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Dividend policy in moderating the impact of capital structure and profitability on firm value

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ABSTRACT

Purpose: Analyzing the effect of capital structure and profitability on firm value, with dividend policy as a moderator and firm size as a control variable on LQ45 index companies 2020-2024.

Methodology/approach: The quantitative approach used the Moderated Regression Analysis (MRA) method with a sample of LQ45 index companies 2020-2024 selected through purposive sampling, resulting in 70 observational data sets. The analysis used SPSS 27.

Findings: Capital structure has a positive and significant effect on firm value, while profitability has no effect. Dividend policy negatively moderates the relationship between capital structure and firm value. However, dividend policy does not moderate the relationship between profitability and firm value. Other findings indicate that firm size has a significant negative effect on firm value.

Practical and Theoretical contribution/Originality: This study enriches empirical evidence on the relevance of Trade Off Theory and Signaling Theory in explaining the dynamics of firm value in post pandemic economic conditions. It also provides input for management in formulating optimal funding and dividend policies to increase firm value.

Research Limitation: Limited to LQ45 index companies with a five year observation period 2020-2024, so generalization is still limited.

Keywords: Capital Structure; Dividend Policy; Firm Size; Firm Value; Profitability.



INTRODUCTION

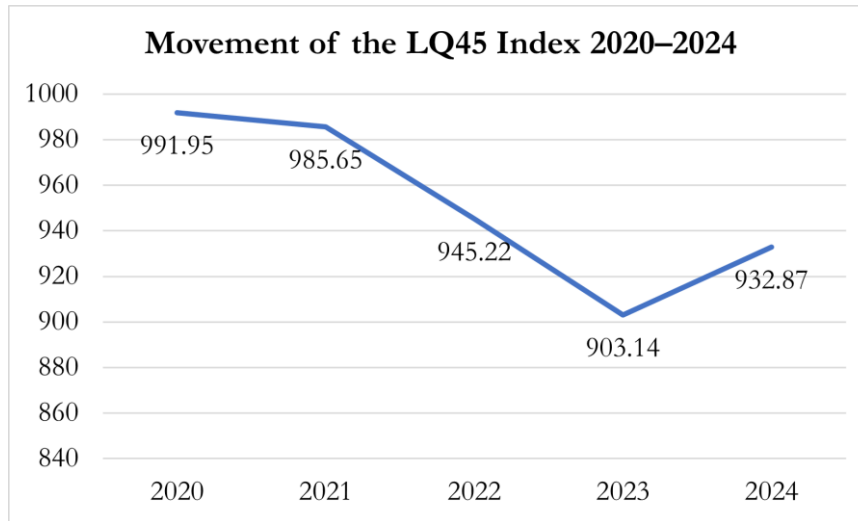


Figure 1. LQ45 Index Annual Return 2020-2024

Source: Data processed from IDX, (2025)

Firm value is a key indicator that shows how the market assesses an entity's performance, growth prospects, and the effectiveness of its financial management. This assessment reflects investor reactions to fundamental information published by the company and reflects management's success in creating shareholder value (Suliastawan & Purnawati, 2020). As a market signal, firm value is highly sensitive to macroeconomic dynamics, changes in monetary policy, and global uncertainty, which influence investment decisions and share price movements. This sensitivity is clarified by the findings of (Bui et al., 2023), who asserted that firm value is influenced by a combination of external and internal factors, including funding strategies and the company's ability to generate consistent profits. In this context, understanding how the market values high liquidity companies is crucial, especially when market indicators such as the LQ45 index exhibit movement patterns that reflect investor responses to changing economic conditions.

The LQ45 index movement during the 2020-2024 period showed significant volatility. Data on the LQ45 index movement shows the index value in 2020 was 991.95, then weakened slightly in 2021 to 985.65. The decline became more pronounced in 2022, when the index fell to 945.22, before reaching a low of 903.14 in 2023. Entering 2024, the index began to recover, rising to 932.87, reflecting improving market sentiment after experiencing successive pressures. This condition indicates that firm value is influenced not only by the external environment, such as monetary policy and global economic conditions, but also by internal variables such as capital structure and profitability, which reflect management's effectiveness in allocating and controlling financial resources (Bui et al., 2023). Furthermore, dividend policy plays a crucial role as a signaling mechanism that shapes investors' perceptions of a company's stability and future growth prospects (Njoku & Lee, 2024).

According to (Mahirun et al., 2024), capital structure describes the proportion or composition of debt and equity used in corporate financing and reflects how management maintains a balance between these two financing sources. An optimal capital structure strengthens the financial position and increases the company's value (Sorongan et al., 2022). Based on (Myers, 1984) Trade Off Theory, proportional debt use provides tax benefits, but excess debt increases the risk of bankruptcy, so companies need to balance the two. Therefore, achieving

a balance between the benefits and risks of debt use is essential, especially in a dynamic economic environment.

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Beyond capital structure, profitability serves as a crucial indicator of an entity's capacity to generate sustainable profits through efficient resource utilization. It reflects the degree to which financial policies and managerial effectiveness contribute to the creation of added economic value ([Salim & Susilowati, 2020](#)). In accordance with Signaling Theory, high profitability can be perceived by investors as a positive signal, reflecting a company's financial stability, operational efficiency, and future prospects ([Susanti et al., 2023](#)). Consequently, profitability functions not only as an internal performance measure but also possesses a strategic role in shaping market stakeholder perceptions and enhancing firm value.

Notwithstanding its theoretical importance, prior empirical research on the relationships between capital structure, profitability, and firm value reveals considerable inconsistencies. For instance, studies by [Mahirun et al., \(2024\)](#); [Nurdin et al., \(2023\)](#); [Wardani et al., \(2022\)](#), affirm a positive effect of capital structure on firm value, while other studies, such as [Adamu & Hamidah, \(2023\)](#); [Listyawati & Kristiana, \(2020\)](#); [Muchamad et al., \(2024\)](#) reported different results. A similar condition also occurs with the profitability variable, where studies by [Akmalia, \(2023\)](#); [Alghifari et al., \(2022\)](#); [Yuswandani et al., \(2023\)](#) showed a positive effect on firm value, but studies by [Farizki et al., \(2021\)](#); [Lestiana et al., \(2025\)](#); [Umbung et al., \(2021\)](#) found that profitability showed no significant effect. This discrepancy in results indicates a significant research gap, particularly in the context of the financial condition of companies operating in the Indonesian capital market, which is dominated by post pandemic dynamics. This inconsistency also indicates that high profits are not always followed by market appreciation when investors perceive a company's financial signals as insufficiently strong or credible ([Astadewi & Suaryana, 2025](#)).

In the context of this research gap, the role of dividend policy as a moderating variable is relevant for further research. Theoretically, dividend policy is a signaling mechanism that helps the market interpret whether capital structure and profitability truly reflect a company's sound fundamentals ([Anjani & Badjuri, 2024](#)). The theoretical basis for this role is supported by Signaling Theory, which states that high and stable dividend distributions can reflect positive signals that can shape investors' views of a company's future growth prospects and financial resilience, potentially increasing firm value ([Mahirun et al., 2024](#)). Several studies, such as those by [Rahmawati et al., \(2023\)](#); [Susanti et al., \(2023\)](#); [Wardani et al., \(2022\)](#), shows that dividend policy can strengthen the relationship between capital structure and profitability on firm value. However, other studies have found a different direction, such as those by [Rahmawati et al., \(2023\)](#) and [Yuswandani et al., \(2023\)](#) who show that some companies prefer to retain earnings to strengthen internal capital, so dividend policy can actually weaken this relationship. This inconsistency underscores the urgency of using moderating variables in this study.

From a financial perspective, firm size is considered a key determinant of firm value. This proposition stems from the view that a larger operational scale often indicates stronger and more sustainable company fundamentals, ultimately making it more effective in attracting investor attention ([Darmawan et al., 2020](#)). Empirically, this belief has been validated by various studies, including those by [Darmawan et al., \(2020\)](#) and [Zulpahmi et al., \(2024\)](#) which concluded that firm size influences firm value. The mechanism of this influence can be explained through several pathways. Corporate entities with substantial total assets typically have stronger financial capacity and broader access to various funding sources. Furthermore, large business scale tends to build higher market confidence than smaller companies. These

factors collectively shape positive investor perceptions, ultimately contributing to increased overall firm value.

Considering previous research by [Fitriana et al., \(2025\)](#); [Nurdin et al., \(2023\)](#); [Vilantika & Santoso, \(2022\)](#) this study's primary contribution is the incorporation of dividend policy as a moderating variable in the relationship between capital structure and profitability on firm value. This specific approach remains underexplored, as previous studies have predominantly focused on direct relationships between these variables. By concentrating on LQ45 Index companies for the 2020-2024 period, this research aims to resolve the empirical inconsistencies concerning the determinants of firm value within the post pandemic recovery context. Furthermore, it investigates how the interplay between financial variables is shaped by dividend policy as a signaling mechanism. The objectives are to analyze the effects of capital structure and profitability on firm value, assess the moderating role of dividend policy, and confirm the relevance of firm size as a control variable. Practically, this research is significant for providing a more robust empirical foundation for management in devising effective financing and dividend strategies, while also assisting investors in evaluating the consistency of financial signals from companies operating in dynamic market conditions.

This study's theoretical foundation is anchored in two principal theories: Trade Off Theory and Signaling Theory. The Trade Off Theory, pioneered by [Modigliani & Miller \(1958\)](#), contends that debt can augment firm value through the tax shield benefits of interest deductibility. This theory further posits that the decision to utilize debt is a rational one. Firms will employ leverage provided the advantages, such as tax savings, outweigh the associated costs and financial risks, including the potential for financial distress. Therefore, a firm must strike a balance between the costs of financial distress and the benefits of tax shields to attain an optimal capital structure, thereby enhancing firm value ([Riki et al., 2022](#)).

Furthermore, Signaling Theory, introduced by [Spence, \(1973\)](#) explains that parties with more information will provide signals to others to reduce information gaps. These signals help information recipients, such as investors, better understand the company's condition and prospects. This theory relates to profitability, dividend policy, and firm size. When profitability increases, companies typically send positive signals to the market as a sign of good performance. In the context of dividend policy, dividend distribution is seen as a credible signal because it incurs real costs for the company, so only entities with strong cash flow can afford to maintain it. This condition leads investors to view dividends as an indicator of stability and sustainable performance. A high dividend proportion also reflects good growth prospects and a company's financial resilience. Furthermore, large companies actively involved in the capital market tend to communicate more intensively with investors regarding their operational conditions and business sustainability ([Widiantari & Wiguna, 2023](#)).

Firm value can represent investor perceptions of a company's potential and performance, which is reflected in its stock price on the capital market ([Wardani et al., 2022](#)). Therefore, high firm value is often associated with increased investment interest, reflecting market optimism regarding the company's potential future development. Operationally, Price to Book Value (PBV) is used as an indicator to assess firm value, namely the comparison between the stock market price and its book value. An increase in PBV indicates high investor confidence and a positive market assessment of the company's prospects and performance. Conversely, a decrease in PBV can be interpreted as weakening company performance or reduced market confidence ([Vilantika & Santoso, 2022](#)).

The determination of capital structure is a strategic decision that defines the composition of a company's funding, derived from both equity and debt sources ([Liong et al., 2023](#)).

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Theoretically, Trade Off Theory elucidates that firms aim for an optimal capital structure by trading off the tax advantages of debt against its potential bankruptcy costs. A high debt to equity ratio can signal robust growth capacity and promising financial performance, thereby fostering positive investor perceptions regarding future prospects ([Nurhidayah et al., 2024](#)). Conversely, excessive debt that is not supported by adequate profitability can elevate financial risks, such as bankruptcy, and subsequently erode investor confidence ([Astadewi & Suaryana, 2025](#)). Consequently, an optimal capital structure is instrumental in strengthening a company's fundamentals and driving enhanced firm value. Empirically, several prior studies, including [Mahirun et al., \(2024\)](#); [Nurdin et al., \(2023\)](#); [Wardani et al., \(2022\)](#) demonstrate that capital structure exerts a significant influence on firm value. Therefore, a strategically managed capital structure is anticipated to contribute positively to an increase in firm value.

H₁: Capital structure has a positive effect on firm value

Profitability serves as a principal metric for assessing a firm's capacity to generate earnings. This capacity, which reflects operational efficiency in sales, asset deployment, and capital allocation, is fundamental in influencing market valuation and stakeholder confidence ([Mahirun et al., 2024](#)). Based on Signaling Theory [Spence, \(1973\)](#), high profitability is viewed as a positive signal regarding a company's growth prospects and financial strength. This theory explains how management communicates internal information regarding the company's condition and direction to investors and how these signals are interpreted by the market ([Komalasari & Yulazri, 2023](#)). High profitability reflects a company's effectiveness in managing resources, thereby increasing investor confidence and driving market value increases. Findings by [Alghifari et al., \(2022\)](#); [Nurdin et al., \(2023\)](#); [Yuswandani et al., \(2023\)](#) also confirm that profitability plays a significant role in increasing firm value because it demonstrates strong operational performance. Thus, both theoretically and empirically, profitability has a positive relationship with firm value.

H₂: Profitability has a positive effect on firm value

According to Signaling Theory, dividend payments function as a credible signal of a company's robust financial health and positive future outlook. Consequently, the distribution of consistent dividends serves to strengthen investor confidence ([Isibor et al., 2024](#)). Meanwhile, Trade Off Theory explains that the use of debt can increase firm value when maintained at optimal levels, but financial risk increases when leverage is too high and not balanced by cash flow generation ([Yuswandani et al., 2023](#)). Under these conditions, dividend policy can function as a risk neutralizer because companies that consistently pay dividends despite high debt send a positive signal that their performance is strong and liquidity is maintained ([Nurhidayah et al., 2024](#)). Conversely, a high capital structure without stable dividend support can create greater risk perceptions for investors. Empirical evidence from [Susanti et al., \(2023\)](#) and [Wardani et al., \(2022\)](#) shows that dividend stability helps highly leveraged companies maintain market value. Based on these theoretical foundations and empirical findings, dividend policy is expected to moderate the relationship between capital structure and firm value.

H₃: Dividend policy can moderate capital structure in relation to firm value

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Within the Signaling Theory framework, high profitability is considered a positive signal when supported by a consistent dividend policy, as dividends reduce information asymmetry between management and investors ([Rahmawati et al., 2023](#)). Without dividend distribution, high profits can be perceived as mere profit retention, thus weakening the credibility of the profitability signal ([Suliastawan & Purnawati, 2020](#)). Conversely, stable dividend payments

demonstrate sustainable cash flow and strengthen market confidence in the company's prospects (Lestiana et al., 2025). Theoretically, this condition confirms that dividends are an information dissemination mechanism that reflects performance quality, as they are considered tangible evidence of reported earnings. Empirical evidence from Budiasih et al., (2023), shows that companies with strong earnings tend to pay larger dividends, which directly impacts market valuations. The findings of Rahmawati et al., (2023) and Susanti et al., (2023) also confirm the significant role of dividend policy in market valuation, especially when profitability is optimal. Thus, dividend policy functions not only as an explanatory variable but also as a moderating variable that strengthens the influence of profitability on firm value.

H4: Dividend policy can moderate profitability in relation to firm value

Within financial literature, firm size is a significant determinant of firm value, as larger firms typically exhibit greater financial stability, operational capacity, and access to capital (Fadhilah et al., 2023). These attributes, in turn, bolster investor confidence and promote stock price appreciation (Darmawan et al., 2020). From the perspective of Signaling Theory, a company's substantial assets and operational scale convey a positive signal to the market about its capacity to sustain performance and mitigate risk, consequently improving investor perception of its long term prospects. Firm size, quantified by metrics such as total assets, revenue, or market capitalization, signifies an expanded operational scale and market dominance, which collectively enhance firm value (Oktavionita et al., 2022).

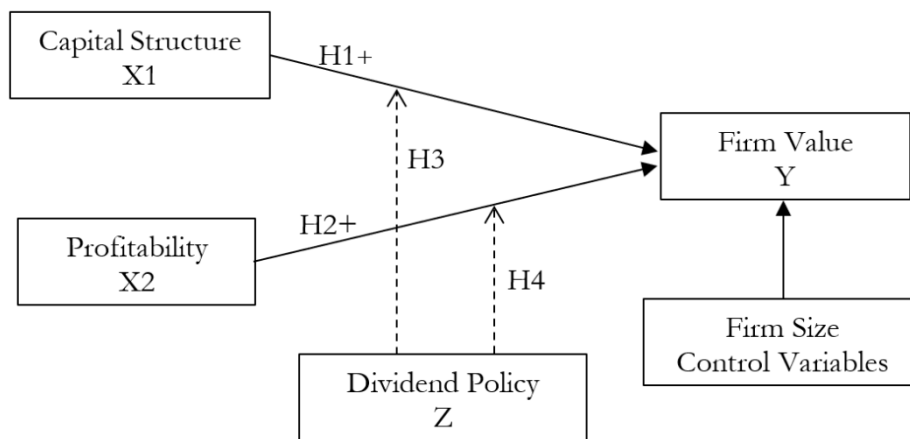


Figure 2

Source: Processed by Researchers, (2025)

Figure 2. Research Framework

METHOD

No	Description	Quantity
1.	Number of companies listed in the LQ45 index during the 2020–2024 period	45
2.	Companies whose membership in the LQ45 index was inconsistent between 2020-2024.	(20)
3.	Companies that did not distribute dividends during the 2020-2024 period.	(3)
4.	Total companies meeting the research selection criteria.	22
	Number of observation data (22 X 5 years).	110
	Normality issues were addressed by removing outliers through casewise diagnostics.	(40)
	Number of data for observations.	70

Source: Processed by Researchers, (2025)

Table 1. Sampling Criteria

7 Adopting a quantitative methodology, this research utilized Moderated Regression Analysis (MRA) to investigate the moderating effect of dividend policy on the relationships between capital structure, profitability, and firm value. As stated by [Sugiyono \(2020\)](#), a quantitative approach is essentially oriented toward processing measurable data analyzed using statistical techniques to systematically and objectively examine the relationships between variables.

This study focuses on highly liquid firms listed on the LQ45 Index from 2020 to 2024. A sample of 70 companies was selected through a purposive sampling method based on three specific criteria: (1) consistent listing in the LQ45 Index during the study period, (2) availability of complete annual reports and audited financial statements, and (3) dividend distribution during the observation period. Data were sourced from annual reports and audited financial statements obtained from the official websites of the respective companies and the Indonesia Stock Exchange (IDX). Details of the sample screening process based on these criteria are presented in the following table:

For data analysis, the research employs the R² test, F-test, t-test, and Moderated Regression Analysis (MRA). The application of MRA is justified by its appropriateness for investigating the role of dividend policy as a moderating variable in the relationship between capital structure and profitability on firm value.

No	Variable	Definition	Formula
1	Firm Value	Firm value is the price a party is willing to pay to acquire a company, as measured by the ratio between the stock's market price and its book value (Nurdin et al., 2023) .	$PBV = \frac{\text{Stock Price}}{\text{Book Value per Share}}$
2	Capital Structure	Capital structure represents the composition of funding, as measured by the debt to equity ratio, and also indicates a company's ability to repay debt with its equity (Nurdin et al., 2023) .	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$
3	Profitability	Profitability serves as an indicator of a firm's capacity to generate earnings by effectively employing its resources, which include assets, capital, and sales revenue (Yuswandani et al., 2023) .	$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$
4	Dividend Policy	Dividend policy is a strategic decision regarding the distribution of profits to shareholders, which simultaneously reflects the company's performance and serves as a signal of future prospects for investors (Yuswandani et al., 2023) .	$DPR = \frac{\text{Dividend per Share}}{\text{Total Equity}}$
5	Firm Size	Firm size indicates the size of a company, which can be measured by total assets (Darmawan et al., 2020) .	$\text{Size} = \ln(\text{Total Assets})$

Source: Processed by Researchers, (2025)

Table 2.
Operational Variables

This study uses a moderated regression analysis (MRA) model with the following equation:

$$PBV = \alpha + \beta_1 DER + \beta_2 ROA + \beta_3 FS + \epsilon$$

$$PBV = \alpha + \beta_1 DER + \beta_2 ROA + \beta_3 DPR + \beta_4 FS + \epsilon$$

$$PBV = \alpha + \beta_1 DER + \beta_2 ROA + \beta_3 DPR + \beta_4 (DER * DPR) + \beta_5 (ROA * DPR) + \beta_6 FS + \epsilon$$

PBV : Firm Value

DER : Capital Structure

ROA : Profitability

DPR : Dividend Policy

FS : Firm Size

α : Constant

$\beta_1 - \beta_6$: Regression Coefficient

DER*DPR : Interaction Between Capital Structure and Dividend Policy

ROA*DPR : Interaction Between Profitability and Dividend Policy

ϵ : Error

RESULTS AND DISCUSSION

This study employs secondary data sourced from the annual reports of companies listed on the LQ45 index over the 2020-2024 observation period. All data was retrieved from the official websites of each research entity, and then filtered to ensure compliance with the analysis requirements. Based on predetermined inclusion standards, a purposive sampling technique was used to determine the research sample.

The descriptive statistics for the research variables are presented in Table 3. The results indicate that Capital Structure (DER) has a mean of 1.80 and a standard deviation of 2.03, with values ranging from 0.23 to 6.63. In contrast, Profitability (ROA) demonstrates a mean of 0.07 and a standard deviation of 0.08, spanning from -0.03 to 0.45. Dividend Policy (DPR) shows a mean value of 0.51 and a standard deviation of 0.47, within a range of -0.25 to 2.51. The dependent variable, Firm Value (PBV), exhibits a mean of 1.18 and a standard deviation of 0.48, with observations between 0.36 and 2.40. Regarding the control variable, Firm Size has a mean of 32.66 and a standard deviation of 1.31, ranging from 30.42 to 35.43. Finally, the interaction terms display distinct characteristics, DER*DPR possesses a mean of 0.80 and a standard deviation of 1.74 (min -3.39, max 12.05), while the ROA*DPR variable presents a lower mean of 0.04 and a standard deviation of 0.04, ranging from 0.01 to 0.20.

This study first verifies the classical assumptions through a series of diagnostic tests. The overall results of the classical assumption examination are then presented comprehensively in Table 4 as a basis for further hypothesis testing.

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Variable	N	Minimum	Maximum	Mean	Std. Deviation
DER	70	0.23	6.63	1.80	2.03
ROA	70	-0.03	0.45	0.07	0.08
DPR	70	-0.25	2.51	0.51	0.47
PBV	70	0.36	2.40	1.18	0.48
Size	70	30.42	35.43	32.66	1.31
DER*DPR	70	-3.39	12.05	0.80	1.74
ROA*DPR	70	0.01	0.20	0.04	0.04
Valid N (listwise)	70				

Table 3.
Descriptive
Statistics

Source: SPSS 27 Data Processing, (2025)

Classical Assumption Test	Indicators/Variables	Sig.		
Normality Test	Asymp. Sig (2-tailed)	0.200		
Multicollinearity Test and Heteroscedasticity Test	Tolerance	VIF		
	DER	0.272	3.681	0.261
	ROA	0.227	4.399	0.564
	DPR	0.173	5.776	0.141
	Size	0.332	3.012	0.894
	DER*DPR	0.274	3.655	0.067
ROA*DPR	0.168	5.959	0.785	
Autocorrelation Test	Durbin-Watson	1.292		

Table 4.
Classical
Assumption
Test

Source: SPSS 27 Data Processing, (2025)

Normality testing using the Kolmogorov-Smirnov method on 70 research samples resulted in the finding that all variables were normally distributed. This conclusion is based on the Asymp. Sig. (2-tailed) value of 0.200, which statistically exceeds the significance limit of $\alpha = 0.05$. By fulfilling the normality assumption in the residuals of this regression model, the research data meets the eligibility criteria for processing in the advanced statistical analysis stage.

Based on the results of the multicollinearity test in Table 4 for all research variables, it can be concluded that violations of the multicollinearity assumption were not found in the regression model used. This conclusion is supported by the tolerance values of all variables which are above the limit of 0.10 and the Variance Inflation Factor (VIF) value which is below the threshold of 10. In more detail, the tolerance and VIF values for each variable show capital structure 0.272 and 3.681, profitability 0.227 and 4.399, dividend policy 0.173 and 5.776, firm size 0.332 and 3.012, interaction of capital structure with dividend policy 0.274 and 3.655, and interaction of profitability with dividend policy 0.168 and 5.959. The results indicate that the independent variables in the model do not show symptoms of multicollinearity and meet the classical assumptions. Therefore, these results can be safely used for further analysis.

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The results of heteroscedasticity testing on all research variables obtained significance values that were all above the alpha level of 0.05, including capital structure 0.261, profitability 0.564, dividend policy 0.141, firm size 0.894, the interaction of capital structure with dividend policy 0.067, and the interaction of profitability with dividend policy 0.785. Therefore, it can be stated that the regression model in this study is free from heteroscedasticity problems and

has met all the requirements of the classical assumptions. Thus, this model meets the eligibility criteria to proceed to the next analysis process.

The results of the autocorrelation examination using the Durbin-Watson test indicate no signs of autocorrelation in the developed regression model. The Durbin-Watson statistic value obtained, 1.292, is still within the acceptable tolerance range, which is in the range of -2 to +2, thus confirming the fulfillment of the non-autocorrelation assumption in this research model. Fulfillment of this classical assumption strengthens the validity of the model and ensures the suitability of the data for further statistical analysis.

The Adjusted R Square value in this study was 0.246. This indicates that the independent variables in the model collectively accounted for 24.6% of the variance in firm value, while the remaining 75.4% was due to other factors not included in the regression. Although this explanatory power is considered adequate, this finding confirms the model's suitability for further analysis. Furthermore, these results highlight the potential for incorporating additional explanatory variables in future research to improve the model's predictive power.

The F-test yielded a statistically significant result, with an F-statistic of 4.760 and a significance level of 0.000 ($p < 0.05$). Consequently, it can be concluded that the regression model is fit for use. This significance fundamentally confirms that the independent variables, collectively, possess a substantial and statistically valid capacity to explain the variance observed in the dependent variable.

As presented in Table 6, the analysis reveals that Capital Structure (DER) has a positive and significant effect on Firm Value ($p = 0.000 < 0.05$). In contrast, both Profitability (ROA) and Dividend Policy (DPR) exhibit positive but statistically insignificant effects, with significance values of 0.237 and 0.090, respectively. Firm Size, however, demonstrates a significant negative influence ($p = 0.011$). Furthermore, the interaction term DER*DPR shows a significant negative effect ($p = 0.020$), while the ROA*DPR interaction is found to have no significant effect on Firm Value ($p = 0.936$).

Table 5.
Goodness of
Fit Test

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	5.033	6	0.839	4.760	.000 ^b
Residual	11.101	63	0.176		
Total	16.133	69			

Source: SPSS 27 Data Processing, (2025)

Table 6.
MRA Test
Result

Variable	Coefficient	t	P Value	Conclusion
DER	0.241	5.062	0.000	Accepted
ROA	1.612	1.194	0.237	Not Accepted
DPR	0.444	1.723	0.090	Not Accepted
Size	-0.176	-2.635	0.011	Accepted
DER*DPR	-0.132	-2.386	0.020	Accepted
ROA*DPR	-0.223	-0.081	0.936	Not Accepted

Dependent Variable: Firm Value
Source: SPSS 27 Data Processing, (2025)

Based on the statistical analysis, capital structure demonstrates a significant effect on firm value, thereby confirming the first hypothesis. This finding is consistent with the Trade Off Theory, which posits that firm value increases when the benefits of debt, such as tax shields, outweigh the associated risks of financial distress ([Nurdin et al., 2023](#)). This condition is clearly reflected in the data pattern of LQ45 companies, where increasing leverage during the 2020-2024 period did not lead to a decrease in firm value, but was instead followed by an increase in PBV. This indicates that the company's DER level remains within the optimal leverage limit, so the market views additional debt as a rational financing decision. In addition to providing tax shield benefits, increased leverage is also perceived by investors as a signal of expansion and the company's ability to generate cash flow in the future, as assumed in Signaling Theory ([Riki et al., 2022](#)). Thus, the significant influence of capital structure in this study is not only supported by theory but also consistent with the empirical dynamics of LQ45 companies that are able to utilize debt based funding productively. This finding is reinforced by the results of a study by [Fadmala et al., \(2023\)](#); [Fitriana et al., \(2025\)](#); [Mahirun et al., \(2024\)](#), and in line with the argument that competent management competency demonstrated through strategic decision-making along with positive business prospects, is a significant catalyst factor in driving increased firm value ([Nurhidayah et al., 2024](#)).

The results of the second hypothesis test confirm that profitability does not exert a statistically significant effect on firm value. Consequently, the second hypothesis is rejected. This statement is inconsistent with Signaling Theory, because inefficiencies in company asset management result in fluctuating and inconsistent profits from one period to the next ([Umbung et al., 2021](#)), thereby reducing the profitability indicator's informative function from a Signaling Theory perspective. Earnings instability makes the company's signals less credible, especially since research data patterns show that fluctuations in ROA are not always accompanied by increases in PBV. This condition tends to cause investors to ignore profitability information, ultimately leading to stagnant stock prices, which, as a barometer of firm value, remain ([Farizki et al., 2021](#)). This situation is also related to the characteristics of companies in the LQ45 index, which operate in sectors highly sensitive to economic cycles, resulting in fluctuating profitability patterns. Consequently, investors prioritize assessments based on external risks and market expectations rather than using ROA fluctuations as the primary basis for increasing PBV. Thus, the results of this study are in line with the empirical findings of [Lestiana et al., \(2025\)](#) and [Umbung et al., \(2021\)](#) which show that unstable profitability is not an effective signal in increasing firm value.

The findings from the third hypothesis test confirm that dividend policy acts as a moderating variable in the relationship between capital structure and firm value, leading to the acceptance of the third hypothesis. However, the negative coefficient for the interaction term indicates that this moderating effect weakens, rather than strengthens, the influence of capital structure on firm value. This pattern can be explained by the characteristics of LQ45 company data, where a number of highly leveraged issuers maintain relatively large dividend payments even though profitability and operating cash flow have not fully stabilized post pandemic. This situation gives rise to the perception that the combination of high debt and high dividends increases liquidity risk and suppresses the company's ability to meet its financial obligations. This condition is considered to burden the company's liquidity and potentially impair its ability to meet long term obligations. Based on the Signaling Theory perspective, this misalignment between dividend policy and funding structure can be interpreted as a negative signal reflecting a lack of management prudence in financial management, thereby reducing investor confidence in the company's value ([Darmawan et al., 2020](#)). This finding is consistent with previous research by [Nurhayati & kartika, \(2020\)](#) and [Riki et al., \(2022\)](#) which

shows that a dividend policy disproportionate to debt levels can weaken market perceptions of a company's performance and stability.

The fourth hypothesis was rejected because the test results indicated that dividend policy could not effectively control the relationship between profitability and firm value. This ineffective moderation can be explained by the characteristic of LQ45 companies' profitability, which tends to fluctuate during the study period, thus preventing profits from providing a strong and consistent signal regarding the company's ability to generate sustainable financial performance. From a Signaling Theory perspective, high profits should provide a positive indication for investors. However, the misalignment between changes in profitability and dividend policy is evident in several companies that continued to distribute dividends despite declining profitability, making this signal weak and less credible. This condition is reinforced by the fact that most sample companies had relatively small dividends per share and low profit levels compared to their total assets throughout the observation period (Saleh, 2020). Thus, the dividend distribution pattern does not fully follow profit dynamics, as higher profits do not automatically lead to increased dividends. Consequently, dividends do not function as a moderating mechanism that strengthens the influence of profitability on firm value, resulting in no significant increase in firm value (Riki et al., 2022). This finding is consistent and relevant to the findings of previous research by Riki et al., (2022) and Saleh, (2020) which stated that the inconsistency between earnings signals and dividend policy weakens the relevance of both in explaining variations in firm value.

As a control variable, firm size has a negative and significant effect on firm value, indicating that the market does not view large scale as a positive signal. From a Signaling Theory perspective, large assets should reflect operational strength, but in LQ45 companies, size growth is not accompanied by increased profitability or efficiency. Research data also shows that several large companies have low ROA and retain more earnings than distribute dividends, weakening the signal received by investors. Because investors prioritize dividend certainty, low dividend distributions from large companies are perceived as an indication of unfavorable performance. This combination of large assets, low profitability, and an unattractive dividend policy undermines investor confidence and ultimately depresses firm value. These findings align with those of Arditya & Prasetiono, (2023), who stated that bureaucratic complexity and rigid growth in large companies contribute to declining firm value.

CONCLUSION

The analysis confirms that capital structure is a significant determinant of firm value, where proportional debt management enhances investor perception and reinforces the relevance of the Trade Off Theory within the Indonesian capital market. Conversely, profitability does not significantly affect firm value, suggesting that earnings performance volatility is not yet perceived as a credible signal by investors. Furthermore, dividend policy negatively moderates the capital structure and firm value relationship, thereby weakening its positive effect. However, dividend policy does not moderate the relationship between profitability and firm value. Additionally, firm size exerts a negative influence on firm value, indicating potential operational inefficiencies, organizational complexity, and higher agency costs in larger firms.

This study is limited by the sample size and relatively short observation period. This limited observation period may impact the study's ability to capture long term dynamics of market behavior and the firm's fundamental condition. Similarly, the study's focus on only one group

of companies, the LQ45 index, may limit the generalizability of the findings to other sectors.

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Practically, companies are advised to manage their capital structure more carefully, implement a stable and measured dividend policy, and ensure internal efficiency to minimize the potential decline in firm value. Future studies are recommended to broaden the sectoral scope, prolong the observation period, and integrate macroeconomic variables alongside other external factors. Such an approach would yield a more holistic comprehension of the determinants of firm value. The theoretical implications of this study emphasize that firm value formation is a multidimensional process, requiring consistency between financing policies, dividend policies, and organizational effectiveness as key elements in investor perceptions.

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