesses superior information regarding the firm's internal conditions and future prospects. To mitigate information asymmetry, firms convey signals to external stakeholders through credible financial information, thereby reducing uncertainty surrounding future performance. A signal refers to managerial actions intended to communicate management's assessment of the firm's future prospects to investors (Bergh et al., 2014).

Firm value represents a market-based measure that reflects prevailing market conditions (Ningrum, 2022) and embodies investor perceptions, which are closely associated with stock prices. An increase in firm value is typically indicated by stable and rising stock prices, ultimately enhancing shareholder wealth. To achieve this, management must creatively leverage available opportunities to maximize corporate performance (Lestary & Riwayati, 2025). Optimal performance not only elevates stock prices but also serves as a positive signal that attracts investor capital. Conceptually, firm value is defined as the present value of expected future free cash flows discounted at the firm's weighted average cost of capital (Brigham & Ehrhardt, 2016).

Firm value can be measured using several market-based indicators, including Price to Book Value (PBV), Price Earnings Ratio (PER), and Tobin's Q (Weston & Copeland, cited in Ningrum, 2022). This study employs PBV as the primary proxy for firm value, as it captures how the market prices a firm relative to its book value. PBV plays a critical role in investment decision-making and offers several advantages: book value is relatively stable, accounting standards are consistent across firms, and PBV remains applicable when earnings are negative, rendering PER unusable (Fauziah, 2017).

Profitability is a financial ratio used to evaluate corporate performance and serves as a key indicator of a firm's ability to generate profits. It reflects how effectively a company earns income from sales, asset utilization, and invested capital (Astuti et al., 2021). The objectives of profitability analysis include measuring profits within a specific period, comparing profit levels over time, assessing profit growth trends, evaluating net income relative to equity, and measuring the productivity of total funds employed, whether derived from debt or equity (Kasmir, 2019). Profitability can be measured through various ratios, including Return on Assets (ROA), Return on Equity (ROE), Gross Profit Margin, Operating Profit Margin, and Net Profit Margin, which collectively provide a comprehensive assessment of financial performance (Gitman & Zutter, 2015).

The Investment Opportunity Set (IOS) refers to the collection of investment opportunities available to a firm and constitutes a fundamental determinant of market valuation. IOS shapes managerial, shareholder, investor, and creditor perceptions regarding a firm's future prospects and reflects its growth potential through future investments (Kallapur & Trombley, 2001). IOS proxies commonly used in accounting and finance literature can be classified into three categories: price-based, investment-based, and variance-based proxies. Among these, the Market-to-Book Value of Assets (MBVA) provides the highest informational content in representing investment opportunities (Adam & Goyal, 2007). MBVA is defined as the ratio of the market value of a firm's assets to their book value. While book value represents assets in place, market value reflects both existing assets and future growth options. Consequently, a higher MBVA indicates greater investment opportunities relative to assets already owned.

Dividend policy refers to managerial decisions concerning whether to distribute cash dividends to shareholders, the amount to be distributed, and the timing and mechanism of distribution (Gitman & Zutter, 2015). It determines how much cash is allocated to shareholders and when such distributions occur (Titman et al., 2020). Dividends represent distributions of corporate earnings—past or present—in real assets to shareholders in proportion to their ownership. Dividends are paid from after-tax profits, while retained earnings constitute an essential internal financing source for future investments and corporate growth. Several theories explain dividend policy behavior, including the Residual Dividend Theory, Dividend Irrelevance Theory, Dividend Relevance Theory, and the Bird-in-the-Hand Theory (Gitman & Zutter, 2015).

Based on the theoretical review and prior empirical evidence, this study develops a conceptual framework that examines the effects of profitability and the investment opportunity set on firm value, with dividend policy serving as a mediating variable, as illustrated in Figure 1.

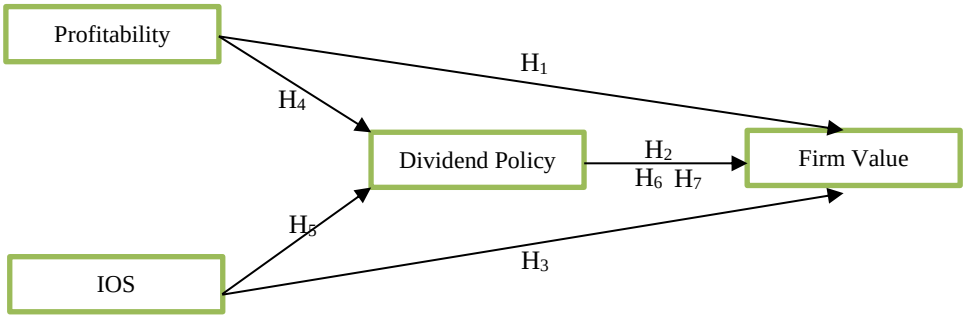


Figure 1 Conceptual Framework

METHODS

Research methodology refers to a systematic and scientific approach used to obtain data or information as it exists, rather than as it should be, for specific purposes and practical relevance (Hardani et al., 2020). Fundamentally, a research method describes the procedures and techniques employed as instruments to achieve research objectives. The choice of methods may vary and is not rigid, as it depends on the nature of the research object, the research objectives, and the type of data to be analyzed. Research design represents the overall framework that specifies the methods and procedures used to select, collect, and analyze data. This study adopts a causal associative research design, which aims to examine the relationships among two or more variables (Sugiyono, 2022).

This study employs a quantitative approach to examine the effects of profitability and the investment opportunity set on firm value, with dividend policy serving as a mediating variable. The empirical analysis focuses on Indonesian state-owned banks (Bank BUMN) listed on the Indonesia Stock Exchange (IDX) during the period 2018–2025. The sample consists of four state-owned commercial banks that meet the established selection criteria, yielding a total of 32 firm-year observations. The study utilizes secondary data obtained from annual financial statements and stock market data published by the IDX and the official websites of the respective banks.

The variables examined in this study include two independent variables profitability and investment opportunity set one mediating variable, dividend policy, and one dependent variable, firm value. A detailed description of the operational definitions and measurement of each variable is presented in Table 1

Table 1 Operationalization of Variables

Variable	Definition	Measurement	Scale
PBV	Price To Book Value reflects how the market values a company's stock relative to its book value. .	$\text{PBV} = \frac{\text{Price per Share}}{\text{Book value of Shares}}$	Ratio
ROA	Return on Assets is an indicator that shows the extent to which company management is able to utilize all available assets to generate profit.	$\text{ROA} = \frac{Earnings\ available\ for\ common\ stockholders}{Total\ Assets}$	Ratio
DPR	Dividend Payout Ratio represents the percentage of earnings that a company distributes to shareholders in the form of cash dividends.	$\text{DPR} = \frac{Dividend\ Per\ Share}{Earnings\ Per\ Share}$	Ratio
MBVA	Market-to-Book Value of Assets explains a company's composition in terms of assets currently in operation versus future growth projects or options.	$\text{MBVA} = \frac{(\text{Total Asset} - \text{Total Equity}) + (\text{Number of Outstanding Shares x } Closing\ Price)}{\text{Total Asset}}$	Ratio

Source: Adam & Goyal (2007); Gitman& Zutter (2015); Ningrum (2022)

The research adopts a quantitative approach utilizing Smart Partial Least Squares (SmartPLS) version 4 for data analysis. Secondary data were obtained from annual reports and financial statements officially published on the respective websites of Indonesian state-owned banks. The level of statistical significance applied in this study is 5% ($\alpha = 0.05$). A hypothesis is considered statistically significant when the T-statistic exceeds 1.96 and the corresponding p-value is less than 0.05.

RESULTS AND DISCUSSION

Based on the results of descriptive statistical analysis of the 32 firm-year observations used in this study, the summary statistics are presented in Table 2.

Table 2 Descriptive Statistics Results

Criteria	ROA	MBVA	PBV	DPR
Mean	2,376	1,090	1,588	0,452
Maximum	4,030	1,280	2,740	0,860
Minimum	0,130	0,960	0,510	0,100
Standard deviation	1,127	0,092	0,630	0,223
Observation	32	32	32	32

Source: Output Smart PLS 4

Based on Table 2, the descriptive statistics for the 32 observations indicate that Return on Assets (ROA) has a mean value of 2.376, with a range from 0.130 to 4.030 and a standard deviation of 1.127. This relatively wide dispersion suggests variations in firms' ability to generate profits from their assets. The minimum value close to zero indicates that some firms recorded relatively thin profit margins, whereas the relatively high maximum value reflects strong operational efficiency among others. For Price to Book Value (PBV), the mean value of 1.588, accompanied by a standard deviation of 0.630 and a range of 0.510–2.740, indicates moderate variability. In general, PBV values around one to two times book value suggest that the market prices the firms at fair to relatively premium valuations, although heterogeneity in market assessments across firms remains evident. The Market-to-Book Value of Assets (MBVA) appears highly homogeneous, with a mean of 1.090, a standard deviation of 0.092, and a range of 0.960–1.280. This consistency implies that the ratio of market value to book value of assets across the sample is relatively similar, thereby reducing the potential bias arising from extreme variations.

Meanwhile, the Dividend Payout Ratio (DPR) exhibits a mean value of 0.452, a standard deviation of 0.223, and a range of 0.100–0.860, indicating substantial diversity in dividend distribution policies. Overall, all four variables display controlled dispersion and do not exhibit extreme outliers based on the minimum–maximum summary. Accordingly, the data are deemed suitable for subsequent stages of analysis.

Table 3 *R-square*

Variabel	*R-square*	*R-square adjusted*
Dividend Policy	0,615	0,588
Firm Value	0,972	0,969

Source: Output Smart PLS 4

Based on Table 3, the R-square value for the dividend policy variable is 0.615, while the R-square value for firm value is 0.972. These R-square values indicate that the research model has strong explanatory power for the endogenous variables. Specifically, the investment opportunity set and profitability explain 61.5 percent of the variation in dividend policy, whereas the investment opportunity set, dividend policy, and profitability jointly explain 97.2 percent of the variation in firm value.

Table 4 *F-square*

Variable	Dividend Policy	Firm Value
Investment Opportunity Set	0,102	10,652
Dividend Policy		0,076
Profitability	0,236	0,117

Source: Output Smart PLS 4

The F-square test results presented in Table 4 indicate that the investment opportunity set exerts a very strong effect on firm value, with an f^2 value of 10.652. In contrast, the effect of the investment opportunity set on dividend policy is relatively small, with an f^2 value of 0.102. Profitability demonstrates a moderate effect on dividend policy, with an f^2 value of 0.236, and

a moderate effect on firm value, with an f^2 value of 0.117. These findings suggest that the investment opportunity set is the dominant factor in determining firm value, while dividend policy and profitability provide complementary contributions to the model.

Table 5 Q-square

	Q^2predict
Dividend Policy 1	0,557
Firm vaue1	0,966

Source: Output Smart PLS 4

The Q-square test results presented in Table 5 indicate that the Dividend Payout Ratio (DPR) variable has a Q^2 value of 0.557, suggesting a moderate to good level of predictive relevance. Meanwhile, the Price to Book Value (PBV) variable records a Q^2 value of 0.966, indicating very strong predictive capability. These results confirm that the PLS-SEM model employed in this study demonstrates adequate predictive power for the examined variables, particularly in explaining variations in firm value.

Table 6 Path Coefficient Direct Effect

Direct Effect	*Original sample (O)*	*Sample mean (M)*	*Standard deviation (STDEV)*	*T statistics (|O/STDEV|)*	*P values*
IOS → Dividend policy	0,327	0,320	0,215	1,520	0,128
IOS → Firm value	0,954	0,955	0,040	24,100	0,000
Dividend Policy → Firm value	-0,075	-0,078	0,057	1,309	0,191
Profitability → Dividend Policy	0,498	0,502	0,200	2,486	0,013
Profitability → Firm value	0,106	0,107	0,049	2,139	0,032

Source: Output Smart PLS 4

Based on Table 6, profitability has a positive and significant effect on firm value, as evidenced by a T-statistic of 2.139, which exceeds the threshold of 1.96, and a p-value of 0.032, which is below 0.05; thus, H1 is accepted. This indicates that an increase in profitability is associated with a corresponding increase in firm value in the direction of the positive coefficient. A higher ROA reflects the firm's efficiency in converting assets into profits. This performance strengthens expectations of future cash flows and reduces perceived risk, prompting investors to pay a premium for equity, as reflected in a higher Price to Book Value (PBV). From the perspective of signaling theory, strong profitability serves as a signal of quality, so an increase in ROA is expected to drive an increase in PBV. These findings are consistent with prior studies (Mahirun et al., 2023; Fitriani et al., 2025; Yuliarto et al., 2025; Sabitah & Riwayati, 2025; Febrianty & Mertha, 2021), which also report a positive and significant effect of profitability on firm value.

The investment opportunity set has a positive and significant effect on firm value, with a T-statistic of 24.100, exceeding 1.96, and a p-value of 0.000, below 0.05, leading to acceptance of H2. This indicates that an increase in the investment opportunity set corresponds with an increase in firm value, in line with the positive coefficient. A high investment opportunity set reflects the availability of growth options and value-generating projects. Stronger expectations of future cash flows encourage the market to assign a valuation premium, reflected in higher PBV. Abundant investment opportunities act as signals of growth prospects, leading the market to value the firm more highly in accordance with signaling theory. These results align with prior research (Mahirun et al., 2023; Wiyarni et al., 2024; Rinofah et al., 2022; Hapsari & Aprilia,

2023; Dharmawan & Riza, 2019; Febrianty & Mertha, 2021), which found a positive and significant effect of the investment opportunity set on firm value.

Dividend policy, however, does not significantly affect firm value, as the T-statistic of 1.309 is below 1.96 and the p-value of 0.191 exceeds 0.05, leading to the rejection of H3. This implies that changes in dividend policy (DPR) are not consistently accompanied by changes in firm value. Setting a higher Dividend Payout Ratio has not been sufficient to induce a valuation premium reflected in PBV in the sample. Within the framework of signaling theory, this insignificance indicates that signals conveyed through dividend policy were not interpreted by the market as an increase in PBV during the observation period. In the context of Indonesian state-owned banks, government ownership characteristics, development mandates, and dividend smoothing practices (i.e., maintaining dividend stability) may render dividend policy (DPR) less effective as a private information signal regarding firm prospects. These findings are consistent with previous studies (Rinofah et al., 2022; Hapsari & Aprilia, 2023), which report no significant effect of dividend policy on firm value. Prior research also found that dividend policy had a negative and non-significant effect on firm value (Mahirun et al., 2023; Yuni, 2022).

Profitability has a positive and significant effect on dividend policy, as indicated by a T-statistic of 2.486, exceeding 1.96, and a p-value of 0.013, below 0.05, thereby accepting H4. This means that higher profitability is associated with higher dividend policy (DPR), in line with the positive coefficient. A higher ROA reflects the firm's ability to generate sufficient profits and operating cash flows, creating room to distribute dividends without compromising the financing of productive assets. Such performance reinforces management's and investors' confidence in the sustainability of payments, prompting firms to increase or maintain dividend payout ratios. From the signaling theory perspective, strong earnings serve as a credible signal of quality and growth prospects, so an increase in ROA is expected to be accompanied by a higher DPR. Previous studies (Adziem et al., 2024; Fitriani et al., 2025; Rengganis & Ariani, 2025; Yuliarto et al., 2025) similarly report a positive and significant effect of profitability on dividend policy.

The investment opportunity set does not significantly affect dividend policy, as the T-statistic of 1.520 is below 1.96 and the p-value of 0.128 exceeds 0.05, leading to the rejection of H5. This indicates that increases in the investment opportunity set are not consistently associated with changes in dividend policy (DPR). A high investment opportunity set generally reflects the need to finance growth projects, so earnings are prioritized for reinvestment rather than dividend distribution. Consequently, both firms and the market tend to focus resources on internal growth financing rather than adjusting dividend payout ratios. From a signaling theory perspective, abundant investment opportunities do not automatically serve as a signal to increase dividends, meaning that increases in the investment opportunity set do not drive higher DPR. These results are consistent with previous studies (Adziem et al., 2024; Sajiwo & Arifin, 2023), which report no significant effect of investment opportunities on dividend policy. Prior research also found that the investment opportunity set had a significant negative effect on dividend policy (Rinofah et al., 2022).

Table 7 Specific Inderect Effect

Inderect Effect	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
IOS → Dividend Policy → Firm Value	-0,024	-0,025	0,029	0,844	0,399
Profitabiliy → Dividend Pilicy → Firm Value	-0,037	-0,039	0,035	1,050	0,294

Source: Output Smart PLS 4

Based on the mediation test results presented in Table 7, dividend policy was found not to mediate the relationships between the variables. Dividend policy does not mediate the effect of profitability on firm value, as evidenced by a T-statistic of 1.050, which is below 1.96, and a p-value of 0.294, which exceeds 0.05, leading to the rejection of H6. This indicates that even if profitability increases, its effect on firm value is not channeled through dividend policy. Higher ROA is not systematically translated into adjustments in dividend policy (DPR) that could strengthen valuation. Dividend distribution decisions do not significantly enhance market confidence in future cash flows nor meaningfully reduce perceived risk, and therefore are not reflected in the Price to Book Value. In line with signaling theory, dividend policy in this context does not function as a credible quality signal, so an increase in ROA is not expected to drive higher PBV via the mediating role of dividend policy. These findings are consistent with prior research, which found that dividend policy does not mediate the effect of profitability on firm value (Yuni, 2022).

Dividend policy also does not mediate the relationship between the investment opportunity set and firm value, as indicated by a T-statistic of 0.844, which is below 1.96, and a p-value of 0.399, which exceeds 0.05, leading to the rejection of H7. This suggests that increases in the investment opportunity set do not affect firm value through dividend policy (DPR). Within the framework of signaling theory, dividend policy in this context does not act as a credible quality signal to translate investment opportunities into higher PBV via a mediation pathway. These results are consistent with prior studies (Rinofah et al., 2022; Hapsari & Aprilia, 2023), which found that dividend policy is unable to mediate the relationship between investment opportunities and firm value.

Higher profitability, as measured by Return on Assets (ROA)**,** significantly enhances the firm value of Indonesian state-owned banks (Bank BUMN) during the 2017–2024 period, as reflected by a higher Price-to-Book Value (PBV)**.** This finding suggests that an increase in corporate profitability is accompanied by an increase in firm value. A higher ROA indicates greater efficiency in transforming corporate assets into earnings. Such performance strengthens expectations regarding future cash flows and reduces investors' risk perceptions, thereby increasing their willingness to pay a premium for the firm's equity, which is subsequently reflected in a higher PBV. Within the framework of signaling theor**y**, strong earnings constitute a positive signal of firm quality; therefore, an increase in ROA is expected to stimulate an increase in PBV. This finding is consistent with prior studies conducted by Mahirun et al. (2023), Fitriani et al. (2025), Lestary & Riwayati (2025), Yuliarto et al. (2025), Sabitah & Riwayati (2025), and Febrianty & Mertha (2021), all of which reported that profitability positively influences firm value. However, this result contradicts the findings of Wiyarni et al. (2024), who argued that profitability does not significantly affect firm value.

Similarly, a higher Investment Opportunity Set (IOS), proxied by the Market-to-Book Value of Assets (MBVA)**,** significantly increases the firm value of Indonesian state-owned banks as measured by PBV. This indicates that an increase in growth opportunities is associated with an increase in firm value. A high IOS reflects the availability of profitable investment opportunities and positive net present value projects. Stronger expectations regarding future cash flows encourage the market to assign a valuation premium to the firm, as evidenced by a higher PBV. According to signaling theory, abundant investment opportunities serve as a signal of favorable growth prospects, leading investors to value the company more highly. These findings are in line with previous studies by Mahirun et al. (2023), Wiyarni et al. (2024), Rinofah et al. (2022), Hapsari & Aprilia (2023), Dharmawan & Riza (2019), and Febrianty & Mertha (2021), which found that a higher IOS contributes positively to firm value. In contrast, Mutmainah et al. (2024) reported that IOS does not significantly affect firm value.

The findings further reveal that dividend policy**,** represented by the Dividend Payout Ratio (DPR)**,** does not significantly influence firm value in Indonesian state-owned banks during the 2017–2024 period. This suggests that changes in dividend policy are not

accompanied by corresponding changes in firm value. A higher DPR has not been sufficient to generate a valuation premium reflected in PBV within the observed sample. From the perspective of signaling theory, this insignificance implies that the signals conveyed through dividend policy are not interpreted by the market as indicators warranting an increase in firm value during the observation period.

In the context of Indonesian state-owned banks, government ownership structures, developmental mandates, and the practice of dividend smoothing—the tendency to maintain stable dividend payments—may reduce the informational role of dividend policy as a signal of private information regarding future corporate prospects. Dividend decisions do not fully reflect management expectations concerning future performance but are also influenced by government policies and fiscal considerations. Although government monitoring mechanisms and regulatory frameworks are in place, their implementation is often less than optimal, and state-owned enterprises are simultaneously required to accommodate social and political objectives, resulting in managerial orientations that are not exclusively focused on profitability maximization (Megawati, 2021). Consequently, dividend policy becomes less effective as a signaling mechanism for the capital market. This finding is consistent with the studies of Rinofah et al. (2022) and Hapsari & Aprilia (2023), which reported no significant effect of dividend policy on firm value. However, it differs from the findings of Fitriani et al. (2025), Yuliarto et al. (2025), and Sabitah & Riwayati (2025), who found that dividend policy positively influences firm value.

Higher profitability, as measured by ROA, also significantly increases dividend policy, proxied by the DPR, among Indonesian state-owned banks. This indicates that more profitable firms tend to distribute higher dividends. Greater profitability reflects stronger earnings generation and operating cash flow capacity, thereby creating additional financial flexibility for dividend distribution without jeopardizing investments in productive assets. Such financial performance reinforces both managerial and investor confidence regarding the sustainability of dividend payments, encouraging firms to increase or maintain their dividend payout ratios. From the perspective of signaling theory, strong earnings serve as a credible signal of firm quality and favorable future prospects; consequently, an increase in ROA is expected to be followed by an increase in DPR as a positive signal to the market. This finding is supported by previous studies by Adziem et al. (2024), Fitriani et al. (2025), Rengganis & Ariani (2025), and Yuliarto et al. (2025), which documented a positive relationship between profitability and dividend policy. However, this result contradicts the findings of Yuni (2022) who reported that profitability does not significantly affect dividend policy.

Conversely, the Investment Opportunity Set (IOS) does not significantly influence dividend policy in Indonesian state-owned banks. This implies that increases in growth opportunities are not accompanied by changes in dividend payout decisions. A high IOS generally reflects substantial financing requirements for future growth projects, causing firms to prioritize earnings retention and reinvestment rather than dividend distribution. Under such circumstances, both firms and investors tend to emphasize internal growth financing rather than adjustments in dividend payout ratios. From a signaling theory perspective, the existence of abundant investment opportunities does not automatically constitute a signal for increasing dividends; therefore, increases in IOS do not necessarily lead to higher DPR levels. This finding is consistent with the studies of Adziem et al. (2024) and Sajiwo & Arifin (2023), which found no significant relationship between IOS and dividend policy. However, it differs from the findings of Rengganis &Ariani (2025), Hapsari & Aprilia (2023), and Dharmawan & Riza (2019), who reported that IOS positively affects dividend policy.

The results further demonstrate that dividend policy does not mediate the relationship between profitability and firm value**.** This finding implies that although profitability increases firm value, this effect is not transmitted through dividend policy. Higher profitability is not systematically translated into dividend policy adjustments that strengthen firm valuation.

Dividend distribution decisions do not significantly increase market confidence in future cash flows nor reduce perceived risk to an extent sufficient to influence PBV. In line with signaling theory, DPR in this context does not function as a credible signal of firm quality; therefore, increases in ROA are not expected to enhance PBV through the mediating role of dividend policy. This finding is consistent with the study by Yuni (2022), which reported that dividend policy does not mediate the relationship between profitability and firm value. However, it contrasts with the findings of Fitriani et al. (2025) and Yuliarto et al. (2025), who found that dividend policy serves as a significant mediating mechanism linking profitability to firm value.

Finally, the findings indicate that dividend policy does not mediate the relationship between the Investment Opportunity Set and firm value. This suggests that although growth opportunities increase, their effect on firm value is not transmitted through dividend policy. Within the signaling theory framework, dividend policy does not operate as a credible signal capable of translating investment opportunities into higher firm valuations through the mediating mechanism of dividend payments. This result is consistent with previous studies by Rinofah et al. (2022) and Hapsari & Aprilia (2023), which also found that dividend policy does not mediate the relationship between IOS and firm value. However, this finding contradicts the study of Dharmawan & Riza (2019), which concluded that dividend policy plays a significant mediating role in the relationship between investment opportunities and firm value.

CONCLUSIONS AND RECOMMENDATIONS

This study demonstrates that profitability and the investment opportunity set have a positive and significant effect on firm value. This indicates that firm value tends to increase in line with improvements in profitability and investment opportunities. Dividend policy does not have a significant effect on firm value. Profitability has a positive and significant effect on dividend policy, whereas the investment opportunity set does not significantly influence dividend policy. Furthermore, dividend policy does not mediate the effect of profitability on firm value and is unable to mediate the relationship between investment opportunity set and firm value.

Profitability and investment opportunity set levels should therefore be considered by investors when evaluating investment value and the company's investment environment. This study is expected to serve as a reference for future research, as well as for investors and corporate management. Additionally, it is crucial for company management to continuously enhance their understanding of how profitability and investment opportunity set influence firm value, while recognizing that dividend policy does not have a direct or mediating effect on firm value.

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