

Financial Decisions, Profitability and Firm Value: The Moderating Role of Business Group Affiliation in Bursa Istanbul

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ABSTRACT

Extant literature identifies financial decisions and profitability as core determinants of firm value, though empirical evidence remains persistently inconsistent and highly debated among corporate finance researchers, particularly in emerging markets experiencing macroeconomic turbulence such as Türkiye. This study aims to analyze the effects of investment decision, debt policy, dividend policy and profitability on the firm value of manufacturing companies listed on Bursa Istanbul and subsequently to analyze the moderating role of business group affiliation on these relationships. Utilizing a quantitative longitudinal design, a balanced panel data set of 13 manufacturing firms listed on the BIST Industrials Index (XUSIN) from 2020 to 2024 was compiled, yielding 65 firm year observations. Hypotheses were tested using advanced statistical techniques including Moderated Regression Analysis (MRA) within a Random Effects Model (REM) framework executed in EViews 12 statistical software. The empirical results reveal that dividend policy and profitability exert significant positive impacts on firm value, whereas investment decision and debt policy show no statistical significance. Furthermore, business group affiliation fails to significantly moderate these relationships under severe macroeconomic turbulence. These findings imply that during hyperinflation, investors heavily prioritize short-term, realized cash flows over nominal or anticipatory signals, providing crucial empirical nuances to signaling theory and Type II agency conflicts in emerging markets characterized by extreme macroeconomic uncertainty and sudden policy shifts.

INTRODUCTION

Firm value is widely regarded as a key indicator of corporate performance, reflecting how effectively a company maximizes shareholder wealth. As global competition intensifies, firms emphasize enhancing value to attract investors and sustain long-term growth, reflected in stock prices and financial indicators (Irnawati, 2021). In Türkiye, the manufacturing sector drives much of this growth, contributing 94.2% of industrial exports in 2023 and helping position the country as the fifth fastest growing G20 economy by 2025 (Ministry of Trade Republic of Türkiye, 2025; Ministry of Treasury and Finance, 2023).

Investment, debt and dividend policies, together with profitability, have long been identified as key determinants of firm value. Investment signals long-term growth potential (Djuminah et al., 2023), debt policy offers tax advantages but raises bankruptcy risk (Brigham & Houston, 2019; Rustan, 2023), dividend policy reflects a trade-off between rewarding shareholders and preserving cash (Rakim, 2023) and profitability proxies operational efficiency and investor confidence (Purba, 2023; Rodríguez-Valencia, 2025). Although these variables underpin most valuation studies, their empirical effects remain far from consistent. Investment was found to enhance firm value when growth prospects appeared credible (Djuminah et al., 2023), yet it was also seen as capital misallocation harming minority shareholders (Fakhroni et al., 2018). Furthermore, a positive effect of debt policy was reported by Adhitya et al. (2022), while a significant negative effect was found by Tulcanaza-Prieto et al. (2024) and Njoku & Lee (2025) and profitability showed a consistently positive effect in Rodríguez-Valencia (2025) yet appeared insignificant in Adhitya et al. (2022). Such conflicting findings suggest this link is shaped by structural factors current models have not captured.

A key limitation of existing studies is their heavy reliance on Agency Theory Type I, which centers on manager-shareholder (Agent-Principal) conflicts but overlooks the concentrated ownership common in emerging markets such as Türkiye. In these markets, many manufacturing firms belong to large business groups, shifting the relevant agency conflict toward Type II conflicts (Principal-Principal), where controlling shareholders may exploit minority investors through internal capital allocation. Research applying Agency Theory Type II as a moderator nonetheless remains limited. Chaebol affiliation in South Korea moderated debt and dividend policy effects on firm value (Njoku & Lee, 2025), while corporate governance mattered only for investment decision (Adhitya et al., 2022). The moderating role of business group affiliation has yet to be examined in the Turkish context, as recent studies there focus mainly on earnings management (Gürünlü, 2024) rather than firm valuation, pointing to a clear gap.

Theoretically, each financial decision relates to firm value through different, at times opposing, perspectives. Investment decision is explained through Signaling Theory, where capital spending reflects management's confidence in future growth or through Agency Theory, where excessive investment may instead signal empire-building at minority shareholder's expense (Djuminah et al., 2023; Fakhroni et al., 2018). Debt policy is grounded in Trade-Off Theory

and Real Options Theory, balancing tax benefits against bankruptcy risk while offering flexibility in volatile markets (Ningrum, 2021; Rustan, 2023). Meanwhile, dividend policy draws on the Bird in the Hand, Signaling and Tax Preference Theories, explaining why investors differ in their preference for payouts over capital gains (Darmawan, 2018; Puspitasari et al., 2021). Lastly, profitability is best explained through Signaling Theory, as it reduces information gaps between management and investors (Rodríguez-Valencia, 2025; Connelly et al., 2025).

This research contributes by combining Agency Theory Type II with business group affiliation as a moderating factor in explaining firm value in emerging markets, an approach not yet applied to the Turkish manufacturing sector. Theoretically, agency theory is extended into principal-principal conflicts; practically, insights are offered for investors and policy makers in emerging markets. Beyond describing the direct effects of financial decisions and profitability on firm value, it is examined whether business group affiliation changes how the market prices these factors among firms listed on the BIST Industrials Index (XUSIN). Accordingly, this research aims to examine the moderating role of business group affiliation on the relationship between investment decision, debt policy, dividend policy, profitability and firm value among manufacturing companies on Borsa Istanbul. Based on this framework, the research model proposed hypotheses presented in **Figure 1**.

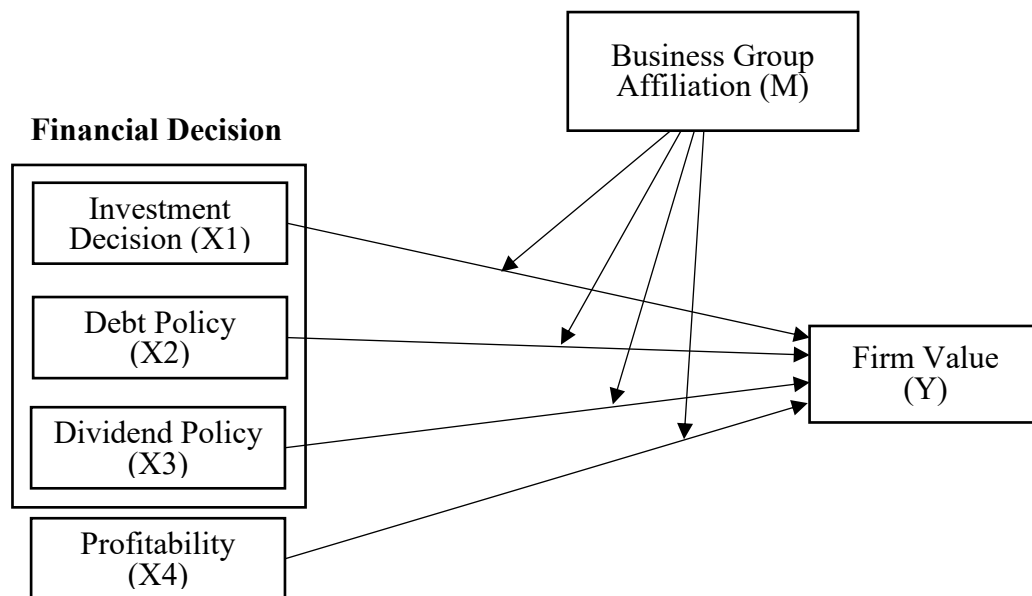


Figure 1. Conceptual Framework

As previously noted, Signaling Theory and Agency Theory offer opposing accounts of investment's effect on firm value: capital expenditure may signal credible growth or mask empire-building. Djuminah et al. (2023) found investment enhanced firm value when growth prospects appeared credible, while Fakhroni et al. (2018) linked it to capital misallocation

harming minority shareholders. This divergence suggests the effect of investment decision depends on how investors interpret capital expenditure. **H1: Investment decision significantly influences firm value.**

Debt policy is similarly contested between Trade-Off Theory and Real Options Theory, balancing tax shields against bankruptcy costs while preserving flexibility under volatile conditions (Ningrum, 2021; Rustan, 2023). Adhitya et al. (2022) reported a positive debt-value effect, while Tulcanaza-Prieto et al. (2024) and Njoku & Lee (2025) found a significant negative effect once leverage exceeded prudent levels. The divergence indicates that the net effect of debt policy on firm value hinges on the balance between tax benefits and bankruptcy risk within a given institutional setting. **H2: Debt policy significantly influences firm value.**

Dividend policy draws on the Bird in the Hand, Signaling and Tax Preference Theories, which pull in different directions: dividends may reduce uncertainty and signal confidence or be less preferred by tax-sensitive investors favoring capital gains (Darmawan, 2018; Puspitasari et al., 2021). Empirical evidence deepens this contradiction. Highlighting this volatility, Njoku and Lee (2024) reported a significant positive effect but found a significant negative effect in their 2025 study using a different sample period. This inconsistency underscores that dividend-value relationship is fluid and highly sensitive to shifting market conditions. **H3: Dividend policy significantly influences firm value.**

Profitability serves as a key indicator of a firm's operational efficiency and long-term financial sustainability. Rising profitability not only reflects a firm's resilience amid economic uncertainty but also enhances its attractiveness to investors (Rodríguez-Valencia, 2025). Within the Signaling Theory, profitability functions as an informational signal: improving earnings convey a positive signal, while declining earnings convey a negative one (Purba, 2023). Complete earnings information allows investors to assess a firm's past, current and future condition, thereby serving as a critical basis for investment decision-making. Empirical evidence supports this pattern, as Rodríguez-Valencia (2025), Erpina et al. (2025) and Pramesti and Rita (2021) consistently found that profitability exerts a positive and significant effect on firm value, indicating that higher profit generation strengthens investor perception of the firm's future prospects. **H4: Profitability has a significant positive effect on firm value.**

The moderating role of business group affiliation on investment firm value relationship is similarly unsettled. Centralized decision making through a group's internal capital market can improve the efficiency of capital allocation by directing funds toward projects with the highest expected returns, which would strengthen the positive effect of investment decision on firm value. Conversely, majority shareholders' expansion decisions may instead be driven by a desire to reduce personal risk rather than to maximize firm profitability (Dagnino et al., 2019) and excessive cash retention under majority control has been linked to inefficient investment decision that reduce overall firm performance (Hu et al., 2020). Both arguments indicative of Type II agency conflicts. **H5: Business group affiliation significantly moderates the effect of investment decision on firm value.**

For debt policy, prior findings suggest the moderating effect of business group affiliation

depends on governance quality within the group. Njoku and Lee (2025) found that, among chaebol (conglomerate)-affiliated firms, the interaction between debt and group status is positively associated with firm value, arguing that external debt imposes creditor monitoring that disciplines managers. Consistent with the comparatively low tunnelling (via large intra-group receivables) observed among concentrated-ownership firms by Wulandari & Setiawan (2023). In contrast, Tulcanaza-Prieto et al. (2024) found that under weak corporate governance, the relationship between debt policy and firm value turns negative, as debt becomes entangled with tunneling practice toward affiliated firm. **H6: Business group affiliation significantly moderates the effect of debt policy on firm value.**

The moderating role of business group affiliation on dividend policy is equally contested. Under the Interest Alignment Hypothesis, when majority and minority shareholders' interests align, dividend policy functions as mechanism that enhances firm value (Jensen & Meckling, 1976). Conversely, when majority shareholders hoard cash for private benefits, a type II agency conflict emerges, driving a negative dividend value relationship (Njoku & Lee, 2025). Yilmaz et al. (2024) found that concentrated ownership significantly restricts dividend payouts, signaling cash hoarding. In contrast, Khan (2022) reported a significant positive effect, arguing that majority shareholders use dividends as a reassuring signal to minority shareholders that free cash flow is not being tunneled. **H7: Business group affiliation significantly moderates the effect of dividend policy on firm value.**

Finally, evidence on how business group affiliation moderates the profitability-firm value relationship is similarly mixed, Isik and Soykan (2013) and Ciftci et al. (2019) both found that ownership concentration above 50% has a significant positive effect on profitability, attributing this majority shareholders exercising a stabilizing, propping oriented control function over affiliated firms rather than exploiting minority shareholders. Bishwas & Hossain (2025) found a significant negative effect, linking it to Type II agency conflicts in which majority shareholder tunnel resources for private gain, while Sönmez & Yılmaz (2022) found no significant relationship between corporate governance and profitability at all. **H8: Business group affiliation significantly moderates the effect of profitability on firm value.**

RESEARCH METHODS

This study adopts a quantitative explanatory design examining how investment decision, debt policy, dividend policy and profitability shape firm value, with business group affiliation as moderator. The analysis uses panel data from manufacturing firms listed on Borsa Istanbul (BIST) XUSIN index over 2020-2024, capturing firm level financial behavior within Türkiye's volatile macroeconomic environment.

The initial population comprised 236 manufacturing firms listed on the BIST XUSIN Index. Purposive sampling applied four criteria: (1) continuous listing throughout the period, (2)

complete audited annual reports, (3) positive equity and (4) consistent annual dividend distributions. Table 1 summarizes the sample selection process.

Table 1. Sample Selection Criteria

Criteria	Companies
Total manufacturing companies listed on BIST XUSIN (2020 – 2024)	236
Less: Companies with incomplete financial reporting	(89)
Less: Companies with negative equity in any year	(35)
Less: Companies without consistent annual dividend distributions	(99)
Final sample (purposive sampling)	13
Total observation = 13 x 5	65

Source: KAP, Data Processed (2026)

All financial data were retrieved from audited annual statements published on Türkiye's Public Disclosure Platform (KAP). Each statement conforms to International Financial Reporting Standards (IFRS) as adopted in Türkiye and incorporates inflation adjustments under Financial Reporting in Hyperinflationary Economies (IAS 29), reflecting current purchasing power.

This study includes one dependent variable, four independent variables and one moderating variable, operationalised as presented in Table 2.

Table 2. Operational Variables

Variable	Operationalization	Measurement	Scale	Reference
Dependent				
Firm Value (Y)	Firm value reflects market valuation of growth prospects relative to book value.	$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$	Ratio	(Pramesti et al., 2025)
Independent				
Investment Decision (X1)	Investment decision captures a firm's expansion strategy.	$TAG = \frac{\text{Total Assets}_t - \text{Total Assets}_{t-1}}{\text{Total Assets}_{t-1}}$	Ratio	(Duong et al., 2024)
Debt Policy (X2)	Debt policy reflects capital structure: the share of assets financed by debt.	$DAR = \frac{\text{Total Debt}}{\text{Total Assets}}$	Ratio	(Aristawati & Harianto, 2025)
Dividend Policy (X3)	Dividend policy is the payout ratio: earnings distributed to shareholders rather than retained.	$DPR = \frac{\text{Dividend per Share}}{\text{Earnings per Share}}$	Ratio	(Pramesti et al., 2025)
Profitability (X4)	Profitability measures a firm's efficiency in generating earnings from equity.	$ROE = \frac{\text{Net Income}}{\text{Total Equity}}$	Ratio	(Harahap, 2024)
Moderating				

Variable	Operationalization	Measurement	Scale	Reference
Business Group Affiliation (M)	Business Group Affiliation (BGA) identifies legally distinct firms tied by concentrated ownership under a single parent company.	Dummy (1 = Business Group Affiliated and 0 = Not Affiliated)	Binary	(Njoku & Lee, 2025)

Source: Data Processed (2026)

Moderated regression analysis (MRA) within a panel data framework, processed in EViews 12 tests direct and moderating effects.

The first model is:

$$Y_{it} = \alpha + \beta_1 X_{1it-1} + \beta_2 X_{2it-1} + \beta_3 X_{3it-1} + \beta_4 X_{4it-1} + \text{error} \dots \dots \dots (1)$$

The second model adds interaction terms:

$$Y_{it} = \alpha + \beta_1 X_{1it-1} + \beta_2 X_{2it-1} + \beta_3 X_{3it-1} + \beta_4 X_{4it-1} + \beta_5 (X_{1it-1} \times M_t) + \beta_6 (X_{2it-1} \times M_t) + \beta_7 (X_{3it-1} \times M_t) + \beta_8 (X_{4it-1} \times M_t) + \text{error} \dots \dots \dots (2)$$

Y is firm value; X₁ through X₄ represent investment decision, debt policy, dividend policy and profitability and M denotes business group affiliation. Continuous independent variables are lagged one period (t-1) to mitigate simultaneity bias, while M remains unlagged given its time invariant nature. Because affiliation does not vary across 2020-2024, the Random Effects Model (REM) is adopted as the primary estimator, since the Fixed Effects Model (FEM) would eliminate this variable through within-group demeaning, making its effects inestimable.

Hypotheses are tested via partial t-test. H1 through H3 apply two-tailed tests given the theoretically ambiguous direction of these relationships, while H4 positing a positive profitability effect uses a one-tailed test. H5 through H8 evaluate the moderating role of business group affiliation using two-tailed tests, with the sign of each interaction coefficient (β_5 - β_8) indicating whether group membership amplifies or dampens the policy value relationship.

RESULTS & DISCUSSION

This section discusses the empirical results obtained from the two baseline models outlined in the methodology. First, Model 1 evaluates how the four financial policy variables directly impact firm value, formulated as follows:

$$Y_{it} = \alpha + \beta_1 X_{1it-1} + \beta_2 X_{2it-1} + \beta_3 X_{3it-1} + \beta_4 X_{4it-1} + \text{error} \dots \dots \dots (3)$$

Model 2 then extends this baseline analysis by introducing business group affiliation as a moderator to capture potential interaction effects, specified as follows:

$$Y_{it} = \alpha + \beta_1 X_{1it-1} + \beta_2 X_{2it-1} + \beta_3 X_{3it-1} + \beta_4 X_{4it-1} + \beta_5 (X_{1it-1} \times M_t) + \beta_6 (X_{2it-1} \times M_t) + \beta_7 (X_{3it-1} \times M_t) + \beta_8 (X_{4it-1} \times M_t) + \text{error} \dots \dots \dots (4)$$

In both equations, Y represents firm value, while X₁ through X₄ represent investment decision, debt policy, dividend policy and profitability. The variable M captures business group affiliation. The following subsections outline the descriptive statistics before discussing the regression estimates and subsequent hypothesis testing.

Descriptive statistics describing the mean, median, maximum, minimum and standard deviation. The results are shown in Table 3.

Table 3. Results of Descriptive Statistical Analysis

Variable	N	Mean	Median	Max	Min	Std. Dev
Firm Value (PBV)	65	3.06	2.37	10.34	0.23	2.35
Investment Decision (TAG)	65	0.49	0.43	1.80	0.06	0.29
Debt Policy (DAR)	65	0.47	0.49	0.77	0.10	0.18
Dividend Policy (DPR)	65	0.42	0.41	0.99	0.10	0.27
Profitability (ROE)	65	0.26	0.22	0.87	0.02	0.18

Source: Data Processed (2026)

As presented in Table 3, all analyzed variables are considered homogeneous and free from distorting outliers because their standard deviations remain consistently below their respective means. Firm value (PBV) ranges from 0.23 to 10.34. The minimum value indicates that some firms are valued below their book value, while the maximum reflects a premium attached to high-performing firms. Investment decision (TAG) is found to range from 0.06 to 1.80. The minimum reflects limited asset expansion, whereas the maximum indicates substantial asset growth pursued by certain firms. Debt policy (DAR) ranges from 0.10 to 0.77. The minimum reflects firms with conservative, low-leverage financing, while the maximum indicates firms financing more than three quarters of their assets through debt. Dividend policy (DPR) ranges from 0.10 to 0.99. The minimum suggests firms that retain most earnings for reinvestment, whereas the maximum indicates firms distributing nearly all profits as dividends. Profitability (ROE) is found to range from 0.02 to 0.87. The minimum reflects weak equity returns in some firms, while the maximum indicates exceptionally strong profitability in others.

The hypothesis testing in this study was conducted using panel data regression analysis, evaluated against standard statistical thresholds $\alpha = 0.05$ or 5% (Sahir, 2022). The empirical evaluation is executed in two stages: Model 1 tests the direct effects of the financial policy variables on firm value, while Model 2 incorporates interaction terms to examine the moderating role of business group affiliation. The following sections present the detailed results of the partial t-test, F-test and coefficients of determination (R²) for both empirical models to evaluate the proposed hypotheses.

Regression Analysis Model 1. Table 4 reports the regression results for Model 1, which tests the direct effect of the four financial policy variables on firm value.

Table 4. Results of Regression Analysis Model 1

Variable	Coefficient	Std. Error	t-table	t-statistic	P-value	Conclusion
Constant	0.35	0.91		0.91	0.70	
Investment Decision (TAG)	0.73	0.66	2.00	1.11	0.27	Not Significant
Debt Policy (DAR)	0.67	1.40	2.00	0.48	0.63	Not Significant
Dividend Policy (DPR)	2.96	0.82	2.00	3.59	0.00	Positive Significant
Profitability (ROE)	5.81	1.46	1.67	3.97	0.00	Positive Significant
R-squared	0.32	F-Statistic	7.10	Prob (F-statistic)	0.00	

Source: Data Processed (2026)

Based on empirical results in Table 4, firm value (PBV) is significantly and positively driven by dividend policy (DPR) and profitability (ROE), as indicated by their positive regression coefficients and p-values below the 0.05 threshold. Consequently, H3 and H4 are supported. In contrast, the effects of investment decision (TAG) and debt policy (DAR) are statistically insignificant, with p-values greater than 0.05, meaning both H1 and H2 cannot be supported.

The simultaneous test (F-test) yields an F-statistic of 7.10 with a p-value 0.00, which is smaller than 0.05, further confirming that the four independent variables; investment decision, debt policy, dividend policy and profitability (TAG, DAR, DPR and ROE) jointly affect firm value. The coefficient of determination R-squared (R^2) of 0.32 indicates that the model explains 32% of the variation in firm value (PBV).

Regression Analysis Model 2. Table 5 reports the regression results for Model 2, which tests the moderating effects of business group affiliation on the relationship between the four financial policy variables and firm value.

Table 5. Results of Regression Analysis Model 2

Variable	Coefficient	Std. Error	t-table	t-statistic	p-value	Conclusion
Constant	-0.10	0.95		-0.10	0.92	
Investment Decision (TAG)	1.03	0.93	2.00	1.11	0.27	Not Significant
Debt Policy (DAR)	2.16	2.07	2.00	1.04	0.30	Not Significant
Dividend Policy (DPR)	0.45	1.57	2.00	0.28	0.78	Not Significant

Variable	Coefficient	Std. Error	t-table	t-statistic	p-value	Conclusion
Profitability (ROE)	2.82	2.78	1.67	1.10	0.31	Not Significant
Investment Decision x Business Group Affiliation (TAGxBGA)	-0.26	1.26	2.00	-0.21	0.84	Not Significant
Debt Policy x Business Group Affiliation (DARxBGA)	-2.97	2.32	2.00	-1.28	0.21	Not Significant
Dividend Policy x Business Group Affiliation (DPRxBGA)	3.16	1.68	2.00	1.88	0.07	Not Significant
Profitability x Business Group Affiliation (ROExBGA)	4.19	3.23	2.00	1.30	0.20	Not Significant
R-squared	0.37	F-Statistic	4.18	Prob (F-statistic)	0.00	

Source: Data Processed (2026)

Empirical results in Table 5, indicate that business group affiliation (BGA) fails to significantly moderate the effects of investment decision (TAG), debt policy (DAR), dividend policy (DPR) and profitability (ROE) on firm value (PBV). Because all four interaction terms yield p-values greater than 0.05, hypotheses H5 through H8 are not supported. Nevertheless, the interaction coefficients for dividend policy x business group affiliation (DPRxBGA) and profitability x business group affiliation (ROExBGA) are positive and economically meaningful. The dividend policy x business group affiliation (DPRxBGA) interaction approaches the 10% significance threshold p-value 0.07, pointing to a moderating tendency worth further attention in studies with a large sample.

The simultaneous test (F-test) for Model 2 is also significant, with an F-statistic of 4.18 and a p-value 0.00, which is smaller than 0.05, further confirming that the four independent variables; investment decision, debt policy, dividend policy and profitability (TAG, DAR, DPR and ROE) and their respective interaction terms jointly influence firm value (PBV). Adding the interaction terms raises the explained variance from 32% to 37%, as reflected by the increase in the coefficient of determination R-squared (R^2).

Investment Decision and Firm Value The significance of this finding goes beyond merely rejecting the hypothesis, a result that aligns with Erpina et al. (2025) in a different context. Instead, the true contribution of this study lies in the specific mechanism it uncovers. While prior literature, such as Fakhroni et al. (2018) typically attribute non significant investment effect to agency conflict, framing aggressive capital expenditure as opportunistic behavior that hurts minority shareholders.

In contrast, this paper demonstrates that the issue is not about managerial intent, but rather signal distortion. Under hyperinflationary condition exceeding 80% (IMF, 2024), total asset

growth merges with inflationary revaluation, stripping the variable of its predictive value for investor. This offers a vital takeaway for emerging market research: non significant investment findings are not always reflection of poor corporate governance. Instead, it can result from a breakdown in the macroeconomic environment that prevents investors from evaluating signals effectively. This distinction, overlooked in a previous studies, offers critical insights for proxy selection and data interpretation in volatile economies.

The broader monetary environment in Türkiye during the sample period provides strong context for these findings. Inflation peaked at over 80% in late 2022, dropping to about 40% in early 2023 as the real exchange rate improved (IMF, 2024). However, this extreme volatility left investors with little confidence to evaluate long-term project valuations. Monetary policy actions further intensified this instability; the Central Bank of the Republic of Türkiye (CBRT) cut the policy rate 8.5% in May 2023, only to enact a sharp upward adjustment to 50% by March 2024. The resulting negative real interest rates led to episodes of capital flight. Under such volatile conditions, discounting future corporate cash flows became unreliable. Consequently, investors shifted their focus toward short-term, verifiable signals like realized dividends rather than long-term growth investments. Their behavior was also reinforced by the COVID-19 shock from 2020 to 2021. Companies that expanded capacity of invested heavily during periods of global supply chain disruptions were viewed by shareholders as taking on unnecessary risk rather than creating credible growth, which explains why asset growth was not interpreted as a positive signal during the study period.

Debt Policy and Firm Value. This finding stands out from current evidence by diverging from the significant negative leverage, value relationship established by Njoku and Lee (2025), Tulcanaza-Prieto et al. (2024) and Karaca et al. (2025). In those studies, debt imposes a clear value penalty because nominal and real leverage measures remain aligned.

In contrast, this penalty disappears in our context due to unique macroeconomic factors. Türkiye's hyperinflation created two conflicting distortions: the erosion of the real debt burden (Brunnermeier et al., 2024) and an investor overreaction to nominal debt increases driven by money illusion (Braggion et al., 2023). Together, these forces stripped the DAR of this ability to accurately proxy either objective financial risk or subjective investor risk. This study, therefore contextualizes rather than invalidates prior literature, showing that the conventional debt value relationship depends on a stable environment where accounting data matches economic reality. Ultimately, this underscores a critical proxy validity concern rather than a mere anomaly for researchers evaluating capital structure in high-inflation situation.

A broadly consistent pattern is observed in Egypt, another emerging market that experienced repeated currency devaluations driving high inflation between 2016 -2022, where leverage was similarly found to have no significant effect on stock returns despite other capital structure measures remaining significant (El-Masry et al., 2024).

Dividend Policy and Firm Value. This finding aligns directionally with Njoku and Lee (2024)

in confirming a significant positive link between dividend policy and firm value. Rather than introducing a contradictory outcome, this paper contributes to the literature by demonstrating that this relationship holds even under conditions designed to stress-test its resilience. Traditional dividend value models were largely developed in stable markets where capital gains served as a viable alternative return. In Türkiye's hyperinflationary climate (2020-2024), however, this alternative was severely compromised because nominal price increases could not reliably preserve real purchasing power (Sun, 2024).

This study reveals an important dynamic: dividend relevance becomes amplified as the reliability of alternative investment returns degrades. Since prior research conducted in stable economic environments has largely overlooked this intensification, the current study provides critical insight for emerging market firms. Specifically, the findings demonstrate that the strategic importance of dividend policy is substantially greater than suggested by conventional, developed market theories, establishing it as a vital determinant of corporate capital allocation during periods of persistent inflation and currency volatility.

Furthermore, these results align closely with Bird in The Hand argument pioneered by Gilson and Gordon (2003). This theory posits that dividend payouts mitigate shareholder uncertainty, leading investors to rationally prefer a smaller, certain return today over the prospect of larger but highly uncertain, future capital gains. Cross-country evidence from hyperinflation episodes gives partial support to this logic. For instance, during Zimbabwe's 2000-2008 hyperinflation, dividend policy remained an important mechanism for shareholder returns, even though its structure changed under such extreme conditions (Mbulawa et al., 2020). At a broader level, global evidence also shows that investors systematically prefer dividend-paying stocks during periods of market decline and high uncertainty (Goldstein et al., 2015). This underlying logic is particularly relevant in the context of Türkiye. The Turkish Lira depreciated sharply during this period, losing approximately 20% of its value against the US dollar in 2024 alone, following a persistent decline that began in 2020 (U.S. Department of State, 2025). This sharp depreciation exposed capital gains to serious currency and price risks, which immediate cash dividends helped shareholders avoid.

Profitability and Firm Value. This study does more than just confirm the positive relationship between profitability and firm value, which aligns with İlbasmış (2025) and Esen et al. (2025). The main contribution is showing how investors respond differently to various financial signals during economic crises. This study finds that financial indicators do not lose their meaning at the same rate.

In fact, the same high volatility that made debt and investment data statistically insignificant actually made profitability (ROE) a strong predictor. This occurs because profitability (ROE) is free from the measurement problems affecting the debt policy (DAR) and the deep uncertainty surrounding total asset growth. This contrast where one variable becomes highly reliable because alternative signal fail, is a new insight that extends Signaling Theory and is missing from previous studies. For practitioners, this means that in highly volatile market, firm value depends mostly on real operational performance. Therefore, financial analysts and

portfolio managers should focus on profitability metrics rather than debt or investment indicators.

Beyond confirming Signaling Theory in its role as a market signal, persistent profitability also reflects the fundamental principles of Agency Theory. Specifically, the efficient deployment of equity capital limits the opportunities for managers to make value-destroying decisions, which consequently alleviates investor concerns over agency conflicts between management and shareholders. This dimension functions alongside the signal perspective. Investors do not only view robust profitability as an indicator of positive prospects but they also gain confidence that their capital is being stewarded responsibly, especially during periods when assessing managerial intent through alternative means proves difficult.

Evidence from another emerging market setting during COVID-19 crisis lends further support to this interpretation. Asa'd et al. (2023), examining firms listed on the Palestine Exchange, find that profitability continues to function as a reliable signal for investors even as the crisis disrupted many other channels of information about firm performance. A similar pattern emerges in Lebre-Rodrigues et al. (2023), who show that profitability is driven mainly by internal managerial decisions rather than external economic conditions and that, this internal driver keeps its explanatory power even under economic stress. Together, these findings confirm that profitability maintains its credibility precisely when crises disrupt broader market data, a empirical pattern highly relevant to Türkiye's turbulent marcoeconomic environment during the sampled period.

Business Group Affiliation Moderating Investment Decision and Firm Value. According to theory, membership in a business group helps firms access internal capital markets, lowering external financing needs and making investments more credible (Stein, 1997). Contrary to this expectation, empirical results show no such moderating effect, revealing a clear limit to the internal capital market advantage. This aligns with Gürünlü (2024), who argues that business group effects in Türkiye are selective.

This study provides a concrete example of this limitation: when hyperinflation distorts financial signals, group affiliation cannot restore their clarity. The core issue during this period is market interpretability, not financial access. In addition, the hidden nature of intragroup asset transfers (through propping or tunneling) creates more anxiety for outside investors tracking asset growth. Consequently, group membership creates further ambiguity instead of reassurance. These findings directly challenge the idea that business group structures universally improve investment outcomes, proving that corporate disclosure quality is a critical factor that prior literature has overlooked.

This perspective is consistent with Ergün (2025), who contends that financial statements left unadjusted for inflation under IAS 29 lose substantial informational utility for external investors. In hyperinflationary contexts, apparent asset expansion in these reports cannot be dependably interpreted as evidence of genuine corporate investment decision. Instead, such

growth often represents a mere mechanical revaluation effect resulting from price level adjustments. A comparable pattern has been documented in Zimbabwe, where Chamisa et al. (2018) that during periods of severe inflation, the reliability of both historical cost and inflation-adjusted accounting figures declines to a similar extent. This degradation makes it genuinely difficult for outside investors to distinguish real asset growth from figures that are artificially inflated by macroeconomic shocks. This evidence reinforces the view taken in this study: under extreme inflationary conditions, the structural or governance characteristics of a firm matter less than the reliability of the underlying numbers investors are asked to interpret.

Business Group Affiliation Moderating Debt Policy and Firm Value. This finding is analytically significant because it diverges from Njoku and Lee (2025), who found that Korean chaebol affiliation moderates the debt value relationship by offering governance credibility and transparency. This study finds no similar effect, a divergence driven by unique institutional differences. In Korea, group governance gives investors confidence that leverage is responsibly managed.

In Türkiye, however the IMF (2023) notes that intragroup lending increases individual affiliated debt ratios without reducing the group's aggregate risk exposure. This structure makes it functionally impossible for outside investors to evaluate financial risk. Essentially, the governance credibility that drives the chaebol mechanism is absent in the Turkish context. Consequently, our study shows that East Asian business group findings are not automatically applicable to environments with weaker governance and disclosure standards. Applying chaebol theories to Turkish business groups without adjusting for these institutional gaps will produce invalid predictions, regardless of the statistical model's precision.

This macrofinancial pressure was intensified by the CBRT's tightening policy, which elevated the benchmark interest rate to 50%. This severe cost burden had to be absorbed by both affiliated and independent companies without exception. Because both corporate groups faced equally exorbitant and volatile financing costs, investors saw no reason to view business group affiliation as a protective factor when a firm increased its debt. As a result, the interaction term failed to reach statistical significance, remaining indistinguishable from zero. A similar erosion of the business group advantage under macroeconomic stress has been documented in other emerging markets. For instance, during the COVID-19 pandemic. Banerjee et al. (2023) found that, despite the widely held view that internal capital markets shield affiliated firms during downturns, business group affiliated firms in India showed no significant difference in financial leverage or borrowing costs relative to non affiliated firms. This parallel evidence suggests that under severe systemic shocks, the financing advantage typically associated with business group affiliation can lose its explanatory power, regardless of the institutional setting.

Business Group Affiliation Moderating Dividend Policy and Firm Value. Although the result of this study is only marginally significant ($p\text{-value} = 0.065$), it is highly valuable because it separates the dividend channel from the previously discussed debt and investment channels. The positive coefficient aligns with Khan (2022), who showed that ownership concentration in Borsa Istanbul, a typical trait of business groups positively affects dividend policy.

The directional consistency suggests that the underlying relationship is active, even if it sits slightly outside standard significance boundaries. Crucially, the dividend channel is unique due to the propping mechanism. Through this process, holding companies transfer to cash-stressed affiliates, ensuring dividend continuity that directly benefits outside investors. This specific support does not exist for debt or investment decision and prior Turkish literature has overlooked it. Given this study's small sample size, this marginal significance is likely a matter of low statistical power rather than a non-existent effect. Thus, this result serves as meaningful preliminary evidence for future large scale research, not as a flat rejection of the hypothesis.

Evidence from a much larger sample lends weight to this interpretation. Njoku and Lee (2024), drawing on 498 non financial Korean firms over 2010-2021, found that business group affiliation (*chaebol*) significantly strengthens the dividend firm value relationship and this pattern holds even through the COVID-19 period within their sample, pointing to moderating effect that is not merely a short-term artifact. This cross-country parallel, obtained with substantially greater statistical power, reinforces the view that the marginal result reported here reflects an underpowered but genuine relationship reflects an underpowered but genuine economic dynamic.

Business Group Affiliation Moderating Profitability and Firm Value. Unlike the other moderation hypotheses, this specific finding stands out due to its positive coefficient. Although not statistically significant, this positive sign suggests that group affiliation may actually strengthen the probability-value relationship, contrary to the original expectation. This directional shift supports Ciftci et al. (2019), who argue that concentrated ownership above 50% in Borsa Istanbul protects long-term investment value. However, it runs counter to Bishwas and Hossain (2025), who link concentrated ownership to tunneling and lower profitability.

The coexistence of these contradictory results highlights the high level of heterogeneity among Turkish business groups. Essentially, opposing forces (propping and tunneling) operate simultaneously across the affiliated firms. Because these two mechanisms work in opposite directions, they cancel each other out at the aggregate level, leading to statistically insignificant result that mask deep internal variations. Methodologically, this proves that using a uniform binary moderator for group affiliation is inadequate when value creating and value destructive forces coexist. Therefore, future studies should adopt disaggregated frameworks to determine which mechanism dominates under specific firm or group level condition, including disclosure practices, ownership ratios and minority shareholder protection.

The tension between counteracting dynamics is widely recognized in existing research on business groups. On one hand, Gurunlu (2018) views propping as a financial cushion that provides relief to affiliated firms during economic stress, implying a positive moderating influence of group membership. On the other hand, this protective effect is neutralized by tunneling activities. Supporting this complexity, Sönmez & Yılmaz (2022) demonstrate that corporate governance quality does not significantly drive profitability among Borsa Istanbul

listed companies. Their findings suggest that governance frameworks by themselves are inadequate to regulate which behavior dominates within a group member. Consequently, these conflicting dynamics explain why the interaction term appears statistically muted, despite pointing toward an economically relevant direction.

Aligning with this perspective, empirical evidence from Hussain et al. (2022) confirms that tunneling and propping co-exist dynamically within the same group structure. Much like the highly concentrated family conglomerate in Türkiye, Pakistani business group are typically structured around powerful family holdings. Controlling shareholders alternate between these behaviors based on subsidiary health, specifically by tunneling resource from large, liquid affiliates while simultaneously propping up highly leveraged members to prevent default. Crucially, this internal conflict persists even in the face of qualified audit opinions, further confirming that formal governance mechanisms often fail to regulate which behavior ultimately dominates within group networks.

CONCLUSION & SUGGESTION

This study concludes that dividend policy and profitability significantly predict firm value among Turkish manufacturing firms operating under hyperinflationary conditions. While investment activity and leverage measures do not, a distinction that reflects a structural breakdown rather than theoretical failure. Under hyperinflation, asset growth captures price escalation rather than genuine capital deployment and nominal leverage ratios obscure rather than reveal true financial risk.

These findings carry meaningful theoretical and practical contributions. Theoretically, they refine signaling theory by introducing the notion of signaling survivability, the capacity of a financial signal to remain credible under macroeconomic distress. Dividends and profitability prove survivable because they are anchored in observable cash flows and operational performance, while leverage and investment proxies remain vulnerable to inflationary distortion. The results also extend Type II agency theory by revealing that a binary group affiliation variable simultaneously captures opposing forces, propping and tunneling that offset each other statistically, masking genuine governance heterogeneity among affiliated firms. Practically, investors should prioritize dividend consistency and profitability over nominal leverage figures, while corporate managers should treat dividend policy as a long-term governance commitment and strengthen disclosure of intragroup transactions. Regulators, in turn, should enforce IAS 29 standards more rigorously to ensure financial statements reflect real economic conditions rather than inflation-driven artifacts.

The structural model explains 32-38% of the variance in firm value, indicating meaningful explanatory power within a highly volatile macroeconomic setting, though the remaining 62 – 68% points to the influence of factors beyond the scope of this study. These results suggest that both signaling theory and the trade-off theory hold only when the macroeconomic environment is reasonably stable, a boundary condition that prior literature has largely overlooked. Business group affiliation alone does not predict firm value, yet its positive interaction with dividend

distributions hints at a selective propping function, whereby group resources may help affiliates sustain dividend payments during periods of acute financial stress. The other limitation of the research are the sample is small, comprising only 13 firms and 65 observations and is restricted to the manufacturing sector, which constrains generalizability. The five-year observation window is insufficient to capture long-run affiliation dynamics and the binary group dummy oversimplifies what is, in practice a multidimensional governance structure. Future research should replicate this framework across other sectors and comparable high-inflation economies such as Argentina, Nigeria and Egypt. Business group affiliation should be measured through disaggregated metrics; ownership concentration, transaction intensity and intragroup disclosure quality rather than a binary dummy. Scholars are also encouraged to compare nominal and IAS 29-adjusted financial data to identify which approach best reflects economic reality in volatile institutional settings.

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