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The Role Of Profitability In Moderating The Influence Of Capital Structure, Dividend Policy, And Company Size On Company Value In Mining Sector Companies Listed On The Indonesia Stock Exchange

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ABSTRACT

This study aims to determine and analyze the effect of capital structure on company value, the effect of dividend policy on company value, the effect of company size on company value, profitability moderates the relationship between capital structure and company value, profitability moderates the relationship between dividend policy and company value, profitability moderates the relationship between company size and company value. The population of the study was all mining sector companies listed on the Indonesia stock exchange, the number of which was determined based on purposive sampling totaling 13 samples for the period 2019-2023. The data analysis method in this study used partial least square-structural equation modeling (SEM-PLS). The results of the study indicate that: (1) capital structure has a positive but insignificant effect on company value; (2) dividend policy has a positive and significant effect on company value; (3) company size has negative and significant effect on company value; (4) profitability strengthens but is not significant the relationship between capital structure and company value; (5) profitability strengthens and is significant the relationship between dividend policy and company value; (6) profitability strengthens and is significant the relationship between company size and company value.

Keywords: *Capital Structure, Dividen Policy, Company Size, Profitability, Company Value*

1. INTRODUCTION

The rapid development of the Indonesia Stock Exchange cannot be separated from the role of investors who demand companies to have a good image and performance in order to attract investment interest. Investors will assess a company based on its ability to create value, which reflects the level of market confidence in the company's performance and future prospects (Brigham & Houston, 2011). Increasing company value is the main goal of management because it is directly related to shareholder welfare (Brealey et al., 2007). Company value is determined by several factors, including profitability and capital structure. Profitability reflects the company's ability to generate returns on its investment, and the higher the profitability, the higher the company's value because it attracts more investors (Kasmir, 2012; Brigham & Houston, 2011).

Research by Mangesti et al. (2019) and Hardinis (2019), Arkasmiralda (2018), and Naceur (2010) shows that profitability has a positive effect on firm value. However, this finding is different from Rizky et al. (2018) and Rizqia (2021) who found a negative or insignificant effect, indicating a contradiction and the need for further study. In addition to profitability, capital structure also affects firm value. According to Modigliani and Miller (in Brigham & Houston, 2010), capital structure plays an important role in determining firm value, where increasing debt can increase value to a certain point, as explained in the trade-off theory (Myers, 1984; Brealey et al., 2008). However, the pecking order theory argues that companies prefer internal funding because external costs are higher and the risk of negative signals to the market (Myers, 1984).

Empirical findings are also diverse, for example Singh & Bangga (2019) found a positive effect of capital structure on firm value, while Charles & Veronica (2018) found a negative effect. Abor (2005) also found that short-term debt has a positive effect on profitability, while long-term debt has a negative effect. Therefore, a deep understanding of the relationship between profitability, capital structure, and firm value is important to support the strategy of increasing the company's competitiveness in the capital market.

Dividend policy is one of the important decisions in corporate financial management because it is believed to affect the performance and value of the company (Brigham, 2014; Amidu, 2007). Research shows that profitability as measured by return on assets, return on equity, and sales growth has a positive relationship with dividend policy. Regarding firm value, research is divided into two views, namely the theory of dividend irrelevance and the theory of dividend relevance, with several theories such as bird-in-hand, signaling, and agency costs supporting a positive relationship, while the tax effect theory shows the opposite (Budagaga, 2020; Brigham & Ehrhardt, 2010). In addition, company size also affects company value because large companies are considered to have better prospects and stability, and are easier to obtain funding (Horne & Wachowicz, 2009; Brealey et al., 2011; Ahmadi & Vantayen, 2023). However, findings regarding the influence of company size still show mixed results (Pramana & Wiksuana, 2016; Indrati et al., 2023).

Profitability in this context is positioned as a moderating variable that can strengthen or weaken the relationship between capital structure, dividend policy, and company size on company value. Profitability is considered an important indicator in assessing the efficiency of resource management and is able to increase company value by increasing investor confidence (Horne & Wachowicz Jr., 2012; Juhandi in Ambar et al., 2020). Several studies have shown that profitability is able to moderate the effect of capital structure and company size on company value (Almahadin & Oroud, 2019; Ahmadi & Randy Joy, 2023; Syamsuddin et al., 2020; Rahayu et al., 2018).

Indonesia's mining sector plays a strategic role in the national economy, with significant contributions to GDP and state revenues. However, the condition of the sector's financial ratios, such as PER, NPM, DER, and DPR during 2019–2023 showed fluctuations, indicating instability in the company's value and profitability (IDX Daily Statistics, 2024). This phenomenon is not always in line with dividend policy, capital structure, and company size, indicating the importance of profitability in explaining the relationship between these variables. Based on empirical phenomena and inconsistent previous research results, this study was conducted to re-examine the effect of capital structure, dividend policy, and company size on company value with profitability as a moderating variable in mining sector companies listed on the Indonesia Stock Exchange.

2. LITERATUR REVIEW

Company Values

The results of management work from several dimensions including net cash flow from investment decisions, growth and the company's cost of capital (Prasetyo, 2011). For investors, company value is an important concept because company value is an indicator of how the market assesses the company as a whole. This high company value is what the company owner wants to show high shareholder prosperity. The high value of a company indicates that the company's performance is good. Company value can be measured through the value of the stock price in the market based on the formation of the company's stock price in the market, which is a reflection of the public's assessment of the company's real performance (Harmono, 2017). According to Husna and Pudjiastuti (2006), company value is the normative goal of financial management. Company value is the price that prospective buyers are willing to pay if the company is sold, the higher the value of a company, the greater the prosperity that will be received by shareholders. According to Keown et al (2011), company value is the market value of the company's outstanding securities and equity. In other words, company value is the price that investors are willing to pay if the company is sold. According to Hery (2017:5) defines the meaning of company value "Company value is a certain condition that has been achieved by a company as a picture of public trust in the company after going through a process of activities for several years, namely from when the company was founded until now." Meanwhile, according to Indrarini (2019:2) the meaning of company value is the investor's perception of the level of success of managers in managing the company's resources entrusted to him which is often associated with stock prices. According to Sugeng (2017:9) defines that "the meaning of company value is the selling price of the goods when the goods are to be sold". Company value is a picture of a company's performance because it can explain how the company can provide prosperity for company owners and investors. Various policies taken by management in an effort to increase company value by increasing the prosperity of owners and shareholders are reflected in stock prices (Brigham and Daves, 2018:19).

Profitability

Profitability is one of the measurements of a company's performance, a company's profitability shows a company's ability to generate profits during a certain period at a certain level of sales, assets and share capital. Brigham and Houston (2010) stated that "the profitability ratio will show the effects of liquidity, asset management, and debt on operating results". This ratio is used to determine the company's ability to generate profits or how effective the company's management is. In order to survive, the company must be in a profitable condition. If the company is in an unfavorable condition, it will be difficult for the company to obtain loans from creditors or investment from outside parties. Harahap (2011) stated that "the profitability ratio describes the company's ability to earn profits through all existing capabilities and sources such as sales activities, cash, capital, number of employees, number of branches and so on". Company profitability is a measure of the company's ability to generate profits during a certain period of time with a series of certain sales, assets and equity capital. Company profitability can be evaluated in different ways, depending on the income and assets or capital being compared. The main attraction for company owners (shareholders) in a company is profitability. In this context, profitability means the results obtained through management efforts on funds invested by the company's owners. Kasmir (2015:114) said that: "Profitability Ratio is a ratio to assess the company's ability to seek profit or gain in a certain period. This ratio also provides a measure of the level of effectiveness of a company's management as indicated by the profit generated from sales or investment income."

Capital Structure

Capital structure is important for organizations because the good or bad capital design will directly affect the financial position of the organization, especially with the presence of very large obligations that will burden the organization. Capital design is a combination of long-term obligations and value financing (Brealey, Myers, and Marcus, 2001). So capital construction is the alignment between how much obligation and equity. According to Weston and Brigham (2010), the designated capital construction is a mixture or mix of obligations, preferred shares, and normal shares that the organization needs in its capital design. So capital construction is the correlation between obligations and offers desired by the organization in its capital design. According to Fahmi (2012) capital structure is defined as follows: "Capital structure is a description of the form of a company's financial proportion, namely between owned capital sourced from long-term debt and equity which is a source of financing for a company". So capital structure is a combination of sources of organizational wealth starting from long-term obligations and equity which is used as sources of support for the organization or company. The ideal capital structure is a combination of values that expand the cost of the organization's portion. capital structure is the result or consequence of a subsidy choice that basically chooses whether to use liabilities or equity to fund a company's operations. From several definitions that have been put forward by experts, it can be concluded that capital structure is the financial proportion between short-term debt, long-term debt and equity used to meet the company's spending needs.

Dividend Policy

Dividend policy according to Syahyunan (2015) is a decision whether the profit received by the company at the end of the year will be distributed to shareholders in the form of dividends or will be retained to increase capital for financing future investments. According to Dermawan Sjahrial (2002:305), the company will grow and develop, then in time will gain profit or gain. This profit consists of retained earnings and distributed profits. Of all the profits obtained by the company, some are distributed to shareholders in the form of dividends. Regarding the determination of the amount of dividends to be compared, that is the dividend policy of the company's leadership. According to James C. Van Horne (2002), an evaluation of the effect of the dividend payout ratio on shareholder wealth can be done by looking at the company's dividend policy as a funding decision involving retained earnings. Each period, the company must decide whether the profits obtained will be retained or distributed in part or in full to shareholders as dividends.

Company Size

Company size is a measure, scale or variable that describes the size of a company based on several provisions, such as total assets, log size, market value, shares, total sales, total income, total capital and others. Company size is a scale that can be calculated with the level of total assets and sales that can indicate the condition of the company where larger companies will have advantages in the sources of funds obtained to finance their investments in making a profit. Company size can be used to represent the financial characteristics of the company. Large companies that are well established will find it easier to obtain capital in the capital market compared to small companies. Because the ease of access means that large companies have greater flexibility. The higher the company size, the more closely related it will be to the funding decisions that will be implemented by the company in order to optimize the company's value. Riyanto (2011:299) argues that large companies with large distributions of company shares will have a small impact on the loss of control from the dominant party over the company, so large companies tend to be braver in issuing new shares to meet the company's needs than small companies. Munawir (2010:19) stated that companies that have a larger company size have a strong drive to produce a high level of profitability compared to smaller companies. According to Werner R. Murhadi (2013) Firm Size is measured by transforming the total assets owned by the company into the form of natural logarithm. Company size is proxied using the Natural Log of Total Assets in order to reduce excessive data fluctuations. By using natural log, the amount of assets with a value of hundreds of billions or even trillions will be simplified, without changing the proportion of the actual amount of assets "Company size = Ln (Total Assets)". Ayu Sri Mahatma Dewi and Ary Wijaya (2013) stated that the measurement of the company size variable is based on total assets. According to Jogiyanto (2007:282) stated that the size of assets is used to measure the size of the company, the size of the assets is measured as the logarithm of total assets. This is because the company has a large need for funds, and one alternative to meet the available funds is through external funding. External funding can be obtained by issuing shares, bonds, or debt. So that in order to meet the external funding, the company will further improve its performance in running

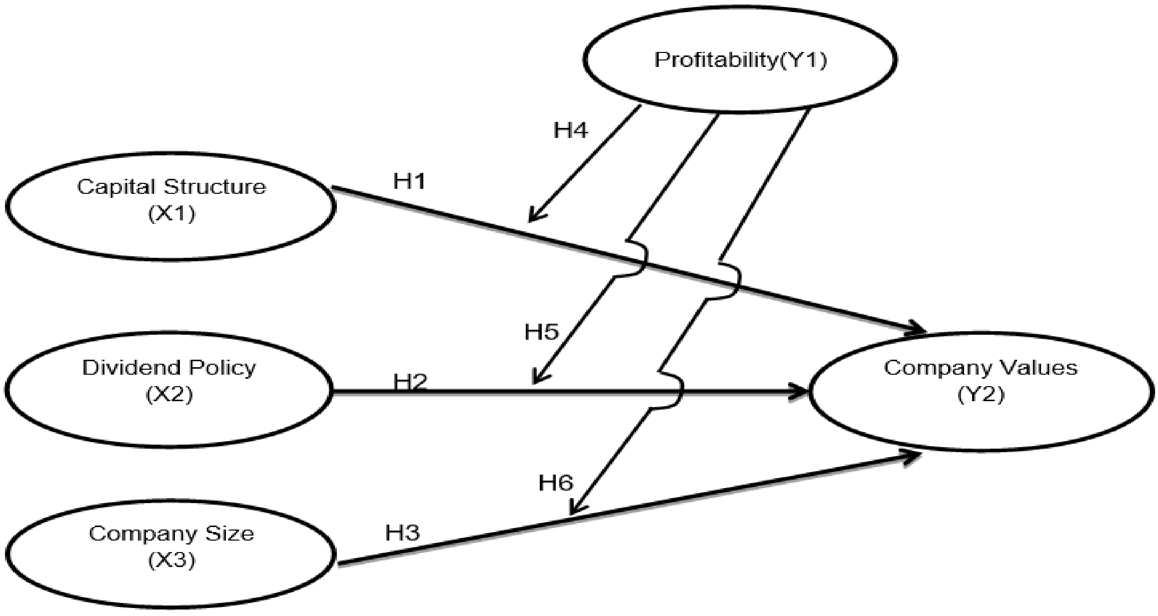

Figure 1 Conceptual Framework

Research Hypothesis

H1: Capital Structure Has a Positive and Significant Influence on Company Value

H2: Dividend Policy Has a Positive and Significant Impact on Company Value

H3: Company Size Has a Positive and Significant Influence on Company Value

H4: Profitability is able to strengthen the influence of capital structure on company value.

H5: Profitability can strengthen the influence of dividend policy on company value.

H6: Profitability can strengthen the influence of company size on company value.

3. RESEARCH METHODS

The location of this research was conducted on the Indonesian Stock Exchange mining sector. The population of the study was all mining sector companies listed on the Indonesia stock exchange, the number of which was determined based on purposive sampling totaling 13 samples for the period 2019-2023. The data analysis method in this study used partial least square-structural equation modeling (SEM-PLS).

Operational Definition Of Variables

Company value is a value that reflects the company's success in past operations and its prospects in the future. The indicators of this research are: Price Earnings Ratio (PER), Price Book Value (PBV), Tobins'Q (Q), Book Value, and Market Value.

Capital structure is the composition value between the comparison of all liabilities with equity as a source of company funding, measured by the debt to equity ratio (DER), debt to asset ratio (DAR), and long term debt equity ratio (LDER) (Sjahrial and Purba, 2013:37).

Dividend Policy is a company's decision to decide how much profit is obtained in the form of dividends by shareholders, or will be retained in the form of retained earnings. The measuring instruments used are sourced from Halim, 2015, including Dividend Yield (DY), Dividend Payout Ratio (DPR), Earning Pershare (EPS), and Retention Ratio.

Firm size is a value to see the size of a company that can be seen in the components of the financial report. The measuring instruments used are sourced from Titman and Wessels (1988), Hall and Weiss (1967), Damodaran (2002), Frank and Goyal (2003), Evans (1987) including Total Assets, Total Sales, Market Capitalization, and Total Equity.

The moderating variable in this study is Profitability. Profitability is the company's ability to generate or obtain profits from its investment activities in a period. The measuring instruments used are sourced from Sartono (2011:113) and Hery (2017:193), including Gross Profit Margin, Net profit margin (NPM), Return on assets (ROA), and Return on equity (ROE).

4. RESEARCH RESULT

R-Squared (R^2)

Inner model or structural model testing is conducted to see the relationship between variables, significance values and R-square of the research model. PLS model research begins by looking at the R-square for each dependent latent variable. Changes in the R-square value can be used to assess the influence of certain independent latent variables on the dependent latent variable whether it has a substantive influence. The following table is the result of R-square estimation using SmartPLS 4.

Table 1 R-Square Values

	R-square	**R-square adjusted**
Company value	0,869425748	0,853390314

Source: SmartPLS 4 Processed Results, 2025

Table 1 shows the R-Square of the Firm Value construct of 0.869. The higher the R-Square value, the greater the ability of the independent variable to explain the dependent variable, so the better the structural equation. The Firm Value variable has an R-Square value of 0.869, which means that 86.9% of the variance in capital structure, dividend policy, firm size, and profitability can be explained by the firm value variable. While the remaining 13.1% is explained by other variables that have not been included in the model.

Direct Effect

Table 2 Direct Effect

Research Hypothesis				Path Coefficient	t-statistik	p-value	Info
H1	X1	→	Y1	-0.068	0,669	0.503	Rejected
H2	X2	→	Y1	0.709	4,744	0.000	Accepted
H3	X3	→	Y1	-0,358	3,025	0.002	Accepted

Source: SmartPLS 4 Processed Results, 2025

Moderation Path Analysis

Table 3 Moderation Path Analysis

Research Hypothesis				Path Coefficient	t-statistik	p-value	Info
H4	X1*Z	→	Y1	0,201	1,387	0.166	Rejected
H5	X2*Z	→	Y1	0.450	2,156	0.031	Accepted
H6	X3*Z	→	Y1	0,418	2,505	0.012	Accepted

Source: SmartPLS 4 Processed Results, 2025

5. DISCUSSION

The Influence Of Capital Structure On Company Value

The results of the study indicate that capital structure has a negative and insignificant effect on firm value in mining companies in Indonesia, with a coefficient of -0.068 and a significance of 0.503, greater than 0.05. This shows that an increase in capital structure, especially the ratio of long-term debt to book value, tends to reduce firm value as reflected in the price book value (PBV), price earnings ratio (PER), and Tobin's Q. A high long-term/book value of equity ratio reflects financial stability and has the potential to increase firm value, but if the proportion of debt is too large, financial risk also increases and has the potential to reduce PBV and PER. Investors tend to view high debt burdens as a signal of instability, which can reduce the perception of firm value (Husnan & Pudjiastuti, 2004). This finding supports the Modigliani-Miller theory which states that in a perfect market, capital structure does not affect firm value, as well as the trade-off theory which states that there is an optimal point in the use of debt, where tax benefits are maximized before bankruptcy and agency costs increase. This study is in line with the results of the studies of Nguyen et al. (2023), Ayuba et al. (2020), Monoarfa (2018), and

Abdallah & Hussein (2014) who found that the debt ratio, especially long-term debt, had no significant effect and actually had a negative impact on firm value, especially Tobin's Q. However, these results contradict the research of Almomani et al. (2022) and Zhao et al. (2012) which states that long-term debt is the main determinant of firm value, in line with the pecking order theory and traditional theory that takes into account market imperfections, such as information asymmetry, tax shields, and bankruptcy costs.

The Influence Of Dividend Policy On Company Value

The results of the study indicate that dividend policy has a positive and significant effect on company value in the mining sector in Indonesia, with a coefficient of 0.709 and a significance level of 0.000. This indicates that increasing the dividend payout ratio (DPR) and retention ratio (RR) can increase company value as reflected in the price book value (PBV), price earning ratio (PER), and Tobin's Q. DPR reflects investor confidence in the stability of the company's profits, while RR shows the potential for future growth through profit reinvestment, both of which contribute to investors' positive perceptions of company value. This finding supports the signaling theory (Spence, 1973) which states that dividend payments function as a signal of management confidence in the company's financial prospects and reduce information asymmetry. In addition, this result is also in line with the bird in the hand theory of Gordon (1963) and Lintner (1956), which states that investors prefer certain dividends today to uncertain capital gain potential in the future. Thus, a good dividend policy reflects growth stability, efficient profit management, and increases investor confidence. This study is also in line with the findings of Monoarfa (2018), Anggana & Ananda (2022), Ahmadi & Bambang (2020), Kusumawati & Harijono (2021), Ambar Sari et al. (2020), Qureshi (2007), and Ghosh et al. (2008) which show that dividend policy has a positive effect on firm value. However, this finding contradicts the research of Naceur & Goaied (2010) and Fribontius (2022), which show a negative and insignificant effect of dividends on firm value creation, supporting the dividend irrelevance theory of Modigliani & Miller (1958) which states that firm value depends on the income generated by assets, not on the distribution of profits through dividends (Brigham & Daves, 2014).

The Influence Of Company Size On Company Value

The results of the study show that company size has a negative and significant effect on company value in the mining sector in Indonesia, with a coefficient of -0.358 and a significance level of 0.002. This indicates that an increase in company size as reflected through the natural log of total equity, sales, and assets can actually reduce the company's value as reflected in the price book value (PBV), price earning ratio (PER), and Tobin's Q. Although large companies tend to have more assets and sales, this is not always positively valued by the market if the growth is not accompanied by optimal operational efficiency and profitability. This finding supports the agency theory proposed by Jensen & Meckling (1976), which explains that large companies tend to face higher agency costs due to conflicts of interest between management and shareholders and increased monitoring costs. In addition, these results are also consistent with the theory of scale by Alfred Marshall (1920) which states that after reaching a certain point, large scale no longer provides additional efficiency and can even cause increased overhead costs that reduce profit margins. This study is in line with the studies of Irawan & Kusuma (2019), Putri et al. (2016), Niesh & Velnampy (2014), Hirdini (2019), Sugandi et al. (2021), and Safaruddin et al. (2023) which show that company size has a negative effect on company value. Companies that are too large are considered less efficient in monitoring and strategic decision making, resulting in a decrease in company value.

The Role Of Profitability In Moderating The Relationship Between Capital Structure And Firm Value

The results of the study indicate that profitability plays a negative and insignificant role in moderating the relationship between capital structure and firm value in the banking sector in Indonesia, with a path coefficient of 0.201 and a significance value of 0.166 (> 0.05). This indicates that profitability is unable to strengthen or weaken the influence of capital structure on firm value. This means that whether a company has a larger proportion of debt or equity, the value of the company is not much affected by its level of profitability. This finding is in line with the theory of Modigliani and Miller (1958) which states that in perfect market conditions without taxes, bankruptcy costs, and information asymmetry, capital structure does not affect firm value. In addition, within the framework of the trade-off theory, profitability does affect financing decisions, but not directly as a moderating variable, while the pecking order theory explains that companies prefer internal financing to external financing, but this does not necessarily moderate the relationship between capital structure and firm value. This finding is also supported by research by Agus & Muhyarsyah (2021) which shows that profitability does not moderate the relationship between capital structure and firm value. Meanwhile, Mulyati et al. (2024) even found that profitability can weaken the relationship, because highly profitable companies are more likely to use internal funds for financing and are therefore less affected by capital structure.

The Role Of Profitability In Moderating Dividend Policy On Firm Value

The results of the study indicate that profitability acts as a positive and significant moderating variable in strengthening the influence of dividend policy on company value in the banking sector in Indonesia. This is indicated by a path coefficient of 0.450 with a significance value of 0.031 (<0.05), which means that the higher the company's profitability, the stronger the influence of dividend policy on increasing company value. Companies with high profitability levels tend to be able to pay larger dividends, provide positive signals to investors, and increase market confidence. This has an impact on increasing demand for shares and ultimately helps drive company value. In addition, good profitability allows companies to allocate resources optimally for long-term growth, making the combination of high profitability and consistent dividend policy a fundamental indicator favored by investors. This finding is in accordance with the Signaling Theory (Spence, 1973), which states that high dividends provide a positive signal regarding the company's prospects and reduce information asymmetry between management and investors. In addition, these results also support the Bird in the Hand Theory (Gordon & Lintner, 1963), which states that investors prefer certain dividends to uncertain capital gains. This study is in line with the findings of Syamsudin et al. (2020) which show that profitability strengthens the influence of dividend policy on firm value, because high profits allow companies to provide larger dividends, which ultimately increases firm value.

The Role Of Profitability In Moderating Firm Size On Firm Value

The results of the study indicate that profitability plays a positive and significant role in moderating the effect of company size on company value in the banking sector in Indonesia. This is indicated by a coefficient value of 0.418 with a significance level of 0.012 (<0.05), which indicates that profitability strengthens the relationship between company size and company value. Large companies with high profitability are able to utilize profits to finance new investments, improve operational efficiency, and expand market share, which ultimately has a positive impact on company value. Profitability also provides better ability to face risks and manage finances strategically. This finding is in line with the Growth Theory (Penman, 2007) which states that large companies with high profitability have greater growth potential, and is supported by the Economies of Scale Theory (Panzar & Willig, 1981) which states that large scale allows for cost efficiency and increased profit margins. In addition, Asymmetric Information Theory (Myers, 1984) and Fama & French (1992) explain that large and profitable companies can reduce market uncertainty, increase investor confidence, and strengthen company value. This study is supported by the findings of Ahmadi & Joy (2023) and Sugandi et al. (2021), which show that increasing company size through total assets has an impact on increasing net profit margin and price book value, indicating greater market confidence in the company's potential and stability.

6. CONCLUSION

Based on the results of the analysis and discussion, several conclusions can be put forward from the research results, namely: Capital structure has a negative and insignificant effect on company value. This indicates that an increase in capital structure reflected by the long-term/book value of equity ratio, total debt/book value, short-term/book value of equity ratio, long-term debt equity ratio (LDER), and long-term/market value of equity ratio does not have implications for a decrease in company value reflected by price book value, price earning ratio, and Tobins'Q. Dividend policy has a positive and significant effect on company value. This indicates that an increase in dividend policy reflected by the dividend payout ratio (DPR) and retention ratio (RR) has implications for an increase in company value reflected by price book value, price earning ratio, and Tobins'Q. Company size has a negative and significant effect on company value. This indicates that an increase in company size reflected by the natural log ratio of total equity, natural log of total sales and natural log of total assets has implications for a decrease in company value reflected by price book value, price earning ratio, and Tobins'Q. Profitability does not play a role in strengthening/weakening the relationship between capital structure and firm value. This means that profitability does not interact with capital structure in influencing firm value. Profitability plays a role in strengthening the relationship between dividend policy and firm value. This means that profitability plays a direct or moderating (interaction) role in the influence of dividend policy on firm value. Profitability plays a role in strengthening the relationship between firm size and firm value. This means that profitability plays a direct or moderating (interaction) role in the influence of firm size on firm value. Further researchers are advised to improve the limitations by including overinvestment variables, in order to better understand the dynamics of corporate investment decision-making, especially related to resource allocation efficiency and value creation. This study can explore the factors causing overinvestment and measure its level through quantitative approaches such as deviation of actual investment from expected, marginal efficiency of investment, and comparison of ROI with WACC. Thus, this study has the potential to enrich corporate finance literature and provide practical implications for management and investors in avoiding suboptimal investment.

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