

Estimated Effect of Corporate Investment and Market Valuation of Quoted Firms in Nigeria

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Citation: DAKARE, Joan Ede & Professor Adolphus Joseph Toby. (2026). Estimated effect of corporate investment and market valuation of quoted firms in Nigeria. UKR Journal of Multidisciplinary Studies, 2(9), 09-21.	<i>The impact of corporate investments on the market value of quoted manufacturing firms in Nigeria: Evidence from Vector Autoregressive technique Cross-sectional data was obtained from the financial statements of quoted manufacturing firms - Journal of Economics and Sustainable Development. A stock price and earnings per share were utilized as dependent variables where short-term investment policy, long-term investment policy, subsidiary investment and portfolio invest (as independent.) This study utilized panel data methodology and the fixed-effects model as an estimation technique at a 5% level of significance. Both fixed effects, random effects and pooled estimates were tested, and the Hausman test was performed to select an appropriate model. It was discovered that investment policy was responsible for 60.2% of the systematic variation in the stock prices of quoted manufacturing firms. The results showed that short-term portfolio investment, long-term portfolio investment and long-term investments had positive correlations to stock price, but subsidiary investment also negatively correlated with stock prices of manufacturing firms. The risk coefficients for institutional investors denoted that portfolio investment in the short term and portfolio investment in the long term were statistically significant, while statistical insignificance was recorded for long-term investment and subsidiary investment in addition, the findings revealed that investment policy accounted for 69.1% of systematic variations in earnings per share of quoted manufacturing entities. The research indicates that there was a relationship between long-term investment and subsidiary investment with earnings per share where both generated positive Beta while short-term portfolio investment and long-term portfolio Investment were negatively related to the dependent variable (earnings per share) but since their probability coefficients are high it means these independent variables were statically insignificant. The study then confirms the proposition that investment policy governs the quoted manufacturing firms market value in Nigeria. For this reason, it is suggested that senior management allocate enough consideration determining which type and level of investment are desired, as well as maintaining clear signals relating to the investment policies pursued by the firms.</i> Keywords: Corporate Investment, Market Valuation, Portfolio Investment, Long Investment Policy, Short Investment Policy.

Introduction

The market value of the issuer's equity, or corporate value, is the well-being of owners. We will be able to tell the worth of a company based on its stock price, which takes into account how well its forecasted profits, sales growth and capital appreciation compares with others or not minimum. So, the price of a share in a company is high means it represents its overall corporate value. Tobin's Q measures

corporate value as a firm's total market value of equity and the market value of liabilities divided by the book value of the company. Based on the dimension of influencing potential stock price growth, the efficiency of financial management, and the hiring of investment opportunities (Wolfe & Sauaia 2003), corporate value is assessed by Tobin Q The value of the company corresponds to the worth

of capital that the firm owns, thus a higher company value results in additional prosperity to its shareholders. It is a good message for the company that if their shareholders are richer then investors would be willing to invest their capital in the company. Thus, to attract investors and induce them to place their capital in the firm, companies need to perform well (Pandey, 2010). The stock price encapsulates investors' judgment of a company and serves as an indicator of whether the company is seen to be thriving or not.

Management and investors are interested in optimizing firm value so what are the strategies that need to be deployed? Increasing firm value substantiates a manager's ability to perform and accomplish corporate goals. An increase in firm value indicates the good prospect of the company so that it makes investors interested to invest, so that it increases its stock price (Widodo & Kurnia, 2016). Investment policy is one of the most important financial policies linked with other corporate decisions that are fundamental to increase company value. At its core, an approach to investment is about how available financial resources ought to be deployed. The investment techniques, immediately influence on the amount of the returns on investments and cash flows of a firm in subsequent periods. Corporate investment seeks to maximize shareholder wealth both now and in the future. Investment decisions involve several major vars, including capital investment and determining the right combination of assets. Apart from making investment and financing decisions, dividend policy is another major problem that is usually encountered by firms. The cash available to the company together with how easily it can meet both short- or long-term obligations (see:liquidity of a firm), affects the investment policies taken up by firms. Having a proper liquidity is important for companies to prevent their operation from being disrupted, enable investment activities to flow smoothly, and for external stakeholder confidence to remain strong as well (Hidayat, 2010).

Investment policy refers to a financial plan that concerns the conversion of funds into stock, property, plant and equipment to advance operating or non-operating income in later years. Improved conditions for existing and future investors as a result of good investment policies can help improve company performance in the market, which will impact the company's share price. Investors value the company as book value versus market price. If a company has book value that is greater than its share price, then the shares may be considered as undervalued and indicating the company's performance is not properly rewarded by the market. If a company trades at higher price than its book value, it means investors have positive outlook or the company is performing well from shareholders point of view. These good perceptions of the market can be

followed by increasing the price of common shares in a company (Harmono, 2011).

There are different studies with diverse results on the effect of investment policy on value of quoted firms. Previous research supports the finding of a positive effect of investment policy on firm value (Adam & Quansah, 2019). However, other studies also show that investment policies in the form of capital expenditures and research and development expenses have the potential to increase litigation risk (Malm et al., 2017). Litigation risk affects company performance in the form of falling profits, reducing the amount of cash available, increasing social costs such as due to environmental pollution and conflict, increasing employee demands for work safety, and others (Aktas et al., 2014; Baños-Caballero et al., 2014). In contrast, the research findings of Claessens et al. (2014), Mubyarto and Khairiyani (2019), and Du et al. (2018) showed that investment policy does not affect firm value. From the above divergences, this study examined the effect of investment policy on the market value of quoted manufacturing firms in Nigeria.

Literature Review

Investment Policy

Among the different forms of corporate financial policies, there are three major types: investment policy, financing policy and dividend policy; theoretically, however, investment policy is the most important because it serves as a foundation for business operations and future growth. Bodie, Kane and Marcus (2008) noted from their survey that NPV is increasingly used in practice as an investment appraisal tool. Over half of the respondents used the company's overall cost of capital to appraise international projects—despite the fact that individual project risk may differ from firm's overall risk, they said. According to Besley and Brigham (2008), large firms more typically use Net Present Value (NPV) calculations and the Capital Asset Pricing Model (CAPM) to assess whether investments are worth making, but smaller firms still rely on the payback criterion. The authors conducted an international survey to investigate both the widespread use of established investment appraisal criteria and similarities in their applications across firms. Since investment policy has a direct impact on firm value, this shows how important it is to understand how corporate managers view the companies that they run. From a psychological perspective based on identification with the firm as well as their self-interest in placing high value over personal inputs in the success of that firm, one would expect most managers to view their firms as undervalued. Another key problem in finance theory relates to the risk measures that corporate managers take into account when deciding whether or not to engage in new investments.

CAPM indicates systematic or market risk coefficient (Beta), while total risk (Sigma) — which consists of both systematic and firm specific risk, the specifics can be diversified away. Apart from the two frequent used risk measures, Beta and Sigma respectively, there might be cases in which exclusively survival is what a corporate manager prefers instead of an increase of shareholders wealth. In such a situation, one of the possible risk indicators is a measure of an inability to break even on an investment. Such a risk measure aligns with an objective of surviving, as it focuses on the probability that an investment does not earn its cost. Moreover, the choice of an appropriate cost of capital for valuing project cash flows is a crucial factor in valuation. As per financial theory, corporations should normally use the weighted average cost of capital (WACC) as a discount rate to evaluate investments. Yet, if the risk of a particular project or division does not reflect that of the corporation as a whole, an appropriate measure of investment profitability is the cost of capital associated with only that specific project or division.

Investment means sacrificing consumption now to get more benefit or consumption in the future; hence it is deferrable. An investment decision is optimal if the timing and allocation of consumption maximize expected utility. Maximizing the utility of consumption or an investment, as Fama & Miller (1972) would make clear to us which indicates the postponement of consumption= benefits from use the funds for current consumption. Hence, one of the most important financial decisions affecting firm value is investment. Fama (1974) views firm value as being dependent on investment decisions, and hence also abstracts from questions of dividend policy within corporate finance. This view holds that investment decisions are relevant because if the goal of maximizing firm value is achieved, it results in an equally increased wealth of the owners through the returns provided by the firm's investments. The corporate investment decision generally aims at maximizing profitability with least possible risk.

With a sustainable level of profit and risk to the extent that is under control, firm value is expected to increase. If a firm can invest appropriately to maximize profits efficiently with its assets, this will increase investor confidence and encourage investment in this firm through the purchase of shares and ultimately positively impact the market value of a company. Investment decisions in this research are represented by investment on fixed assets which is also called capital expenditure, such as land or property, buildings and equipment. Capital expenditures refer to funds that firms use in the advance or upgrading of assets which are believed to return economic benefits more than a

year (Brigham & Ehrhardt, 2013). Thus, optimal CAPEX decisions are critical to ensure firm resources allocated to transformation-oriented investments that yield revenues from sustainable sources and increase future firm value.

Whenever a firm wishes to invest in fixed assets, the assets under consideration should be examined carefully before making an investment. The investments in fixed assets have to be consistent with the overall plans, strategies and objectives of the firm. In management's decision to invest in fixed assets, the expected benefits, estimated cost and risk provided managers with a basis for deciding whether an investment is worthwhile in terms of improving the value of a firm. Assuming that the investment itself is a good one, the firm needs to concentrate on its implementation and management in order for the project to add value to the firm. Investors (i.e., shareholders) evaluate the profitability of investments undertaken by the firm and will positively respond to announcements of such investments if they yield the desired rewards, leading to improved performance at the firm level.

If an investment loses money (or does not provide the expected return), investors are likely to react poorly. This aligns with Dewenter et al. (2010), Hsiao-Fen et al. (2011), Chang et al. Golec and Gupta (2014) or Aktas et al. Also, Alloway and Brown (2015), and Abreu (2016) find that investment decisions positively affect firm value. It is hypothesized based on this evidence that investment decisions are positively correlated with firm value in the overall sample and for both high- and low-value firms. The basis of agency theory is the disagreement of interests between managers, acting as agents, and owners or shareholders of the firm, who act as principals. Agency theory assumes that firms are a set of contracts between managers and owners. The owners appoint a manager to run the firm, and managers may favor policies that they believe maximize their welfare at the expense of shareholder wealth. As a result, managers may take advantage of incentives transferred from owners to manage the firm for their own interests at the expense (Jensen and Meckling, 1976). In fact, we can see agency theory as a subtype of game theory which defines a contract between two or more parties (agents and principals).

Agency theory is concerned with the relationship between agents (often referred to as management) and principals or shareholders (Jensen, 1986). Delegation of Mottos to managers because shareholders expect that for as long as their interests are concerned will be taken care of by them in the way the principals want. Accordingly, it is the managers which owe a duty to shareholders and thus must make good business choices likely to boost shareholder wealth and maximize efficient resource use by the firm. Finally, agency theory presents a guiding framework for

examining contractual relationships between principals and agents (Jensen, 2003). To reduce the likelihood of managers acting in a way that is contrary to the interests of outside investors, two principal mechanisms are: monitoring by at least some outside investors [or principals] as opposed to no monitoring at all and restriction or limitation on managerial action through bonding mechanisms. On the one hand, these mechanisms lower the risk of managerial opportunism and thus have a potential value increasing effect on the firm. Conversely, both monitoring and bonding incurs costs that could ultimately destroy firm value.

Even with those mechanisms, however, investors try to predict the monitoring and bonding costs, along with residual losses. Thus, agency costs will encompass all of the following: the expenses or losses that have arisen from the contractual relationship established between principal and agent; monitoring by the principal; bonding undertaken by the agent or manager; and residual losses stemming from managerial actions or decision-making. Liquidity: The financial management of a firm represents another variable, which also needs to be taken into consideration. In other words, it indicates the ability of a firm to meet its near-term financial obligations as they come due. If a firm has enough liquidity to promptly satisfy its obligations then it is said to be solvent. A firm that can meet its future financial obligations is signalling to potential external investors that it is in good financial shape and has effective financial management. The improvement in investor confidence might motivate investors to buy into the firm shares, and thus, help increase the value of the firm. From the perspective of an agency theory, Jensen & Meckling (1976) suggested that managers would prefer to use internal financing sources [i.e., internally generated cash flows] to finance investment activities directed towards value-increasing projects. This was a similar form of governance that could also help managers reduce the monitoring of outsiders and direct agency costs.

Idle cash flow — or free (uninvested funds) cash flows, in large pools, can allow managers to be accused of misusing corporate resources for private benefit. Hence, firms would employ cash flow available to them to fund real-operating gap and investments so as to maximize firm value. Internal financing sources accessed by managers for investment can lead to increased firm value. Best Practice is also affected by information asymmetry among agents vs principals on corporate activities and publicly available information (Ross, 1973). Based on previous Chen et al. Trainin and Laufer (2009), Ye et al. The liquidity has positive effect on firm value (2010)

Firm Value

The value of a firm can be determined by the profits which an individual company generates that yield returns to shareholders (Barron, 2002). Firm performance is defined

as how well a firm achieves its objectives and can be also attached to measure the state of financial condition in the short time period. Financing concept would be helpful by quantifying firm value in order to have better understanding of the movement and absorption of funds, something related to financial management effectiveness and efficiency. This sort of information additionally helps managers while taking important business decisions. Stakeholders are sensitive to the reputation of firms with high value and hence tend to buy its shares more readily due to their belief in superior performance. The stock price of a firm can also increase when demand for their shares increases and these factors together will result in enhancement of the value of the firm. Higher profitability allows institutions better to weather negative economic shocks and further stabilizes them financially. The firm value maximization allows to attain the maximum wealth for shareholders through dividends and also encourages stakeholders attention towards corporate social responsibility (CSR) programs (Bhutta & Hasan, 2013).

Stock Price

Market share price is the price at which a company market assigns its shares. Price fluctuation stocks are the amount of change from a stock price and are generally applied as an indicator to those financial portfolios at risk. In his classic study stock prices and dividends, Shiller (1981) demonstrated that changes in stock prices could not be fully explained only by the time variations of dividends, thus we conclude that the volatility of stock prices are bigger than based on this model. Stock returns have been well documented to possess properties like volatility clustering, leptokurtosis and asymmetry in a number of studies. We refer to a market phenomenon¹⁷ called volatility clustering, which is: "large changes in stock prices are followed by large changes but of either sign, and small price changes tend to be followed by small price changes" (Mandel 1963; Fama 1965; Black 1976). According to Ajao (2012), Recent studies have tried to characterize the behavior of financial market returns, which can be typically described in a combination of drift and volatility.

The instability of stock prices can disrupt the operation of financial systems and have a negative impact on economic performance (Rajniand, 2007; Mollah, 2009). A lot of the time it's used as a measure for market trend. The stock price volatility rises when new information comes to the market, but the levels of rise vary depending on how important this news is and in what proportion investors are surprised by it. This has led to the emergence of different theories explaining what causes stock market volatility. A common belief among financial economists is that volatility reflects new, unexpected information on investors expectations about stock returns (Engle, 1982). Some have argued that

the major determinants of volatility are changes in volume, trading patterns and practices reflecting macroeconomic policy changes that determine risk tolerance, as well as increased uncertainty about current fundamentals (Rajni and Mahendra, 2007)

These features are normally taken as signals of rising economic risk, which will have a bad effect on their consumers property and riches. Through volatility clustering investors may be unwilling to hold stocks due to levels of uncertainty. Volatility of firm-level stock returns is of concern to both managers as well as shareholders. High volatility can increase the perceived riskiness of firm and therefore its cost of capital (Froot et al., 1992). Second, high volatility can be operative in numerous internal agency relationships within the firm by exacerbating conflicts between stockholders and bondholders and incanting firms to make resolving ex post conflicts between shareholders and managers even harder (Baiman & Verrecchia, 1995). Third, past research indicates that volatility-based investment strategies lead to statistically and economically significant abnormal returns (Hodrick et al., 2006).

Earnings per Share

Earnings per share (EPS) is a financial ratio that measures the earnings attributable to each outstanding share of a firm. It is generally calculated by dividing the profit available to ordinary shareholders by the total number of outstanding shares. EPS indicates the amount of profit generated for each share during a given period and represents the shareholders' proportionate claim on the company's earnings. As earnings increase consistently over time, the value attributable to each share may also increase, potentially leading to higher demand for the firm's shares and an increase in its market price. However, the issuance of additional shares can dilute existing shareholders' residual ownership and reduce earnings attributable to each share if the increase in shares is not accompanied by a corresponding increase in earnings. Tze-Sam and Heng (2011) provided empirical evidence using EPS as a proxy for corporate performance to examine its relationship with financial structure. The measure is derived as follows:

$$\text{EPS} = \frac{\text{Profit before Interest and Tax}}{\text{No of Outstanding Shares}}$$

Theoretical Review

Keynesian theory of Investment

John M. Keynes and Irving Fisher, both stated that investments are made until the opportunity cost of capital is equivalent to the present value of expected future earnings. Investment is carried out until the point where the net present value is zero. An investment is projected to result in a stream of future cash flows $C(t)$. Investment I , is an

outlay at time 0. This can be written as negative cash flow, $-C_0$. The net present value can now be expressed as:

$$NPV = -C_0 + \int_0^{\infty} C(t)e^{-gt} dt \quad (1)$$

Where, g denotes growth rate and r the opportunity cost of capital (discount rate). As long as the expected return on investment, i , is above the opportunity cost of capital, r , investment will be worthwhile. When $r = i$ the $NPV = 0$. The return on investment, i , is equivalent to Keynes' marginal efficiency of capital and Fisher's internal rate of return. From equation (1) the PV of an investment, I , can be written as $C_1/(r - g)$, implying that $PV/I = 1$.

Fisher called the discount rate, the return on costs or internal rate of return, while Keynes referred to it as marginal efficiency of capital (Baddeley, 2003). The main difference between the two is how they measure risk and uncertainty and form expectations. Keynes never saw investment as a process tending toward equilibrium. On the other hand, Hayek (1941) and Fisher (1930) viewed investment as a process of best adjusting path toward the best capital stock level. Investment is not driven by an underlying optimal k , and the central role here is played genuinely or radically uncertain nature of uncertainty in Keynesian theory. According to Keynes, "animal spirits" influence how humans behave and irrational and volatile expectations mean that investment should not be seen as an easily predictable process of gradual adjustment toward an equilibrium.

Modern investment theories are based on the principles of Keynes and Fisher, with some elements from each branch mixed together. The net present value (NPV) rule has established itself as a accepted component of corporate finance and investment decision-making. Neoclassical theory of investment largely took the form of formalization of ideas associated with Fisher, and more importantly his work on subjective probabilities was indicative for later probabilistic models like those commonly used by modern macroeconomists (Keynes's own writings likely did not aim to be examples of innovative mechanisms). Keynes had an impact on accelerator theory of investment, and thus its application in business-cycle analysis by Samuelson (1939). In addition, Tobin and Brainard build upon some of Keynes ideas in their modelling framework for expectation-based investment decisions (Brainard & Tobin, 1968) embodied in Tobin's Q . This direction of theoretical development is also followed by the methodology for measuring marginal q initiated by Mueller and Reardon (1993).

Simple Accelerator Theory of Investment

The accelerator model is due to Clark (1917) who argued that the demand for fixed investment is not a function of the volume of demand for the final product but rather of the acceleration of aggregate demand. The simple accelerator theory states that an increase in the rate of output or demand of a corporation will entail a commensurate increase in

business equipment spending. Thus, the simple accelerator means that the bigger the firm's output and sales relative to capacity utilisation the greater will be the firm's fixed investment spending on fixed investment. If we assume the capital-output ratio is some constant K , then the optimal capital stock is a constant proportion of a firm's output such that at any point in time t_m $C^* = KQ_{tm}$. is the ideal capital stock in period t_m , is the positive constant accelerator and is output in period t_m .

The accelerator theory thus draws attention to the relationship between the capital stock C^* and the flow of production Q_{tm} and suggests that the demand for capital goods is derived not from consumers' products but from any direct demand on national output. Therefore, any change in a firm's output will mean changes in the quantities of business equipment and machinery necessary by the firm. If firms invest in business equipment in period t_m to achieve their target stock of fixed capital C_{tm+1} in period t_m+1 , then, assuming zero depreciation, the investment behaviour of the firms is described by $I_{tm} = C_{tm+1} - C_{tm}$. But as $C_{tm} = C^*t_m$ the equation can be simplified to $I_{tm} = \delta (Q_{tm+1} - Q_{tm})$.

The simple accelerator is based on the idea that corporations would add additional productive equipment when they wish to enhance output. The model forecasts that fixed investment is a linear function of the rise in output in the next period. If we assume that business expectations, profitability and costs of borrowing or costs of capital are insignificant factors in business fixed spending decisions, apart from holding a firm's price constant, then the accelerator theory of investment behaviour approaches to a simple Keynesian model of investment behaviour.

Flexible Accelerator Theory of Investment Behaviour

The flexible accelerator model of investment behavior is based on the premise that the larger the gap between a firm's existing capital stock and its desired capital stock, the greater the firm's rate of investment (Hicks, 1956; Eisner et al., 1963; Goodwin, 1948; Junankar, 1972). The model assumes that, for any given level of output, there is an optimal or cost-minimizing level of capital required by the firm. The desired capital stock can be expressed as $C^* = \alpha Y_{tm}$, where α represents the capital-output ratio, which generally depends on the relative prices of capital and labour, while Y_{tm} denotes the level of output at time t_m . However, unlike the simple accelerator model, in which the capital-output ratio is often assumed to be constant, the flexible accelerator model allows the ratio to vary in response to changes in output and other economic conditions.

Unlike the simple accelerator model, the flexible accelerator theory proposes that firms do not undertake a

one-time expenditure on business equipment within a given period. Instead, firms seek to close a proportion of the gap between their desired capital stock (C^*) and actual capital stock (C_{tm-1}) in each period in response to changes in output and product demand. The desired or optimal level of investment represents the level of fixed capital stock that firms aim to achieve in the long run to support the growing demand for their products (Hicks, 1956). This relationship can be represented by the net investment equation $I = \alpha(C^* - C_{tm-1})$, where I represents net fixed investment expenditure, C^* denotes the firm's desired capital stock, C_{tm-1} represents the fixed capital stock in the previous period, and α is the partial adjustment coefficient. The equation indicates that when a gap exists between the actual and desired capital stock, firms seek to eliminate a proportion of that gap in each period through incremental investment in productive capacity.

Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH) is a very popular concept in finance originally introduced by Eugene F. Fama in the 1960's. Hypothesis that you can never have consistent returns in expects stock prices to quickly adjust and reflect all information which may lead to an increase or decrease in the value of a stock Market efficiency is a theoretical concept, which generally has three forms: weak-form (Dupernex, 2007), semi-strong-form and strong-form efficiency. Weak-form efficient– Market prices in the past price and financial information with respect to stock prices therefore investors cannot beat market consistently by technical analysis. Warren Buffet, Semi-strong-form efficiency occurs when stock prices already reflect all information publicly available, thus investors cannot consistently earn abnormal returns by analysing published information. This directly correlates to the second level of market efficiency called strong-form, which claims stock prices fully reflect all public and private investigation information (or insider information)- thus nobody can continuously beat the market with unpublished point data in hand (Al-Shamali, 1989). According to many scholars, most financial markets are semi-strong-form efficient.

Empirical Review

Investment policy relates to the agent's policy of spending resources on types of assets that provide benefits in the future (Ningrum, et al., 2024). Mining sector investment policies are vulnerable to litigation risk and economic risk (Lasmana & Ashariah, 2019). Litigation risks of investment policies include lawsuits due to pollution, claims from affected communities, claims from labor unions, claims from non-controlling investors who do not play a role in supervision, demand dynamics from international markets and others. Using agency theory, investment policy should

generate benefits for investors through the selection of productive assets. Asset productivity is expected to support maximum profits for the company and increase firm value (Hughes et al., 2018). However, sometimes investment policies result in negative net present value and overinvestment (Trong & Nguyen, 2021). For this reason, in order to ensure that the investment policy has been carried out in line with the interests of the principal, a monitoring mechanism (Grazzi et al., 2016; Trong & Nguyen, 2021), disclosure (Embong et al., 2012; Gahramanova & Furtuna, 2023) and incentives (Datta, 2020; Indasari & Yadnyana, 2018; Rahayu et al., 2019; Sugeng, 2017) are needed. Monitoring is a supervisory mechanism to ensure that the realization of investment policies is profitable for the principal. The monitoring mechanism is carried out through the implementation of management (Bimo et al., 2022; Huang et al., 2015). Disclosure is a mechanism to report the progress and impact of investment decisions openly in the company's annual report. Furthermore, the incentive mechanism is a reward for the agent for choosing investments that benefit the principal. The mechanism mentioned above results in an increase in agency costs. For this reason, this study formulates the hypothesis that optimal investment policy can increase firm value (Alza & Utama, 2018; Dewi, 2021; Guariglia & Yang, 2016).

The existence of leverage as a source of funding has the potential to create agency conflicts because agents are forced to act in the interests of the principal. Leverage as a source of funding is useful for monitoring agent behavior in terms of limiting the use of free cash flow for unproductive agent policies (Almustafa & Kalash, 2022; Williams, 1987). Erkan and Nguyen (2020) added an explanation of the existence of leverage creating a joint supervisory mechanism, creditors and investors, for agents. For agents, the existence of leverage provides benefits in the form of reduced taxes paid due to debt burden. The next benefit is that debt funding sources can be utilized to support investment policies (Indasari & Yadnyana, 2018) without issuing new shares. Another benefit of debt funding sources is that it increases the success of agents who are considered capable of managing assets as collateral. Research by Bizri *et al.* (2017) and Purba and Africa (2019) showed a different direction of findings, which indicated that debt funding sources, had a negative effect on firm value. The greater the level of leverage on equity, the greater the debt burden in a fixed amount throughout the life of the debt. Long-term debt pressure for a long time can cause potential financial distress (Fauziah & Hardiyanti, 2022).

Another factor that affects firm value is asset management. Asset management is an agent policy to manage assets effectively and efficiently (Ningrum, *et al.*, Lima et al., 2020).

Asset management aims to optimally utilize assets to improve firm performance (Bates et al., 2009; Isshaq *et al.*, 2009; Le, 2019). Firm performance is translated into profitability, firm value, and risk. Profitability derived from asset management describes the ability of assets to generate profits. Profitability derived from asset utilization is measured using return on assets (ROA) (Iswajuni *et al.*, 2018; Mohammed & Ani, 2020). Firm value is the investor's economic expectation of invested resources. Investor resources are usually one of the sources of funding that supports investment policy. The more optimized investors get the return generated from their investment, the higher the company value. Return on investment (ROI) is a measure of investors' expected returns. Research by Banamtuan et al. (2020) found that the role of ROI strengthens the effect of asset management on stock prices. The next impact of asset management is on risk. Asset management is vulnerable to non-optimal asset utilization, thus burdening the company with asset costs. Therefore, the effectiveness of asset management which is characterized by increased revenue must exceed the cost of assets (Adita & Mawardi, 2018). Asset management is prone to conflicts because it is full of conflicts of interest (Spatt, 2020). Increasing supervision and formulating incentives in the form of bonuses or managerial ownership (Chindasombatcharoen *et al.*, 2023) can reduce differences in interests between principals and agents. Previous research found a positive effect of asset management on firm value. The more optimal asset management is, the higher the profit generated, causing the stock price to increase (Adita & Mawardi, 2018; Mohammed & Ani, 2020; Purbawangsa et al., 2019; Rahayu, 2019). Findings of the above studies remained inconclusive; therefore this study examined the effect of investment policy on market valuation of quoted firms in Nigeria.

Methodology

Research Design

This study adopted an Ex-facto research design to explore the relationship between corporate investment policy and value of listed manufacturing enterprises in Nigeria. The reason for this design was because the researchers felt it was suitable, as they could not influence the responses and alter sample individuals.

Population of the Study

For the secondary data used for this study, the population consisted of 63 quoted manufacturing firms listed on the Nigerian Exchange Group within the period of 2016 to 2025 financial years.

Sample and Sampling Techniques

The secondary data was based on a sample size of 15 quoted manufacturing enterprises picked from the population through stratified and easy selection approaches. This was achieved by segmenting the population into five (5) strata from which fifteen (15) firms were selected from strata by

way of a random selection process. The choice of these sampling approaches was dependent on data availability.

Sources of Data

The data for this study are secondary data sourced from the financial statement and annual reports of the selected quoted firms.

Model Specification

From theories, principles and empirical findings, the models below are specified in this study.

$$SP = \beta_0 + \beta_1 SIP + \beta_2 SUI + \beta_3 PI + \beta_4 LTI + \mu \quad 1$$

$$EPS = \beta_0 + \beta_1 SIP + \beta_2 SUI + \beta_3 PI + \beta_4 LTI + \mu \quad 2$$

Where

SP = Stock prices of the quoted manufacturing firms proxy by end year trading price

EPS = Earnings per share of the quoted manufacturing firms

SIP = Short term portfolio investment

SUI = Subsidiary investment

PI = Portfolio investment

LTI = Long term investment

β_0 = Regression Intercept

$\beta_1 - \beta_4$ = Coefficient of the independent variables to the Dependent variable

μ = Error term

Empirical Results

Table 1: Presentation of Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Investment Policy and Stock Prices				
SIP	1.439808	0.090909	3.768095	0.0092
SUI	-0.001612	0.016107	-0.100054	0.9204
PI	0.013258	0.017999	4.736605	0.0000
LTI	0.003073	0.019169	0.160321	0.8729
C	1.158345	0.183932	6.297664	0.0000
	Effects Specification			
			S.D.	Rho
Cross-section random			0.084865	0.3283
Idiosyncratic random			0.121378	0.6717
	Weighted Statistics			
R-squared	0.724712	Mean dependent var		0.523021
Adjusted R-squared	0.602379	S.D. dependent var		0.121133
S.E. of regression	0.120946	Sum squared resid		2.106419
F-statistic	4.912182	Durbin-Watson stat		1.088621
Prob(F-statistic)	0.008662			
	Unweighted Statistics			
R-squared	0.513798	Mean dependent var		1.265685
Sum squared resid	3.036451	Durbin-Watson stat		0.779431
Correlated Random Effects - Hausman Test				
Equation: Untitled				
Test cross-section random effects				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		2.968292	4	0.5631
Investment Policy and Earnings Per Share				
SIP	0.016356	0.038289	0.427173	0.6700
SUI	-0.054333	0.036766	-1.477798	0.1419
PI	0.020692	0.034049	0.607727	0.5444

LTl	-1.987808	1.69E-08	-1.175419	0.2420
C	0.576913	0.370285	1.558027	0.1216
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.728406	Mean dependent var		0.445667
Adjusted R-squared	0.691088	S.D. dependent var		0.445399
S.E. of regression	0.247552	Akaike info criterion		0.163505
Sum squared resid	8.027958	Schwarz criterion		0.544852
Log likelihood	6.737107	Hannan-Quinn criter.		0.318434
F-statistic	19.51877	Durbin-Watson stat		1.181122
Prob(F-statistic)	0.000000			
Correlated Random Effects - Hausman Test				
	Chi-Sq.			
Test Summary	Statistic	Chi-Sq. d.f.	Prob.	
Cross-section random	16.597209	4	0.0023	

Source: Extract from E-View Window, 9.0, 2026

For Model I, the probability value of the Hausman test is 0.5631, suggesting that it is higher than 0.05 significance level ($t \geq (q/2)$), meaning that it is not necessary to change from fixed to random effect model so this Model will be kept in consideration for later stage of analysis. Thus, we accept the null hypothesis and reject alternative hypothesis indicating a good fit of Random effects model for our study. In the case of Model II, the Hausman test probability is $0.0023 < 0.05$. As a result, the null hypothesis is rejected and alternative hypothesis is accepted that fixed-effects model fit for panel data. The outcome measures for Model I indicated that the independent variables could explain 60.2% ($R^2=0.602379$) of the systematic variations associated with stock prices of quoted manufacturing firms during the study period, while 39.8 % can be attributed to other factors outside model one. The F-statistic corresponding probability value shows that the model is statistically significant. Likewise, the Durbin-Watson statistic also indicates that there is no autocorrelation in the model structure. The regression intercept now suggests that the stock price of the quoted manufacturing firms, ceteris paribus, was expected to rise by 1.15 units. In the beta coefficients, in contrast to subsidiary investment that has a negative relationship with stock price, portfolio investments (both short-term and long-term) and long-term investment have positive relations. The p-value results, eventually show that short-term portfolio investment and long-term portfolio investment are significant while long term investment and subsidiary investment are not statistically significant.

In Model II, the explanatory variables contribute to 69.1% of the systematic variation in the earnings per share of quoted manufacturing firms during that chosen time period when viewed using an adjusted R^2 of 0.691088, this can be

interpreted as all factors not included in the model explains approximately 30% (i.e., $100\% - 69.1\%$) of variation in EPS. F-statistic and p-value suggests that the model is statistically significant and Durbin-Watson statistic indicates that the results are free of autocorrelation. This measure represents earnings per share of the quoted manufacturing officers when the explanatory variables are held constant at zero, indicated by a value of 0.576 in the regression intercept. Based on the beta coefficients, the direct relation to earnings per share are long-term investment and subsidiary investment; short term portfolio investment and long-term portfolio investment have negative direct relationship with earnings per share. But probability values tell us that no independent variable affects earnings per share significantly.

Discussion of Findings

The dependent variables in this multiple regression model were the stock price as derived from the results obtained in Chapter Three of this research. The result suggests that the systematic variation in the stock prices of manufacturing firms listed is at 60.2% which indicates that investment policy (wherein it refers to activities) explains just over five times the adjusted R^2 on their stock price. The F-statistic and its p-value suggests that the overall model is statistically significant whereas the Durbin-Watson statistic assures us of autocorrelation free regression. Results also show a positive significant relationship between quoted manufacturing firms stock prices and short term portfolio investment for the study period It can be found that a 1-unit increase in short-term portfolio investment will lead to a 1.4% increase in stock prices, and the confidence interval is (0.727, 2.010) with a significance level of less than 0.05 at the time of estimation. This direct

relation is in line with the study's a priori expectation and supports investment theories. Both Keynes and Fisher asserted that investments are made up until the present value of expected future returns on average equals the opportunity cost of capital at the margin, in other words till marginal net present value approaches zero. This positive association in this study echoes the findings by Nwala, Gimba and Oyedokun (2020) that dividend payout and equity issuance significantly impact on Tobin's Q as proxy for firm performance.

The result of the multiple regression also shows that long-term portfolio investment has a positive and significant relation with stock prices of quoted manufacturing firms over the study period. The estimated effect, increases in long-term portfolio investment results an increase of 0.01% in stock prices (See Table 4.3). This positive relationship is in line with the a priori expectations of the study and underpins investment theory. Neoclassical investment theories presume that investors will act to optimize, and neoclassical and Tobin's theories explicitly call for maximization of profit and firm-value. The accelerator theory similarly assumes that investment is a function of an optimum capital stock, whereby the level of net investment is undertaken until the expected returns equalise with cost of capital. This positive relationship observed in this study contradicts Okeke (2019) who found that capital structure measured by long term debt had negative and significant relationship with firm value, where as equity capital had a positive but insignificant effect on firm value.

Also, the finding shows that the long-term investment has a positively small positive and insignificant impact on the stock prices of quoted manufacturing firms over time. This estimated coefficient suggests that a one-unit increase in long-term investment leads to an increase of 0.03% in stock prices (Table 4.3). As per the a priori of the study, the positive relationship is consistent with both the neoclassical and Tobin's static investment theories of firm-value maximization leading to profit maximalisation. The accelerator theory also assumes that firms invest up to a desired or optimum capital stock and as such directly supports the hypothesis of both positive investment–firm value relationship. This finding is similar to the findings of Uzokwe (2019), whose findings supported the theory of capital structure by Gordon 1956.

While the coefficient analysis of multiple regression conducted indicates to some extent that investments in subsidiaries exert a negative influence on the stock prices of all quoted manufacturing firms throughout the duration of the study, but this is only true in insignificant degree. The estimated coefficient shows that 1 unit increase in subsidiary investment leads to a 0.01% decrease in stock prices (Table 4.3). The fact that the sign of this relationship

is negative contradicts the a priori expectation of our study and also what one would expect based on general investment theories predicting that productive investment should improve firm value. Negative subsidiary investment on stock prices may relate to bad business conditions, economic uncertainty, and shocks as financial crisis or other shocks can depress expected value in operations for a given subsidiary (Weaver et al., 2023). The result is also inconsistent with the findings of and further corroborates those of Uzokwe (2019) whose results supported Gordon's (1956) theory on capital structure.

The multiple regression models constructed in Chapter Three of this research had earnings per share as dependent variable. The results for the estimated model show that 69.1 per cent of variation in earnings per share is accounted for by investment policy with the 30.9 remaining percentage occurring from factors not included in our model (including measurement error, omitted variables and randomness). The F-statistic and its associated probability value indicate that the estimated regression line is statistically significant. In addition, the Durbin–Watson statistic shows that there is no autocorrelation in the model, reassuring us of our estimated results.

The predictive power of the model as represented by the multiple regression illustrated a statistically insignificant but negative correlation between short-term portfolio investment and earnings per shares of quoted manufacturing firms for the study period. The estimated coefficient suggests that a one-unit increase in short-term portfolio investment will lead to a reduction of 1.9 percent in earnings per share (see Table 4.3). The inverse impact of short-term portfolio investment on earnings per share is opposite to a priori expectations and contrary to the theory that productive investment leads to improved firm performance. This contradicts the findings of Nwala, Gimba and Oyedokun (2020) which revealed that for firms listed on the Nigerian stock exchange, dividend payout and equity issuance have significant effects on firm performance measured by Tobin's Q.

The findings also indicate that the relationship between long run portfolio investment and EPS of quoted manufacturing sectors is negative but statistically insignificant. The expected value of the coefficient suggests that an increase in long term portfolio investment by a unit decreases earnings per share by 0.05 percent (shown in table 4.3). This negative relation is in opposition to the a priori expectation and the general theoretical perspective that irrespective of corporate investment decisions—be it investment decisions into new projects, or any other forms of investments—they should always benefit firm performance as well as value creation. Nevertheless, the finding agrees with Okeke (2019) who carried out a study

on capital structure and firm value in Nigeria and found that capital structure long-term debt has a negative and statistically significant effect while equity capital has a positive but statistically insignificant relationship with firm value.

Additionally, the multiple regression results indicate that long term investment has a positive relationship with earnings per share of quoted manufacturing firms but statistically insignificant. The coefficient is also estimated to affect earnings per share per year by 0.016 percent with a unit increase of long-term investment. The direction is in line with the a priori expectation and confirms theories of investments that prioritize value and profit maximization. Neoclassical and Tobin's Q theories view investment decisions as based on profit or firm-value maximization, whereas the accelerator theory in effect considers investments to be a function of desired (and thus optimal) capital stock. As a result, this higher level of investment in the long run could strengthen productive capacity and thus future income. We found this finding to be in line with Uzokwe (2019), who also supported the relevance of Gordon's 1956 Capital structure theory.

In contrast, the regression results indicated that subsidiary investment has a positive but statistically insignificant relationship with earnings per share. The predicted coefficient reveals that a one percent increase of subsidiary investment increases earnings per share by 0.02 percent (Table 4.3). This positive association is in line with the a priori expectation and reinforces the theoretical notion that well-executed investments can lead to better performance of firms. The virtuous impact of subsidiary investment on earnings per share could be due at least partially to strategic investments policies, especially corporate diversification that perhaps allows a firm the mechanism to diversify its risks and gain access to new sources of revenue. Nonetheless, the discovery is contrary to that of Uzokwe (2019), whose findings affirms Gordon capital structure theory. On the whole, long-term and subsidiary investments are positively related to earnings per share but these effects are not statistically significant in the analysis period.

Conclusion

The findings show that the adjusted $R^2 = 0.602379$, implying that has% of the systematic variation in the stock prices of the quoted manufacturing firms were explain by independent variables which resulted to more than fifty percent (60.2%) while other50% or 39.8% is explained by variables not included in this model The findings revealed that while short-term portfolio investment, long-term portfolio investment and long-term investment has a positive relationship with the stock prices of quoted manufacturing firms, subsidiary investment is negatively related to stock prices. The coefficients of probabilities also

suggest that both the short-term portfolio investment and long-term portfolio investment are significant but showing a non-significant relationship with long-term investment and subsidiary investment respectively. The results for Model II reveal that the adjusted R^2 is 0.691088, suggesting that the independent variables account for only 69.1 percent of the systematic variation in earnings per share of the quoted manufacturing firms with the residual 30.9 percent attributed to extra-model factors. The results of this research discovered that both long-term investment and subsidiary investment have positive relationships with earnings per share, while short-term portfolio investment and long-term portfolio investment has negatively relationship with earning per share. On the other hand, all of the independent variables are found to be statistically insignificant when regressing against earning per share since their probability coefficients are > 0.05

Recommendations

- i. This needs top management's attention in determining the appropriate form and amount of investment, as well as continuing to provide a signal of the investment policy being made. So that investors see the income opportunities (returns) they will receive in the future.
- ii. Managers of the manufacturing firms should devote adequate time in designing long term investment policy that enhances firm's shareholder value. Again, the company should review its long-term investment strategies in order to reduce volatility in market prices and maximize the value of the company.
- iii. Manufacturing firms in Nigeria should adopt pecking order in other to finance their capital through equity assets.
- iv. management to improve the performance of the company is to carry out a policy to maximize the use of debt in capital spending activity, and the efforts to be made by management to increase the value of the company is through the funding policy.

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