

Investment Theory and Corporate Investment Decisions: A Theoretical and Empirical Review

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Abstract

This study examines the role of investment theory in shaping corporate investment decisions amidst increasingly complex and dynamic economic conditions. The research focuses on how various investment theory approaches influence corporate investment decision-making and their impact on firm value and market efficiency. This study is conducted through a systematic literature review of classical and contemporary investment theories, including Modern Portfolio Theory, the Capital Asset Pricing Model, and behavioral finance approaches. Furthermore, this study examines empirical evidence and the implementation of these theories in corporate practice, particularly in aspects of capital budgeting, dividend policy, and investment behavior. A cross-sector case study analysis demonstrates that the contextual application of investment theory contributes to improved corporate performance. The research findings emphasize the importance of integrating theoretical frameworks and practical strategies by managers, investors, and policymakers to encourage corporate value creation and improve market efficiency, while also opening up opportunities for further research development.

INTRODUCTION

Investment theory is a crucial foundation in corporate finance studies because it provides a systematic analytical framework for allocating corporate resources. This theory helps companies determine the most efficient investment options to achieve optimal returns with managed risk. Conceptually, investment theory encompasses the process of identifying, selecting, and evaluating various investment alternatives to ensure the company's funds are utilized productively. In practice, corporate investment decisions encompass a wide range of strategic activities, such as developing new projects, business expansion, mergers and acquisitions, determining dividend policies, and managing asset portfolios.

The application of investment theory plays a crucial role in corporate financial decision-making because it helps management understand and assess the relationship between risk and return. Based on investment theory, companies can make more rational decisions aligned with long-term strategic objectives. For example, Modern Portfolio Theory emphasizes the importance of diversification to mitigate unsystematic risk, while behavioral finance approaches explain how cognitive biases and psychological factors can influence the investment decision-making process (Farooq, Tabash, & Al-Naimi, 2022).

However, the ever-evolving dynamics of the global economy have made the investment decision-making process increasingly complex. Global market integration, accelerated technological innovation, and ongoing regulatory changes increase the level of uncertainty faced by companies. Furthermore, the development of sustainable investment concepts, such as socially responsible investing (SRI) and corporate social responsibility (CSR), has expanded the dimensions of consideration in corporate investment decisions (Landi & Sciarelli, 2019). This situation requires

companies to focus not only on financial goals but also on ethical and social aspects in their investment strategies.

In today's global economic context, corporate investment activities are no longer confined to the domestic sphere. Companies operate in an interconnected environment, where cross-border capital flows are increasingly free and competition is global. This globalization has significant implications for corporate investment strategies, as factors such as exchange rate volatility, geopolitical risk, and regulatory differences between countries are now crucial elements in investment evaluation (Zerbo & Hien, 2020).

In addition to globalization, rapid technological developments are increasingly complicating corporate investment decision-making. Companies are required to continuously adapt to technological innovations that have the potential to change market structures or even create new ones. The emergence of technologies such as artificial intelligence, renewable energy, and blockchain is encouraging companies to review their investment strategies to remain competitive. Investment decisions in this context are generally faced with a high level of uncertainty, as companies must predict the direction of technological developments, market dynamics, and changes in consumer preferences in the future (Kim & Kung, 2017).

In addition to financial factors, environmental, social, and governance (ESG) aspects are increasingly important in companies' investment decision-making processes. Investors and stakeholders demand that companies be accountable for the impact of their business activities on the environment and society. This situation encourages companies to incorporate sustainability principles into their investment strategies, although this often creates a dilemma between achieving short-term profits and creating long-term value (Wahba & Elsayed, 2015). This paradigm shift emphasizes the need for an investment theory approach that can accommodate multidimensional dimensions without neglecting a company's financial performance.

In addressing this complexity, investment theory serves as a crucial analytical tool for companies. Through a systematic methodological framework, investment theory assists management in evaluating risk, rate of return, and other factors influencing investment decisions. This enables companies to make more informed decisions consistent with their strategic objectives. However, the practical implementation of investment theory is not without its limitations. For example, although the Capital Asset Pricing Model (CAPM) is widely used to estimate the cost of capital, its underlying assumptions regarding market efficiency and investor rationality often do not fully reflect actual market conditions (Asker, Farre-Mensa, & Ljungqvist, 2015).

Given the complexity and diversity of corporate investment decisions in the modern era, this research aims to answer the key question of how various investment theories influence corporate investment decisions and their implications for firm value and market efficiency. This question is increasingly relevant given the ongoing debate about the limitations of conventional investment theory and the development of alternative approaches, such as behavioral finance.

By analyzing the influence of investment theory on corporate investment behavior, this study aims to provide a deeper understanding of how companies can improve their investment decision-making process to improve corporate performance and maximize shareholder value.

This research is systematically structured into several main sections to present a comprehensive study. Following the introduction, methods, and discussion, a literature review explores the conceptual foundations and developments in investment theory over time. This section covers classical approaches, such as Modern Portfolio Theory (MPT) and the Capital Asset Pricing Model (CAPM), as well as contemporary perspectives, including behavioral finance and ESG-based investment strategies.

The next section presents an empirical analysis of corporate investment behavior, highlighting the application of theoretical concepts to business practice. The discussion covers capital budgeting techniques, dividend policy, and various other investment decisions. Empirical

data is used to identify investment patterns and trends and to assess the effectiveness of the company's investment strategy.

Furthermore, this research is complemented by case studies from various industrial sectors to illustrate the application of investment theory in real-world situations. These case studies provide concrete illustrations of how companies navigate the complexities of investment decision-making and the extent to which their practices align with existing predictions and theoretical frameworks.

Finally, this study presents conclusions summarizing the main findings and discussing their implications for corporate management, investors, and policymakers. It also offers recommendations for further research. By linking the theoretical framework, empirical evidence, and practical examples, this study is expected to enrich our understanding of the role of investment theory in shaping corporate investment decisions.

In general, investment theory remains central to corporate finance because it provides an analytical framework that helps companies navigate the complexities of modern investment decision-making. However, the practical application of these theories often faces various limitations, such as economic uncertainty, the influence of behavioral biases, and the ever-changing dynamics of global markets. This situation underscores the growing need to develop more adaptive investment theories that can accommodate these complexities without compromising the goals of corporate value creation and market efficiency.

Through a review of various investment theory approaches, this research seeks to provide an overview of how these theories influence corporate investment decisions and their implications for corporate performance and market dynamics. By integrating conceptual analysis, empirical findings, and practical case studies, this research is expected to generate applicable and relevant insights for stakeholders in corporate finance decision-making.

Literature Review

Modern Portfolio Theory and Its Implications

Modern Portfolio Theory (MPT) is a key pillar in the development of contemporary financial economics, offering a systematic approach to understanding the relationship between risk and investment returns. Introduced by Harry Markowitz in the early 1950s, this theory changed the paradigm of investment management by emphasizing the importance of diversification, the balance between risk and return, and the concept of an optimal portfolio represented by the efficient frontier (Farooq, Tabash, & Al-Naimi, 2022). These concepts are not only relevant to individual investors but also have strategic implications for companies, particularly in capital budgeting and investment project selection.

Conceptually, MPT is built on three interrelated core principles: diversification, the risk-return trade-off, and the efficient frontier. Diversification aims to reduce unsystematic risk by spreading investments across a variety of assets with different risk and return characteristics. Through the right combination of assets, negative fluctuations in one asset can be offset by the positive performance of other assets, resulting in overall portfolio performance stability (Zerbo & Hien, 2020).

The principle of risk-return trade-off asserts that increasing potential returns is generally accompanied by increasing levels of risk. In the context of MPT, risk is measured by the variability or standard deviation of asset returns. Investors are assumed to be rational and will choose portfolios that provide the highest return for a given level of risk, or conversely, the lowest risk for a given expected return (Asker, Farre-Mensa, & Ljungqvist, 2015).

The efficient frontier concept describes a set of optimal portfolios that represent the best combination of risk and return. Portfolios located on the efficient frontier are considered superior because they maximize returns at a given risk level. Conversely, portfolios located below the efficient frontier are considered suboptimal because they fail to achieve an efficient risk-return

balance. For corporate managers, the efficient frontier serves as an evaluative tool in allocating investment resources according to the company's risk preferences and return targets (Kim & Kung, 2017).

The application of the MPT principle in a corporate context is particularly evident in the capital budgeting process and investment project selection. Capital budgeting involves prioritizing the use of a company's limited resources for long-term projects, such as product innovation, capacity expansion, and mergers and acquisitions. With the MPT approach, these projects are not only evaluated individually but also assessed for their contribution to the risk and return profile of the company's overall investment portfolio (Aharoni, 2015).

In practice, project diversification can help companies reduce their reliance on a single sector or market, thereby lowering their exposure to specific risks. Furthermore, understanding the risk-return trade-off allows managers to prioritize projects that provide the optimal balance between potential returns and risk levels. The efficient frontier can also be used as a benchmark to assess the effectiveness of a company's investment portfolio and identify opportunities for strategic improvement (McCahery, Sautner, & Starks, 2016).

MPT not only impacts investment decisions but also influences corporate financing policies. MPT principles can be used to optimize capital structure by balancing the use of debt and equity to minimize the cost of capital while maintaining financial risk at an acceptable level. This approach aligns with the company's primary goal of maximizing shareholder value through efficient resource allocation (Jiang, Kim, Nofsinger, & Zhu, 2015).

Despite its strong theoretical foundation, the application of MPT in corporate practice faces several limitations. One major challenge is the assumption of full rationality in decision-making. In reality, the behavior of managers and investors is often influenced by psychological biases, such as overconfidence, loss aversion, and following the majority, which can lead to deviations from optimal investment decisions (Nofsinger, 2017).

Furthermore, MPT relies heavily on historical data-based parameter estimates, such as expected returns, variance, and correlations between assets. In dynamic and competitive market environments, these estimates often contain high levels of uncertainty, which can reduce the accuracy of investment decisions based on MPT (Landi & Sciarelli, 2019). Other problems arise from agency costs and information asymmetry within the company. Conflicts of interest between managers and shareholders can drive investment decisions that benefit management rather than creating long-term value for shareholders. Information asymmetry also weakens the effectiveness of MPT-based investment strategies because not all parties have equal access to information (Wahba & Elsayed, 2015).

Furthermore, the assumption of homogeneous expectations in MPT is rarely met in practice. Corporate managers are often faced with limited information and high uncertainty, particularly when evaluating innovative or high-risk projects. This situation makes it difficult to consistently apply MPT principles, as the risk and return characteristics of investments cannot always be accurately measured (Farooq et al., 2022).

Several empirical studies have examined the impact of implementing MPT-based strategies on company performance and shareholder value. Asker et al. (2015) found that public companies tend to invest less than private companies due to short-term performance pressures, potentially hindering long-term value creation. This finding underscores the importance of aligning a company's investment strategy with MPT principles.

Another study by Kim and Kung (2017) showed that asset flexibility plays a crucial role in supporting the implementation of MPT, particularly under conditions of economic uncertainty. Companies with higher asset flexibility have been shown to be more adaptable to market changes. Meanwhile, McCahery et al. (2016) highlighted the role of institutional investors, who increasingly rely on MPT principles in governance and investment decision-making, which positively impacts company performance.

Jiang et al. (2015) also showed that companies that implement MPT-based investment strategies in a highly competitive environment have a greater opportunity to increase company value, because they are able to allocate resources more effectively to high-potential projects. Overall, Modern Portfolio Theory has made significant contributions to the development of corporate finance by offering a systematic framework for assessing investment risk and return. The principles of diversification, risk-return trade-off, and the efficient frontier remain relevant in investment decision-making, although their application faces various practical challenges. Therefore, integrating MPT principles with considerations of behavior, asset characteristics, and market conditions is key to improving the quality of corporate investment decisions and strengthening their relevance in the context of modern corporate finance.

Capital Asset Pricing Model and Corporate Finance

The Capital Asset Pricing Model (CAPM) is a fundamental model in corporate finance, widely used to analyze the relationship between risk and expected returns. This model plays a strategic role in estimating a company's cost of capital and supporting management in making rational investment decisions. By providing an analytical framework linking systematic risk to expected returns, the CAPM is a key pillar of modern financial theory. Therefore, this discussion of the CAPM covers the model's basic principles, underlying assumptions, challenges in its practical application, and empirical evidence regarding its influence on corporate investment decisions.

Conceptually, the CAPM explains that the expected rate of return on an asset is determined by the risk-free rate and the asset's systematic risk, as measured by the beta coefficient. Beta reflects the sensitivity of the asset's return to overall market movements, while the market risk premium represents the difference between the market return and the risk-free rate. Through this relationship, the CAPM provides a quantitative basis for assessing whether an investment adequately compensates for the risk it takes on.

In the context of corporate finance, the CAPM plays a crucial role in calculating the cost of equity, which is a key component of the weighted average cost of capital (WACC). The WACC is then used as a benchmark in evaluating the feasibility of investment projects, assessing company value, and supporting capital budgeting decisions. Using the CAPM, companies can assess whether the expected rate of return from a project is commensurate with the level of risk faced. Farooq et al. (2022) assert that the CAPM has made a significant contribution to corporate investment decision-making through its quantitative approach to measuring risk-adjusted returns.

The CAPM theoretical framework is based on several key assumptions. First, the model assumes an efficient market, where all available information is fully reflected in asset prices. Under these conditions, investors cannot consistently earn above-average returns without taking on additional risk. Second, the CAPM assumes that investors are rational and risk-averse, thus seeking to maximize utility through portfolio diversification to reduce unsystematic risk. Third, the model assumes homogeneous expectations, meaning that all market participants have access to the same information and similar views regarding the distribution of future returns (Zerbo & Hien, 2020).

While these assumptions simplify the analysis of the risk-return relationship, much criticism is directed at their simplicity. The concept of market efficiency, for example, is often questioned by the existence of various market anomalies such as momentum effects and value premiums. Furthermore, findings in behavioral finance indicate that investors and managers often act less than fully rationally due to cognitive biases and the use of heuristics, thus deviating from the basic assumptions of the CAPM. Nevertheless, the CAPM remains a benchmark model for assessing risk-adjusted returns and as a basis for corporate financial decision-making.

In practice, the application of the CAPM faces several obstacles. One major challenge is that beta measurements are generally based on historical data, so they do not always accurately reflect future risk. Beta values are also dynamic and can change with market conditions, industry characteristics,

and internal company factors, ultimately complicating the use of the CAPM in long-term investment decisions (Asker, Farre-Mensa, & Ljungqvist, 2015).

Furthermore, the assumption that market risk is the sole risk factor in the CAPM is considered an oversimplification of reality. Various studies have shown that asset returns are also influenced by other factors, such as company size, value, and momentum, as described in the Fama–French three-factor model and its extensions. These findings indicate that the CAPM has the potential to produce inaccurate estimates of the cost of capital when used alone (Kim & Kung, 2017).

The CAPM's reliance on the risk-free rate and the market risk premium also poses additional challenges. The risk-free rate, typically proxied by government bond yields, can fluctuate due to macroeconomic conditions. Meanwhile, estimates of the market risk premium are often subjective, depending on historical data, future expectations, and the time horizon used. The assumption of homogeneous expectations is also difficult to implement in practice, given that investors have varying risk preferences, information, and market perceptions, which can reduce the CAPM's predictive power.

Various empirical studies have tested the validity of the CAPM with mixed results. Some studies have found that the CAPM remains relevant in practice, particularly in assessing the cost of capital in capital-intensive sectors. Aharoni (2015), for example, shows that many companies continue to use a CAPM-based approach to evaluating investment opportunities due to its ability to integrate systematic risk into decision-making.

However, other studies have revealed the limitations of the CAPM. McCahery, Sautner, and Starks (2016) found that institutional investors tend to utilize alternative models, such as the Fama–French three-factor model, which is considered capable of capturing broader risk dimensions. Jiang et al. (2015) also showed that firms in highly competitive industries often do not fully adhere to CAPM-based cost of capital estimates, as strategic considerations are perceived to outweigh adherence to the theoretical model.

Behavioral finance approaches further enhance our understanding of the limitations of the CAPM. Nofsinger (2017) emphasizes that cognitive biases, such as overconfidence and loss aversion, can influence corporate managers' assessments of risk and return, resulting in investment decisions that do not always align with CAPM predictions. This suggests that psychological factors play a significant role in investment decision-making practices.

Nevertheless, the CAPM remains of significant practical value in corporate finance. This model provides a standard framework that facilitates communication between managers, investors, and other stakeholders regarding risk and return. Furthermore, the CAPM is often used as a starting point for more complex analyses, such as scenario planning and sensitivity testing.

Overall, the Capital Asset Pricing Model has made significant contributions to shaping corporate finance practice, particularly in cost of capital estimation and investment evaluation. While its assumptions and limitations continue to be the subject of academic debate, its simplicity and ease of application make the CAPM relevant. Empirical evidence suggests that a CAPM-based approach can improve the quality of investment decisions, particularly when combined with alternative models and behavioral insights. In an increasingly dynamic business environment, integrating the CAPM with other approaches is crucial for creating sustainable corporate value that aligns with market conditions.

Behavioral Finance and Investment Decisions

Behavioral finance developed as an approach that critiques conventional financial theory, which generally relies on the assumption of complete rationality and the availability of perfect information. This approach integrates psychological principles into economic and financial analysis to explain how emotional factors and cognitive biases influence investment decision-making. By highlighting these psychological aspects, behavioral finance explains why corporate

managers and investors often deviate from fully rational decisions, resulting in suboptimal investment decisions. Therefore, behavioral finance studies focus on key concepts influencing investment behavior, the role of behavioral biases in corporate investment decisions, and its contribution to explaining market anomalies and corporate investment performance based on empirical findings.

Within the behavioral finance framework, several key psychological concepts influence the financial decision-making process, including cognitive biases, heuristics, and the framing effect. Cognitive biases refer to systematic patterns of error in thinking that influence an individual's judgment and decisions. These biases often arise from the use of mental shortcuts or emotional responses, which can lead to less-than-rational financial behavior. Heuristics are simple rules that individuals use to expedite decision-making in complex or uncertain situations. While heuristics can enhance cognitive efficiency, their use also increases the risk of misjudgment. Meanwhile, the framing effect suggests that the way information is presented can influence investment choices, with the presentation of losses tending to encourage more risk-averse behavior than the presentation of gains, even when the information is substantially the same.

One of the most frequently discussed cognitive biases in the behavioral finance literature is overconfidence. This bias occurs when individuals overestimate their abilities and knowledge, leading them to take higher risks than necessary. Areiqat, Abu-Rumman, and Al-Alani (2019) show that overconfidence bias is common among investors and corporate managers, often leading to erroneous investment decisions, such as being overly optimistic about a project's potential returns or underestimating its risks. Furthermore, loss aversion bias describes an individual's tendency to prioritize avoiding losses over pursuing comparable gains, which can lead managers to retain projects that are no longer viable due to a reluctance to admit failure. Familiarity bias also plays a significant role, where individuals prefer familiar investments even when more profitable opportunities are available outside their familiar scope, thereby limiting diversification and increasing firm risk.

The existence of these behavioral biases has significant implications for corporate investment decisions. Overconfidence, for example, can lead managers to undertake large-scale projects without adequate risk analysis, ultimately potentially reducing company value due to inefficient resource allocation. Sattar, Toseef, and Sattar (2020) assert that overconfident managers tend to overestimate their ability to predict market conditions, resulting in overinvestment in projects with high levels of uncertainty. Similarly, familiarity bias can cause managers to overlook more promising investment opportunities simply because they fall outside their familiar areas, thus hindering corporate growth and diversification.

Loss aversion is another bias that has serious implications for corporate decision-making. Managers affected by this bias tend to continue allocating resources to failing projects rather than terminating them and redirecting investments to more productive alternatives. Kisaka (2015) emphasizes that the inability to accept failure can lead to misallocation of capital and hinder organizational growth. Furthermore, the interaction between cognitive biases and heuristics, such as the availability heuristic, can exacerbate decision-making distortions, as managers rely too heavily on readily recalled information or recent experiences without considering the full market context.

Behavioral finance also highlights the role of emotions in shaping investment decisions. Emotions such as fear and greed can influence market dynamics and corporate decisions. Fear often prompts managers to delay investments during periods of economic uncertainty, while greed can trigger excessive risk-taking during periods of rapid market fluctuations. Hirshleifer (2015) explains that emotions, when combined with cognitive biases, can lead to asset mispricing and suboptimal corporate investment strategies. Furthermore, herd behavior, the tendency to follow the actions of other market participants without independent analysis, can exacerbate market instability through the formation of speculative bubbles or excessive selling pressure.

Unlike traditional financial theories such as the Efficient Market Hypothesis (EMH), which assumes that asset prices reflect all available information, behavioral finance suggests that cognitive biases and emotional factors can lead to deviations from fully efficient market conditions. Market anomalies such as overreaction, lag reaction, and momentum effects are examples of phenomena that are difficult to explain with purely rational models. Overconfidence and herd behavior, for example, can contribute to the formation of asset bubbles, where prices move significantly away from their fundamental values. Gabhane, Sharma, and Mukherjee (2023) explain that anchoring bias and confirmation bias contribute to maintaining these conditions by causing investors to rely too heavily on initial information and only seek evidence that supports existing beliefs. Behavioral finance also provides explanations for other phenomena such as the equity premium puzzle and seasonality effects. The equity premium puzzle refers to the tendency of stocks to provide significantly higher long-term returns than government bonds, a phenomenon difficult to explain by traditional theories. A behavioral finance perspective attributes this phenomenon to biases such as loss aversion and short-term risk aversion, which lead investors to demand higher compensation for investing in stocks. Furthermore, framing effects influence investment behavior, whereby presenting performance information in a positive light can encourage stock purchase decisions even when the long-term outlook is not necessarily favorable (Kartini & Nahda, 2021).

Various empirical studies support the significant role of behavioral biases in influencing investment decisions and corporate performance. Nofsinger (2017) found that overconfident managers are more likely to engage in mergers and acquisitions, even though these transactions do not always create shareholder value. Overconfidence often leads to overly optimistic synergy expectations and an overestimation of integration challenges. Kumar and Goyal (2015) also show that behavioral biases influence investment decisions of both individual and institutional investors, leading to suboptimal portfolio allocations. Bakar and Yi (2016) assert that cognitive biases contribute to market inefficiencies and suboptimal corporate strategies, while Ahmad and Shah (2022) emphasize the importance of integrating behavioral finance perspectives into corporate finance practice to address the limitations of traditional models.

Given the significant impact of behavioral bias on corporate investment decisions, a systematic strategy is needed to mitigate this influence. One approach is to incorporate behavioral finance principles into managerial training and decision-making processes. By raising managers' awareness of potential biases, companies can encourage more objective decision-making. Implementing structured decision-making frameworks, such as scenario analysis and sensitivity analysis, can also help mitigate the influence of emotions and cognitive biases.

Furthermore, the use of technology and data analytics plays a crucial role in supporting more rational investment decisions. Advanced analytics and artificial intelligence enable large-scale data processing to objectively identify market patterns and trends, reducing reliance on subjective judgment. Diversity within decision-making teams can also help mitigate bias by providing diverse perspectives and reducing the tendency for groupthink.

Furthermore, behavioral finance emphasizes the importance of organizational culture in shaping the quality of investment decisions. Companies that instill values of prudence, risk management, and a long-term orientation are more likely to mitigate the negative impacts of behavioral biases. An organizational environment that encourages critical thinking and open discussion will improve the quality of investment strategies and overall company performance. Overall, behavioral finance makes important contributions to understanding the psychological factors that influence corporate investment decisions. By identifying the role of cognitive biases, heuristics, and framing effects, companies can better navigate the complexities of financial decision-making. While behavioral biases have the potential to reduce firm value and market efficiency, integrating behavioral finance principles into managerial practices can help minimize these impacts. Empirical findings demonstrate that managing behavioral biases is crucial for improving corporate performance and maintaining market stability, while also opening up opportunities for further research in corporate finance.

METHODS

This research uses a descriptive qualitative approach, employing literature review and case study methods. This approach was chosen to analyze the role of investment theory in shaping corporate investment decisions, both conceptually and in its application to corporate finance practices.

The research data is sourced from secondary sources, obtained through a systematic review of corporate finance textbooks and reputable scientific journal articles discussing Modern Portfolio Theory (MPT), the Capital Asset Pricing Model (CAPM), behavioral finance, capital budgeting, dividend policy, and mergers and acquisitions. Furthermore, this study utilizes case studies of companies across sectors to illustrate the practical application of investment theory.

Data analysis was conducted in several stages. First, a literature analysis was conducted to identify key concepts, assumptions, and implications of investment theory for corporate investment decisions. Second, a conceptual and comparative analysis was conducted to compare classical and modern investment theory approaches in explaining corporate investment behavior. Third, a case study analysis was conducted by linking corporate investment decisions—such as capital budgeting, mergers and acquisitions, and dividend policy—to relevant investment theoretical frameworks. The final stage involved a synthesis of the findings, which aimed to draw conclusions regarding the relevance of investment theory to firm value and market efficiency.

The validity of the research is maintained through the use of credible and relevant literature sources, as well as by examining various theoretical perspectives and industry contexts. This research has limitations due to its conceptual nature and the lack of quantitative empirical testing. Therefore, the results are not intended for statistical generalization, but rather to enrich theoretical and practical understanding of corporate investment decisions.

RESULTS AND DISCUSSION

Dividend Policy and Shareholder Value

Dividend policy is a crucial aspect of corporate finance, determining how a company's profits are allocated between distribution to shareholders and reinvestment in operations. Essentially, dividend policy reflects a company's decisions regarding the amount, timing, and pattern of dividend payments. These decisions have direct implications for shareholder returns and the company's overall value. In an effort to maximize shareholder wealth, dividend policy often reflects a company's financial strategy, market conditions, and investor expectations.

The financial literature has long debated the relevance of dividend policy to firm value. One classic view is the dividend irrelevance theory proposed by Modigliani and Miller (1961), which states that under perfect market conditions, dividend policy does not affect firm value. According to this theory, investors are neutral between dividends and capital gains because they can generate their own income through stock sales. However, the perfect market assumption underlying this theory is often criticized for ignoring realities such as taxes, transaction costs, and information asymmetry, thus triggering the development of alternative theories (Farooq et al., 2022).

In contrast, the bird-in-the-hand theory proposed by Gordon (1963) and Lintner (1962) argues that investors prefer guaranteed dividends over uncertain capital gains. Dividends are considered to reduce uncertainty and risk, thus having a higher value in the eyes of risk-averse investors. While this theory explains investors' preference for income stability, criticism has arisen because this approach is considered to under-reflect the long-term growth potential that can be generated through reinvestment of earnings.

Tax preference theory offers another perspective by emphasizing the differences in tax treatment between dividends and capital gains. In many tax systems, dividends are taxed relatively higher, so investors tend to prefer capital gains. The implication of this theory is that companies may choose to retain earnings rather than distribute them as dividends to align their financial policies with shareholder tax preferences (Zerbo & Hien, 2020). However, this theory also faces challenges in explaining the practice of companies maintaining high dividend payments despite a relatively large tax burden.

A company's dividend decisions are influenced by various internal and external factors. Internally, profit and cash flow are the primary determinants. Companies with stable profits and strong cash flow tend to be able to implement a consistent dividend policy, which also signals financial health to investors. However, companies with significant growth opportunities often choose to retain earnings to support future expansion and investment. On the other hand, limited liquidity can limit a company's ability to pay dividends even when profits are relatively high (Asker et al., 2015).

Shareholder preferences also play a significant role in shaping dividend policy. Income-oriented investors, such as retirees, tend to favor stable and high dividend payments, while growth-oriented investors prioritize capital gains. Therefore, companies need to balance the interests of various investor groups by considering long-term strategic objectives. Furthermore, external factors such as market conditions, economic uncertainty, tax policies, and regulations also influence dividend decisions. In unstable economic conditions, companies tend to implement more conservative dividend policies to maintain financial flexibility (Kim & Kung, 2017).

Empirical research shows that dividend policy has a significant relationship with shareholder value through various mechanisms. The signaling effect states that dividend changes convey information about a company's prospects and financial condition. Dividend increases are often interpreted as positive signals, while dividend decreases are perceived as an indication of financial problems (Aharoni, 2015). Furthermore, dividend payments can reduce agency costs by limiting managers' discretionary funds for unproductive projects, thus aligning the interests of managers and shareholders (McCahery et al., 2016).

The clientele effect also explains that companies tend to attract specific investor groups based on their dividend policy. By tailoring dividend policies to investor preferences, companies can increase shareholder loyalty. However, this strategy can also reduce the company's flexibility in adjusting financial policies to changing economic conditions.

Various empirical studies show that companies with stable dividend policies tend to have lower stock price volatility and are able to create long-term value for shareholders (Jiang et al., 2015; Nofsinger, 2017). However, the relationship between dividend policy and firm value is not linear, as it is influenced by external factors and company-specific characteristics.

In practice, implementing dividend policy is a complex process. Management must balance the need to meet shareholder expectations with the need to maintain financial flexibility and support growth opportunities. Dividend decisions also have long-term implications, as excessive dividend payments can limit a company's ability to fund research and development and other strategic investments. Conversely, excessive earnings retention can potentially reduce the satisfaction of investors who expect regular income.

The role of institutional investors further enriches the dynamics of dividend policy. Institutional investors have significant influence on corporate governance and financial policy. Research by Landi and Sciarrelli (2019) shows that investor attention to corporate social responsibility (CSR) is increasing. Companies that successfully align dividend policies with their commitment to CSR have the potential to increase their attractiveness to investors and support long-term value creation.

Overall, dividend policy remains a fundamental element of corporate finance, reflecting the company's financial condition, managerial strategy, and orientation toward shareholder value. Various theoretical perspectives provide a conceptual framework for understanding dividend

decisions, while empirical evidence confirms their influence on shareholder value through signaling mechanisms, agency costs, and clientele effects. However, implementation challenges require companies to integrate theoretical understanding with practical considerations to enhance firm value and support market efficiency. Future research is expected to continue examining the dynamic relationship between dividend policy, corporate governance, and investor preferences in an evolving market context.

Application of Investment Theory in Corporate Practice

Investment theory serves as an important conceptual framework for corporate decision-making, particularly in allocating resources, managing risk, and achieving long-term strategic objectives. Through the analysis of real-life cases, the application of investment theory can be more concretely understood, while its effectiveness in creating corporate value, expanding market share, and strengthening competitive advantage can be evaluated. This section presents several cross-industry case studies to examine how investment theory is applied in practice, with an emphasis on capital budgeting, mergers and acquisitions (M&A) activity, dividend policy, and the influence of behavioral factors on corporate investment decisions.

Capital budgeting is a key foundation for a company's long-term investment decision-making. In the technology sector, characterized by rapid innovation and high market dynamics, an effective capital budgeting process is crucial. As an illustration, Company A, a major technology company, makes a strategic investment in the development of an artificial intelligence-based cloud computing platform. This investment decision is based on principles of investment theory, primarily through the use of the net present value (NPV) and internal rate of return (IRR) methods.

The NPV analysis results show a positive value, indicating that the project is expected to generate returns above the company's cost of capital. Furthermore, the IRR exceeding the weighted average cost of capital (WACC) further strengthens the project's feasibility. This approach aligns with the principles of Modern Portfolio Theory, which emphasizes the importance of balancing risk and return and efficient resource allocation (Farooq, Tabash, & Al-Naimi, 2022).

However, this project also highlighted the limitations of conventional capital budgeting approaches, particularly regarding the uncertainty of future cash flows due to rapid technological developments. This uncertainty, as noted by Kim and Kung (2017), often complicates investment decision-making in industries with high levels of asset flexibility. To address this challenge, Company A complemented traditional analysis with scenario analysis and a real options approach to enhance strategic flexibility.

In terms of results, the investment demonstrated positive performance. Within two years, the developed platform significantly increased market share and contributed to the company's revenue growth of approximately 15 percent. Furthermore, the project strengthened the company's competitive position in the cloud computing market. This case study demonstrates that applying investment theory tailored to industry characteristics can lead to successful investment decisions.

Mergers and acquisitions (M&A) are also a strategic tool frequently used by companies to achieve growth and diversification. The pharmaceutical industry, characterized by high research and development costs and intense competition, is one of the sectors with high M&A intensity. Company B, a large pharmaceutical company, illustrates how investment theory is used in M&A decision-making.

In a recent acquisition, Company B acquired a biotechnology company focused on gene therapy. This decision was driven by strategic considerations, such as access to innovative technology and the opportunity to enter a high-growth market segment. The acquisition evaluation was conducted using the discounted cash flow (DCF) method, which reflects the application of investment theory, taking into account projected cash flows and inherent risks, including regulatory and competitive risks (Zerbo & Hien, 2020).

One of the main challenges in this transaction was the post-merger integration process. As Nofsinger (2017) notes, M&A success relies heavily on a company's ability to align its organizational culture and operational systems. To address this challenge, Company B established a dedicated integration team and implemented structured change management practices. As a result, the acquisition expanded its product portfolio, increased research and development capacity, and increased shareholder value by approximately 20 percent in the first year, in line with investment theory predictions regarding the potential for value creation through M&A.

Dividend policy also reflects the application of investment theory to corporate finance practices. In relatively mature consumer goods industries with stable cash flows, a conservative dividend policy is often preferred. Company C, a major player in this sector, implements a consistent and relatively high dividend policy, influenced by the bird-in-the-hand theory. This theory states that investors value the certainty of dividends over the uncertainty of capital gains.

This approach aligns with empirical findings showing a positive relationship between dividend payments and shareholder value (Wahba & Elsayed, 2015). However, companies also face a dilemma between maintaining dividend payments and meeting reinvestment needs. To balance these interests, Company C implements a residual dividend policy, which distributes dividends after capital expenditure and working capital requirements are met (Aharoni, 2015). This strategy results in share price stability, strengthens investor confidence, and enhances the company's reputation as a shareholder-oriented entity.

Beyond rational approaches, behavioral finance provides an additional perspective for understanding corporate investment decisions. The retail industry, which faces changing consumer preferences and high competitive pressures, provides a relevant context for examining the influence of behavioral biases. Company D, a large retailer, demonstrates how cognitive biases can influence investment decisions.

In its expansion efforts, Company D aggressively opened new stores in urban areas, driven by overconfidence and the use of the representativeness heuristic, which generalizes past success to future conditions. Consistent with the findings of Jiang et al. (2015), an overly aggressive investment strategy in a competitive environment can potentially result in suboptimal performance. Consequently, while some stores performed well, others failed to achieve their targets, resulting in a 10 percent decline in overall company profitability. This case highlights the importance of incorporating a behavioral finance perspective into the investment decision-making process.

Overall, the case studies presented demonstrate that investment theory has strong practical relevance in guiding corporate strategic decisions. The application of investment theory to capital budgeting, mergers and acquisitions, dividend policy, and behavioral analysis provides a useful framework for evaluating investment opportunities and risks. However, these cases also reveal various challenges in applying investment theory in complex and dynamic business environments.

By adapting theoretical frameworks to industry characteristics and combining them with advanced analytical tools and behavioral insights, companies can improve the quality of their investment decision-making and drive sustainable growth. In a constantly changing global economy, a company's ability to adaptively apply investment theory will remain a key factor in long-term success.

CONCLUSION

This study examines the relationship between investment theory and corporate investment decisions in depth, highlighting how various theoretical approaches shape the financial decision-making process at the corporate level. The findings demonstrate that investment theory, encompassing diverse conceptual frameworks, plays a strategic role in helping companies optimize resource allocation, manage risk, and sustainably enhance firm performance and value.

One key finding suggests that Modern Portfolio Theory (MPT) significantly influences corporate investment decisions through its emphasis on diversification and systematic risk

management. This approach encourages companies to evaluate investments holistically within a portfolio context, rather than as stand-alone decisions, thus helping to balance potential returns and risk levels. However, the study also highlights that the practical application of MPT often faces significant challenges, such as information asymmetry and agency costs, which limit its effectiveness in complex business environments.

Furthermore, the Capital Asset Pricing Model (CAPM) remains relevant in corporate finance practice, particularly in estimating the cost of capital and evaluating investment feasibility. The CAPM's assumptions about market efficiency and rational investor behavior provide a theoretical basis for determining expected returns. However, empirical findings demonstrate the CAPM's limitations, particularly in beta estimation and its ability to explain market dynamics influenced by multiple risk factors. The existence of alternative asset pricing models confirms that companies cannot rely solely on the CAPM for investment decision-making.

The study of behavioral finance has made significant contributions to enriching our understanding of corporate investment behavior. Various cognitive biases, such as overconfidence and anchoring bias, have been shown to influence investment decisions and lead to deviations from the predictions of traditional finance theory. These findings suggest that corporate-level decision-making is not entirely rational but rather influenced by psychological factors that directly impact firm performance and value. Therefore, integrating a behavioral finance perspective is crucial to complement conventional finance approaches.

Overall, this research confirms that investment theory serves not only as a normative guideline but also as an analytical lens for understanding the dynamics of corporate investment decisions. Each theoretical approach—whether MPT, CAPM, or behavioral finance—offers unique contributions, but each also has limitations that must be considered in practical application. The interaction between theoretical frameworks and the realities of the business world ultimately shapes the financial environment in which companies operate.

The findings of this study have important implications for various stakeholders. For corporate managers, a deeper understanding of investment theory can improve decision-making quality through the implementation of more diversified capital allocation and more effective risk management. Awareness of behavioral biases can also help managers avoid common decision-making errors and foster a more reflective and analytically driven organizational culture.

For investors, understanding the limitations of traditional investment models provides a foundation for developing more comprehensive risk and return evaluation strategies. Integrating behavioral finance insights enables investors to design investment strategies that are more adaptive to market dynamics and the behavior of economic actors. This becomes increasingly relevant in volatile and less-than-efficient market conditions.

From a policy perspective, this study's findings emphasize the importance of a regulatory framework that supports transparent and information-based investment practices. Policies that encourage information disclosure, improve financial literacy, and protect investors have the potential to reduce information asymmetry and increase market efficiency. Thus, policymakers have a strategic role in creating a healthy and sustainable investment ecosystem.

Despite its comprehensive contribution, this research has several limitations. It relies primarily on existing literature and empirical findings, thus failing to fully capture the full range of corporate investment behavior across contexts. Furthermore, the research's focus is still limited to established investment theories, leaving room for exploration of new theoretical frameworks. Future research could broaden the scope by examining the influence of contemporary factors, such as digital technology and environmental, social, and governance (ESG) aspects, on corporate investment decisions.

Future research could also be developed through more diverse methodological approaches, such as longitudinal studies and cross-industry comparisons, to understand how investment theory is dynamically applied in practice. Furthermore, exploring the relationship between investment theory and corporate governance mechanisms, including the role of the

board of directors, executive compensation, and shareholder activism, could potentially provide additional insights into the determinants of investment decisions.

In conclusion, integrating investment theory with practical considerations is a crucial prerequisite for modern corporate financial management. By combining traditional financial approaches and behavioral perspectives, companies can formulate investment strategies that are more resilient and responsive to changes in the business environment. This approach not only improves the quality of decision-making but also supports long-term value creation and sustainable growth for the company and all stakeholders.

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