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STRATEGIC FINANCIAL DECISION-MAKING AND ITS IMPACT ON FIRM PERFORMANCE IN EMERGING MARKETS

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ABSTRACT

This study explores the relationship between strategic financial decision-making and firm performance within the context of emerging markets. In an increasingly volatile global economy, firms in developing regions face unique financial challenges that require strategic choices in areas such as capital structure, investment decisions, and liquidity management. This research aims to analyze how these decisions affect overall firm performance, measured by financial indicators such as Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS). A quantitative approach was employed using panel data from 80 publicly listed companies across five emerging economies over a five-year period (2018–2022). The results indicate that strategic financial decisions—particularly those related to capital allocation and debt management—have a statistically significant impact on firm profitability and market valuation. The study highlights the critical importance of adaptive financial strategies in enhancing competitiveness and long-term sustainability. Findings are expected to serve as a reference for financial managers and policy makers in developing countries.

Keywords: Financial strategy, firm performance, emerging markets, capital structure, financial decision-making, profitability

ABSTRAK

Studi ini mengeksplorasi hubungan antara pengambilan keputusan keuangan strategis dan kinerja perusahaan dalam konteks pasar berkembang. Dalam ekonomi global yang semakin bergejolak, perusahaan di kawasan berkembang menghadapi tantangan keuangan unik yang memerlukan pilihan strategis di berbagai bidang seperti struktur modal, keputusan investasi, dan manajemen likuiditas. Penelitian ini bertujuan untuk menganalisis bagaimana keputusan ini memengaruhi kinerja perusahaan secara keseluruhan, yang diukur dengan indikator keuangan seperti Return on Assets (ROA), Return on Equity (ROE), dan Earnings per Share (EPS). Pendekatan kuantitatif digunakan dengan menggunakan data panel dari 80 perusahaan publik di lima negara berkembang selama periode lima tahun (2018–2022). Hasilnya menunjukkan bahwa keputusan keuangan strategis terutama yang terkait dengan alokasi modal dan manajemen utang memiliki dampak signifikan secara statistik terhadap profitabilitas perusahaan dan valuasi pasar. Studi ini menyoroti pentingnya strategi keuangan adaptif dalam meningkatkan daya saing dan keberlanjutan jangka panjang. Temuan diharapkan dapat menjadi referensi bagi manajer keuangan dan pembuat kebijakan di negara berkembang.

Kata Kunci : Strategi keuangan, kinerja perusahaan, pasar berkembang, struktur modal, pengambilan keputusan keuangan, profitabilitas



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INTRODUCTION

In an era marked by globalization and economic disruption, companies in emerging markets face significant hurdles in maintaining financial performance amidst intensifying global competition. Strategic financial decision-making plays a pivotal role in shaping firm outcomes, particularly in managing capital structure, investment priorities, and liquidity reserves. Poor financial strategies can result in major financial losses, decreased investor confidence, and weakened market positioning.

Unlike firms in developed economies, which benefit from stable regulatory environments and access to diversified financial markets, firms in emerging countries often operate under conditions of financial volatility, policy uncertainty, and limited access to long-term capital. These unique challenges necessitate a deep understanding of strategic finance to ensure operational resilience and growth.

This research contributes to the existing literature by empirically examining the relationship between strategic financial decisions and firm performance within emerging markets, offering practical insights for financial executives and policy institutions.

METHODOLOGY

To model the relationship between strategic financial decisions and firm performance, this study applies a multivariate regression model using panel data. The general equation for the econometric model is structured as:

$$\text{Performance}_{it} = \beta_0 + \beta_1(\text{DER}_{it}) + \beta_2(\text{CR}_{it}) + \beta_3(\text{CAPEX}_{it}) + \beta_4(\text{Size}_{it}) + \varepsilon_{it}$$

where 'Performance' represents the financial indicators (ROA, ROE, EPS), 'DER' is the Debt-to-Equity Ratio, 'CR' is the Current Ratio, and 'CAPEX' refers to Capital Expenditure to Total Assets. 'Size' denotes the firm's total assets (log-transformed), and 'e' represents the error term. The firms were selected based on their availability of full financial reports, consistent listing on the stock exchange, and representativeness across key sectors such as manufacturing, energy, finance, and telecommunications. The inclusion criteria also ensured



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geographic and economic diversity across the selected emerging markets.

Descriptive statistics were used to understand the central tendency and variability of the data, while regression diagnostics such as multicollinearity and heteroskedasticity were examined to ensure model reliability. The statistical software used for analysis was STATA 17, which is widely recognized for handling complex panel data estimation.

This methodology was chosen for its robustness in capturing both time-series and cross-sectional dynamics, which is essential in understanding how firm-specific decisions interact with macro-level economic fluctuations in emerging markets.

This research adopts a quantitative approach using panel data analysis to evaluate how strategic financial decisions influence firm performance. The study examines 80 public companies from Indonesia, India, Brazil, South Africa, and Turkey over the period 2018–2022. Variables include Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS) as dependent variables, while Debt to Equity Ratio, Current Ratio, and Capital Expenditure to Total Assets serve as independent variables. Control variables include firm size, GDP growth rate, and inflation.

Data sources include Bloomberg Terminal, Thomson Reuters, and official company reports. Macroeconomic data is sourced from the World Bank and IMF. Panel regression models were tested using fixed effects and random effects, with the Hausman test confirming the appropriate model. Significance level used was 5%.

RESULTS

Descriptive Statistics Summary (2018–2022):

Variable	Mean	Std. Dev.	Min	Max
ROA (%)	6.25	3.1	0.5	14.7
ROE (%)	11.3	5.6	-2.1	28.9
EPS (USD)	0.83	0.41	0.02	2.45
DER (x)	1.45	0.78	0.21	4.9



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<i>Current Ratio (x)</i>	1.62	0.59	0.74	3.95
<i>CAPEX/Total Assets (%)</i>	9.4	3.2	3.0	16.8

Regression Results Summary:

<i>Independent Variable</i>	<i>ROA (β)</i>	<i>ROE (β)</i>	<i>EPS (β)</i>	<i>Significance</i>
<i>Debt to Equity Ratio</i>	-0.87	-1.26	-0.19	p < 0.01
<i>Current Ratio</i>	+0.94	+1.22	+0.13	p < 0.05
<i>CAPEX/Total Assets</i>	+1.17	+1.83	+0.24	p < 0.01
<i>Firm Size (control)</i>	+0.48	+0.62	+0.09	p < 0.10

DISCUSSION

The empirical results show that the Debt to Equity Ratio has a significant negative relationship with all firm performance indicators (ROA, ROE, and EPS). This suggests that firms with higher leverage tend to perform worse, possibly due to the increased burden of interest payments and greater financial risk, especially during macroeconomic downturns.

Moreover, the negative relationship between leverage and performance supports the pecking order theory, which argues that firms prefer internal financing over external debt due to the cost of financial distress. The consistent negative coefficients suggest that excessive reliance on debt financing undermines profitability and reduces investor confidence in volatile economic environments.

The positive impact of capital expenditure is particularly notable in countries with aggressive industrial and infrastructure policies. It reflects firms' ability to convert capital investment into productivity gains, especially when aligned with national development plans. For example, firms in India and Brazil that benefit from government incentives for capital-intensive projects may achieve better performance outcomes.

Liquidity, as measured by the current ratio, continues to be a key indicator of operational efficiency. Firms with strong liquidity positions are better equipped to withstand economic shocks, access short-term credit, and invest in profitable opportunities. This reaffirms the need for a balanced working capital strategy that neither overextends nor underutilizes current assets.

The results collectively highlight the importance of strategic agility and financial prudence. In future research, incorporating qualitative variables such as corporate governance ratings, managerial ownership, or environmental performance scores could provide a more nuanced understanding of how financial decisions translate into firm performance, particularly in the context of ESG-driven investment landscapes.

Conversely, the Current Ratio is positively associated with performance metrics, indicating that firms with higher liquidity are more capable of meeting short-term obligations and are generally more resilient. This result reflects the importance of effective liquidity management in emerging markets, where access to capital is often constrained.

Capital Expenditure to Total Assets also exhibits a strong positive correlation with firm performance. This finding implies that strategic investment in long-term assets can enhance profitability and investor returns. Well-targeted capital spending, particularly in productive infrastructure or technology upgrades, likely contributes to future income streams.

These findings are consistent with Booth et al. (2001), who documented that financial structure decisions are highly influential and country-specific in developing economies. Furthermore, nations like India and Brazil—with relatively deeper financial systems—may tolerate higher leverage, whereas firms in Indonesia or South Africa are more vulnerable to debt shocks.

The findings suggest a need for adaptive financial strategies tailored to the local economic environment. Future research could explore moderating variables such as corporate

governance, interest rate volatility, or investor protection standards to understand deeper mechanisms behind these relationships.

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