

The Influence of Capital Structure, Dividend Policy, and Inflation on Firm Value with Profitability as an Intervening Variable in Banking Companies Listed on the Indonesia Stock Exchange during 2019–2023

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Abstract

This study aims to analyze the influence of capital structure, dividend policy, and inflation on firm value, with profitability as an intervening variable, both simultaneously and partially. The research focuses on banking companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023. The study employs secondary data obtained from audited financial reports published on the IDX official website. A total of 35 banking companies were selected using purposive sampling. The data collection method used is documentation, supported by relevant literature including articles, journals, and financial statements. The results show that: (1) capital structure significantly affects profitability; (2) dividend policy significantly affects profitability; (3) inflation has no significant effect on profitability; (4) capital structure does not significantly affect firm value; (5) dividend policy significantly affects firm value; (6) inflation does not significantly affect firm value; (7) profitability significantly affects firm value; (8) there is no indirect effect of capital structure on firm value through profitability; (9) there is no indirect effect of dividend policy on firm value through profitability; and (10) there is no indirect effect of inflation on firm value through profitability. These findings provide insights for financial managers and policymakers in improving firm value through internal financial decisions, particularly in the banking sector.

1. Introduction

The concept of firm value is often perceived as vague due to the lack of clarity in understanding the actual condition of a company. For investors, assessing firm value is a crucial step before making investment decisions. Several internal and external factors can influence firm value. Among the internal factors are capital structure, dividend policy, and inflation, while profitability is considered an external factor influencing firm value in this study.

Capital structure has been found to have a significant and positive influence on firm value, especially in sectors such as mining (Fitri Amelia and M. Anhar, 2019). Dividend policy, on the other hand, refers to the distribution of a portion of a company's earnings to its shareholders. The more profit distributed as dividends, the lower the retained earnings, which in turn may impact the firm's value. Therefore, a company's ability to pay dividends can be an indicator of its firm value.

Inflation is defined as a persistent increase in the general price level of goods and

services in an economy, leading to a decline in purchasing power. This macroeconomic condition can affect the performance and attractiveness of companies in the eyes of investors.

Profitability, considered here as an external intervening variable, reflects a company's ability to generate profit through its sales, assets, and equity. Larger companies often demonstrate higher profitability and, consequently, a higher firm value. Profitability ratios are used to evaluate the company's capacity to earn profits and measure the effectiveness of its management (Ronni Andri Wijaya, Dori Mittra Candana, Zefriyenni, and Ridwan, 2020).

Previous studies have extensively analyzed firm value using internal factors. However, most of these studies have overlooked the role of external or intervening variables such as profitability. This study aims to fill this research gap by examining the influence of capital structure, dividend policy, and inflation on firm value, with profitability as an intervening variable. The research focuses

on banking companies listed on the Indonesia Stock Exchange during the most recent period of 2019–2023.

2. Research Methods

This study employs a **quantitative research method**, which involves numerical data and statistical analysis. Quantitative methods are used to explain, predict, and control phenomena of interest to the researchers by analyzing the data in numerical form.

2.1 Research Variables

a. Independent Variables (X):

Independent variables are those that influence or cause changes in dependent variables (Sugiyono, 2019:61). The independent variables used in this study are:

1. Capital Structure (X1)
2. Dividend Policy (X2)
3. Inflation (X3)

b. Dependent Variable (Y):

The dependent variable is the outcome or the effect that is influenced by the independent variables. It is also referred to as the result or consequence variable (Sugiyono, 2019:69). In this study, the dependent variable is **Firm Value**, measured using the **Price to Book Value (PBV)** ratio.

c. Intervening Variable:

An intervening variable serves as a mediator between the independent and dependent variables. Theoretically, it connects the relationship between these variables indirectly, although it can still be observed and measured (Sugiyono, 2019:39). The intervening variable in this study is **Profitability**, measured using the **Return on Assets (ROA)** ratio.

2.2 Population and Sample

a. Population:

The population in this study includes all banking companies listed on the **Indonesia Stock Exchange (IDX)** during the 2019–2023 period, totaling 47 companies.

b. Sample

Criteria:

The sample was selected using purposive sampling based on the following criteria:

1. Banking companies listed on the IDX during 2019–2023.
2. Companies that published annual reports and financial statements during the observation period.
3. Companies that reported financial statements in Indonesian Rupiah (IDR).
4. Companies that recorded profit growth and positive net income.

2.3 Data Analysis Method

This research utilizes both **descriptive** and **verification** analysis methods:

a. Descriptive

Analysis:

Descriptive analysis is used to provide a general overview of the data through statistical measures such as minimum, maximum, average (mean), and standard deviation (Sugiyono, 2017:147). According to Ghazali (2015), descriptive analysis involves the systematic collection, processing, and interpretation of data, which is then presented in descriptive form.

b. Verification

Analysis:

Verification analysis aims to test and confirm the truth of existing knowledge or hypotheses. This analysis involves hypothesis testing using statistical methods to determine whether the proposed hypotheses are accepted or rejected based on the study's findings (Sugiyono, 2013:6).

3. Results and Discussion

3.1 Research Results

This study was conducted using panel data from 35 banking companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023, with 175 total observations. The analysis was performed using **multiple linear regression with SPSS 25**, including direct and indirect (intervening) effects of the independent variables (capital structure, dividend policy,

and inflation) on firm value, with profitability as an intervening variable.

Model 1: The Effect on Profitability

- **Capital structure (X1)** has a significant positive effect on **profitability (Z)** (sig. value = $0.006 < 0.05$), indicating that higher leverage influences profitability.
- **Dividend policy (X2)** significantly affects **profitability (Z)** (sig. value = $0.000 < 0.05$), implying that consistent dividend distribution can increase profitability.
- **Inflation (X3)** does **not** significantly affect **profitability (Z)** (sig. value = $0.103 > 0.05$), suggesting external economic conditions do not immediately impact profitability in banking firms.

Model 2: The Effect on Firm Value

- **Profitability (Z)** significantly affects **firm value (Y)** (sig. = $0.023 < 0.05$).
- **Capital structure (X1)** significantly affects **firm value (Y)** (sig. = $0.009 < 0.05$).
- **Dividend policy (X2)** significantly affects **firm value (Y)** (sig. = $0.003 < 0.05$).
- **Inflation (X3)** does **not** significantly affect **firm value (Y)** (sig. = $0.176 > 0.05$).

Intervening Effects (Indirect through Profitability)

- **Capital structure → Profitability → Firm value:** No significant indirect effect. Direct effect (0.230) > indirect effect (0.098).
- **Dividend policy → Profitability → Firm value:** No significant indirect effect. Direct effect (0.323) > indirect effect (0.072).

- **Inflation → Profitability → Firm value:** No significant indirect effect. Direct effect (0.264) > indirect effect (0.158).

3.2 Discussion

The findings of this study are consistent with several prior studies indicating that internal financial strategies such as capital structure and dividend policy significantly affect profitability and firm value. The insignificance of inflation on profitability and firm value reflects the resilience of the banking sector to moderate macroeconomic fluctuations, or a delayed transmission effect of inflation into financial performance.

Profitability plays a significant role in determining firm value but does not mediate the relationship between capital structure, dividend policy, or inflation and firm value. This indicates that the impact of internal financial decisions on firm value is more direct rather than through increased profitability.

This study expands the scope of previous research by incorporating profitability as an intervening variable and examining its mediating role in the relationship between internal financial decisions and firm value.

4. Closing

4.1 Conclusion

Based on the results of data analysis conducted on banking companies listed on the Indonesia Stock Exchange during the 2019–2023 period, several key conclusions can be drawn:

1. **Capital structure** has a significant and positive effect on **profitability**, indicating that optimal financial leverage contributes to better profit performance.

2. **Dividend policy** also significantly and positively affects **profitability**, suggesting that consistent dividend distribution may enhance investor confidence and operational performance.
3. **Inflation** does **not** significantly influence **profitability**, showing that macroeconomic factors like inflation may not immediately impact a bank's internal profit-generating capabilities.
4. **Capital structure** has a significant effect on **firm value**, reinforcing its strategic role in shaping market perception and valuation.
5. **Dividend policy** significantly affects **firm value**, as it reflects a firm's commitment to shareholder returns and financial health.
6. **Inflation** has no significant effect on **firm value**, indicating the banking sector's resilience or delayed responsiveness to inflationary pressures.
7. **Profitability** significantly influences **firm value**, underscoring its role as a key determinant of market valuation.
8. There is **no significant indirect effect** of **capital structure** on firm value through profitability, suggesting a more direct relationship.
9. **Dividend policy** does **not** indirectly influence firm value through profitability.
10. **Inflation** also shows **no indirect influence** on firm value through profitability.

These findings highlight the importance of internal financial management decisions over external macroeconomic conditions in determining firm performance and value in the banking sector.

5.1 Suggestion

a. For Companies

Banking companies should enhance their focus on internal financial policies, particularly capital structure and dividend policy. These elements have a proven direct impact on both profitability and firm value. Strengthening these areas can improve investor confidence, increase market valuation, and maintain financial stability even in the face of external economic uncertainties.

b. For Future Researchers

Future studies are encouraged to explore additional external variables such as interest rates, exchange rate volatility, or regulatory changes that might serve as intervening or moderating factors. Broadening the scope to include different sectors and extending the observation period may also enrich the empirical findings and contribute to a more comprehensive understanding of firm value dynamics.

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