

Economic and Business Horizon

ISSN: 2963-2765

Economic and Business
Horizon

Volume: 05

Issue: 05

Year: 2026

Page: 943-956

Citation:

Lestari, I., &
Lestariningsih, M. (2026).
Examining Dividend
Policy's Moderating Role
Between Financial
Determinants and Firm
Value in Textile and
Garment Firms. *Economic
and Business Horizon*, 5(5),
943-956.

Examining Dividend Policy's Moderating Role Between Financial Determinants and Firm Value in Textile and Garment Firms

Ika Lestari^{1*}, Marsudi Lestariningsih¹

¹ Department of Management, Sekolah Tinggi Ilmu Ekonomi Indonesia, Surabaya, Indonesia

* Corresponding author: Ika Lestari (ikalestari1129@gmail.com)

Abstract

This study responds to inconsistent empirical evidence concerning the financial determinants of firm value and the role of dividend policy. It investigates the effects of profitability, capital structure, and firm size on firm value and examines whether dividend policy moderates these relationships among textile and garment companies listed on the Indonesia Stock Exchange during 2020–2024. A quantitative research approach was adopted using secondary data from 14 textile and garment companies, yielding 70 firm-year observations. The data were analyzed using multiple regression and moderated regression analysis. The results show that profitability has no significant effect on firm value, while capital structure has a positive and significant effect and firm size has a negative and significant effect. Dividend policy significantly strengthens the relationship between profitability and firm value but does not significantly moderate the relationships between capital structure or firm size and firm value. These findings highlight the importance for investors and managers to consider financing decisions, asset efficiency, profitability, and dividend distribution collectively when assessing firm value.

Keywords

Capital Structure, Dividend Policy, Firm Size, Firm Value, Profitability.

1. Introduction

Indonesia, with a population of approximately 270 million, has a large domestic market that supports the development of labor-intensive industries, including the textile and garment sector. The sector is strategically important to the national economy because it supports manufacturing activity and provides employment across production, technical, administrative, and related functions (Adiputra & Hermawan, 2020). Textile and garment companies also represent an important part of Indonesia's manufacturing structure, making their financial performance and market valuation relevant to corporate and investment decisions. Despite this strategic role, the sector has experienced considerable fluctuations in firm performance and market valuation, particularly during 2020–2024.

Table 1. PBV of Textile and Garment Companies, 2020–2024

Company	2020	2021	2022	2023	2024
ADMG	0.27	0.29	0.24	0.27	0.21
ARGO	-0.37	-0.32	-0.20	23.83	16.02
BELL	4.95	1.98	3.27	1.64	1.50
ERTX	0.90	0.85	0.83	0.85	0.23
ESTI	1.10	1.09	0.45	0.31	0.28
INDR	0.38	0.46	0.47	0.38	0.22
MYTX	25.75	-4.34	-3.95	-0.66	-0.48
PBRX	0.26	0.21	0.10	0.12	-0.25
POLY	-0.01	-0.02	-0.01	0.75	0.00
RICY	0.17	0.15	0.23	0.34	-0.26
SSTM	3.13	3.69	3.31	2.47	0.84
STAR	0.96	1.28	1.28	0.56	0.19
TFCO	0.93	0.88	0.60	0.65	0.63
TRIS	0.64	0.88	1.19	0.76	0.64

Table 1 shows substantial variation in Price-to-Book Value (PBV) among textile and garment companies listed on the Indonesia Stock Exchange from 2020 to 2024. PBV measures how the market values a company relative to its book value and indicates investor perceptions of future prospects. For instance, ARGO reported negative PBV values from 2020 to 2022, followed by a sharp increase to 23.83 in 2023 and 16.02 in 2024. In contrast, MYTX declined from 25.75 in 2020 to negative values in subsequent years, reaching -0.48 in 2024. BELL, SSTM, and TRIS exhibited comparatively stable PBV values, whereas POLY, PBRX, and RICY recorded consistently low or negative values in several years. These disparities suggest that firm value varies considerably across textile and garment companies, potentially reflecting differences in profitability, capital structure, firm characteristics, and investor sentiment.

Various internal financial factors shape firm value, particularly profitability, capital structure, and firm size. Profitability indicates a company's ability to generate profits while providing a measure of its financial performance and future prospects. Al-Khawaja et al. (2024) investigated the relationship between profitability, asset management, and firm value while incorporating dividend policy as a moderating variable. Pangestuti et al. (2022) similarly demonstrated the relevance of profitability, while Markonah et al. (2020), Pratiwi (2020), and Ispriyahadi and Abdulah (2021) examined it alongside other determinants. Capital structure represents debt relative to shareholders' equity. Debt may support expansion and enhance firm value when used productively, but it can also alter financial risk and valuation (Masulis, 1983). Antwi et al. (2012) examined capital structure and firm value, while Nursetya and Hidayati (2021), Wijayaningsih and Yulianto (2022), and

Bui et al. (2023) considered it with other firm-specific factors. Firm size may affect firm value through greater resources and financing capacity, although size alone does not guarantee efficient asset utilization (Reschiwati et al., 2020).

Dividend policy offers another perspective, as dividend decisions may signal information about a company's financial condition and future prospects. Rather than serving solely as a direct determinant of firm value, dividend policy may also function as a moderating variable that shapes the relationships between financial factors and firm value. Al-Khawaja et al. (2024) examined dividend policy as a moderator in the relationship between profitability and firm value, while Belinda and Dewi (2023) and El-Deeb and Allam (2024) likewise investigated its moderating role in firm value models. Sondakh (2019) further examined dividend policy alongside liquidity, profitability, and firm size as factors associated with firm value.

The research gap is characterized by inconsistent findings regarding profitability, capital structure, and firm size, as well as limited evidence concerning the moderating effect of dividend policy. Jihadi et al. (2021) investigated individual determinants using broader samples; however, studies that integrate these three determinants with dividend policy in the context of Indonesian textile and garment companies during 2020 to 2024 remain scarce. The contribution of this study lies in its integration of profitability, capital structure, and firm size with dividend policy as a moderating variable within a sector-specific, five-year framework. Therefore, this study seeks to analyze the effects of profitability, capital structure, and firm size on firm value and to determine whether dividend policy moderates each of these relationships among textile and garment companies listed on the Indonesia Stock Exchange during 2020 to 2024.

2. Literature Review and Hypothesis Development

2.1. The Effect of Profitability on Firm Value

Profitability refers to a company's capacity to generate earnings from resources provided by shareholders. In this study, profitability is assessed using Return on Equity (ROE), defined as net income after tax divided by total equity. ROE reflects management's effectiveness in utilizing shareholders' capital to generate returns. Elevated profitability can enhance investor confidence, as it demonstrates the company's ability to derive economic benefits from available resources. According to Signaling Theory, financial performance communicates information about a company's condition and future prospects to external stakeholders, particularly since investors often possess less information than management (Connelly et al., 2025). Strong profitability may therefore serve as a positive signal, influencing investors' perceptions and the company's valuation. The significance of profitability for firm value is further supported by Markonah et al. (2020), who identify profitability as a key financial factor associated with firm value.

Empirical studies further substantiate the relationship between profitability and firm value. Jihadi et al. (2021) demonstrated the relevance of profitability in explaining firm value, while Ispriyahadi and Abdulah (2021) examined profitability, leverage, and firm size as determinants of firm value. Kaulika and Imronudin (2025) emphasized the importance of profitability and highlighted the mediating role of dividend policy. Heni and Utami (2025) found that profitability significantly influences firm value, suggesting that higher profitability reflects superior financial performance and can positively affect investor assessments. Sustained profitability may indicate financial strength and favorable future prospects, although its impact can vary with industry conditions and expectations about earnings sustainability. Drawing on both theoretical and empirical evidence, profitability is expected to significantly affect firm value.

H1: Profitability has a significant effect on firm value.

2.2. The Effect of Capital Structure on Firm Value

Capital structure refers to the proportion of debt and equity a company employs to finance its operations and investments. In this study, capital structure is assessed using the Debt-to-Equity Ratio (DER), defined as total debt divided by total equity. This ratio reflects the degree to which a company depends on debt compared to shareholders' equity for financing. While debt financing can provide additional resources for expansion, investment, and operations, increased reliance on debt also heightens financial obligations and exposure to risk. The willingness and ability of a company to utilize debt may signal confidence in its capacity to generate sufficient future cash flows. Masulis (1983) demonstrates that changes in capital structure can influence firm value, suggesting that financing decisions may affect market evaluations of a company.

The Pecking Order Theory, as discussed by Sánchez-Vidal and Martín-Ugedo (2005), provides an alternative perspective on the relationship between capital structure and firm value. This theory posits that firms typically prioritize internal financing, then debt financing, and finally external equity, primarily due to information asymmetry between managers and investors. Consequently, debt financing may represent a funding choice made when internal resources are insufficient, rather than indicating financial weakness. Empirical studies have established a link between capital structure and firm value. Antwi et al. (2012) demonstrated the explanatory role of capital structure in firm value, while Bui et al. (2023) found that capital structure influences firm value among listed companies in Vietnam. Similarly, Wijayaningsih and Yulianto (2022) identified capital structure as a significant factor in models of firm value in Indonesia. These findings indicate that the manner in which companies structure their financing can shape investor perceptions and affect market valuation.

H2: Capital structure has a significant effect on firm value.

2.3. The Effect of Firm Size on Firm Value

Firm size represents the scale of a company's operations and, in this study, is measured using the natural logarithm of total assets. Larger firms generally possess greater asset bases, broader operating capacities, and enhanced access to external financing. These attributes may influence investor perceptions by signaling the company's available resources, operational scale, and market position. According to Signaling Theory, firm characteristics can communicate information to external stakeholders, particularly under conditions of information asymmetry (Connelly et al., 2025). A larger asset base may be interpreted as evidence of stronger organizational capacity. However, increased size does not inherently ensure higher firm value, as the advantages of asset ownership depend on the efficiency with which management utilizes these assets. Reschiwati et al. (2020) demonstrate that firm size is relevant in models explaining firm value, although its relationship may interact with other financial characteristics, such as profitability and liquidity.

Firm size may affect firm value because larger companies often benefit from economies of scale, broader market access, and increased financing capacity. Dang et al. (2019) found that both firm size and capital structure significantly influence firm value, highlighting the importance of these corporate characteristics in market valuation. Similarly, Wijayaningsih and Yulianto (2022) reported that firm size, capital structure, and profitability are significant factors in explaining firm value. Lestari et al. (2025) also identified a significant relationship between firm size and firm value among Indonesian manufacturing companies. Collectively, these findings

suggest that company scale is a key consideration in market valuation, as larger firms may possess greater resources and stronger market positions. However, the impact of firm size on firm value depends on how effectively firms utilize these resources.

H3: Firm size has a significant effect on firm value.

2.4. The Effect of Dividend Policy as a Moderator

Dividend policy represents management's decision regarding the proportion of earnings distributed to shareholders and is measured in this study using the Dividend Payout Ratio (DPR). In this context, dividend policy is conceptualized as a moderating variable that may influence the relationship between firm characteristics and firm value, rather than being viewed solely as a financial decision. Dividend payments provide investors with information about a company's financial condition, as management typically considers current earnings, liquidity, and future financing needs when determining dividend distributions. According to Signaling Theory, dividend decisions may reduce information asymmetry by conveying management's assessment of the company's financial prospects (Connelly et al., 2025). Empirical studies by Akhmadi and Januarsi (2021) and Prameswari (2024) demonstrate that dividend policy can moderate the relationship between profitability and firm value, indicating that the market's response to profitability may vary depending on a company's dividend decisions.

Dividend policy may also interact with capital structure and firm size, as dividend distributions influence the funds retained within the company. A higher dividend payout reduces internally available funds and may increase the need for external financing, making dividend decisions relevant to financing choices. This relationship is further explained by Pecking Order Theory, which posits that firms prioritize internal financing before seeking external sources such as debt or equity (Sánchez-Vidal & Martín-Ugedo, 2005). Empirical studies by Belinda and Dewi (2023), Atiningsih and Izzaty (2021), and Sondakh (2019) have identified dividend policy as a moderating variable in models of firm value and as a relevant factor in explaining firm value. Collectively, these theoretical and empirical perspectives suggest that dividend policy may influence the strength or direction of the relationships between profitability, capital structure, firm size, and firm value.

H4: Dividend policy moderates the effect of profitability on firm value.

H5: Dividend policy moderates the effect of capital structure on firm value.

H6: Dividend policy moderates the effect of firm size on firm value.

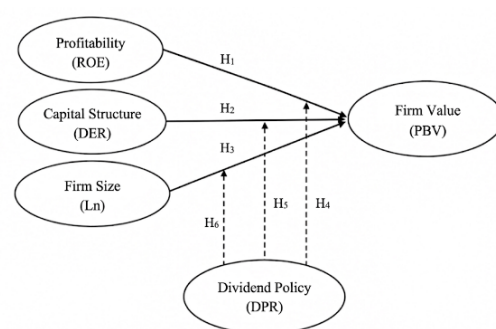


Figure 1. Conceptual Framework

Figure 1 presents the conceptual framework outlining the proposed relationships among the study variables. Profitability, capital structure, and firm size are identified as independent variables hypothesized to influence firm value, as specified in H1, H2, and H3. Dividend policy is included as a moderating variable and is posited to

moderate the relationships between profitability and firm value (H4), capital structure and firm value (H5), and firm size and firm value (H6).

3. Methods

A quantitative research design with an explanatory approach was employed to examine the relationships among profitability, capital structure, firm size, dividend policy, and firm value. Secondary data were obtained from the annual financial statements of textile and garment companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period. The five-year observation window was selected to capture variations in corporate financial conditions across the pre-pandemic, pandemic, and post-pandemic periods.

The population comprised all textile and garment companies listed on the IDX during the observation period. Purposive sampling was applied using two criteria: (1) companies listed on the IDX throughout 2020–2024 and (2) companies that consistently published complete annual financial statements during this period. Among the 21 companies identified, seven did not consistently provide annual financial statements for the entire five-year period. Consequently, 14 companies met the sampling criteria, resulting in 70 firm-year observations (14 companies $\times$ 5 years).

Data collection employed documentation methods by accessing publicly available annual financial statements from the official IDX website. The study examined five variables. Firm value was assessed using the PBV, defined as the market price per share divided by book value per share (Brigham & Houston, 2019; Puspitaningtyas et al., 2019). Profitability was measured by ROE, calculated as net income after tax divided by total equity (Kasmir, 2018). Capital structure was evaluated using the DER, calculated as total debt divided by total equity (Khoirunnisa et al., 2018). Firm size was determined by the natural logarithm of total assets ($\ln$ total assets) (Ghozali, 2018). Dividend policy was measured using the DPR, defined as dividends per share divided by earnings per share (Hanafi & Halim, 2018).

Data analysis utilized SPSS version 26.0. Descriptive statistics summarized the minimum, maximum, mean, and standard deviation for each variable. Classical assumption tests, including assessments of normality, multicollinearity, autocorrelation, and heteroscedasticity, were performed to evaluate the suitability of the regression model. Hypotheses were tested using Moderated Regression Analysis (MRA) to investigate the effects of profitability, capital structure, and firm size on firm value, as well as the moderating effect of dividend policy. The regression model was specified as follows:

$$PBV = \alpha + \beta_1 ROE + \beta_2 DER + \beta_3 SIZE + \beta_4 (ROE \times DPR) + \beta_5 (DER \times DPR) + \beta_6 (SIZE \times DPR) + \varepsilon$$

The significance of individual effects was assessed using the t-test at a 5% significance level, and the F-test was applied to evaluate the overall significance of the model. The coefficient of determination (R^2) was examined to quantify the proportion of variation in firm value explained by the variables in the model. A statistically significant interaction coefficient was considered evidence that dividend policy moderates the relationship between the respective independent variable and firm value.

4. Results

Descriptive statistical analysis was conducted to provide an overview of the characteristics of the data utilized in this study. This analysis includes the minimum, maximum, mean, and standard deviation values for each research variable. Table 2 presents the descriptive statistics for firm value, profitability, capital structure, firm size, and dividend policy.

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Firm Value	70	-1.00	1.41	-0.1083	0.47799
Profitability	70	-3.41	3.77	-0.0841	0.9012
Capital Structure	70	-30.15	114.29	1.5007	14.95787
Firm Size	70	21.92	30.25	27.7233	1.88514
Dividend Policy	70	-1.13	2.12	0.0761	0.34647

Table 2 presents the descriptive statistics for the variables examined in this study, based on 70 observations. Firm value ranges from -1.00 to 1.41, with a mean of -0.1083 and a standard deviation of 0.47799. Profitability ranges from -3.41 to 3.77, with a mean of -0.0841 and a standard deviation of 0.90120. Capital structure demonstrates the greatest variability, ranging from -30.15 to 114.29, with a mean of 1.5007 and a standard deviation of 14.95787. Firm size ranges from 21.92 to 30.25, with a mean of 27.7233 and a standard deviation of 1.88514. Dividend policy ranges from -1.13 to 2.12, with a mean of 0.0761 and a standard deviation of 0.34647. These statistics summarize the central tendency and dispersion of the study variables prior to further statistical analyses.

Table 3. Normality Test

Test Parameters	Unstandardized Residual
N	70
Mean	-0.0142857
Std. Deviation	0.36371797
Absolute	0.097
Positive	0.097
Negative	-0.097
Test Statistic	0.097
Asymp. Sig. (2-tailed)	0.170

Table 3 presents the results of the normality test, which was conducted using the One-Sample Kolmogorov–Smirnov test on the unstandardized residuals from the regression model. The analysis included 70 observations, yielding a mean residual of -0.0142857 and a standard deviation of 0.36371797. The Kolmogorov–Smirnov test statistic was 0.097, with an Asymp. Sig. (2-tailed) value of 0.170. Because this significance value exceeds the 0.05 threshold, the unstandardized residuals are considered to be normally distributed. Consequently, the regression model satisfies the normality assumption and is appropriate for further classical assumption tests and hypothesis testing.

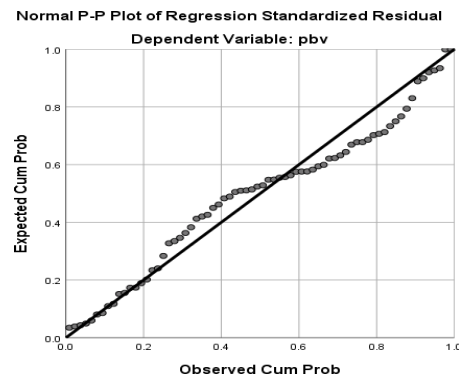


Figure 2. Normality P-Plot Test

Figure 2 displays the Normal P-P Plot of the regression standardized residuals. The majority of residual points are positioned near the diagonal line and generally align with its direction from the lower to the upper region of the graph. While several points show minor deviations from the diagonal, these remain within an acceptable range and do not exhibit a systematic pattern that would suggest a violation of the normality assumption. This distribution indicates that the residuals of the regression model approximately follow a normal distribution. Consequently, the regression model meets the normality assumption. This finding aligns with the results of the One-Sample Kolmogorov–Smirnov test, which yielded an Asymp. Sig. (2-tailed) value of 0.170, surpassing the 0.05 significance threshold and confirming that the residuals are normally distributed.

Table 4. Multicollinearity Test

Model	Tolerance	VIF
Profitability	0.984	1.016
Capital Structure	0.988	1.012
Firm Size	0.974	1.027
Dividend Policy	0.995	1.005

Table 4 reports the results of the multicollinearity test. The tolerance values for profitability, capital structure, firm size, and dividend policy are 0.984, 0.988, 0.974, and 0.995, respectively, with corresponding VIF values of 1.016, 1.012, 1.027, and 1.005. Since all tolerance values exceed 0.10 and all VIF values are below 10, the regression model does not exhibit multicollinearity among the independent variables and thus satisfies the multicollinearity assumption.

Table 5. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin–Watson
Initial Model	0.573	0.329	0.287	0.40350	0.771
Lag Method	0.603	0.364	0.324	0.33341	1.937

Table 5 presents the results of the autocorrelation test conducted using the Durbin–Watson test. The Initial Model refers to the regression model prior to the application of the lag method, whereas the Lag Method denotes the model after implementing the lag approach to address autocorrelation. In the Initial Model, the Durbin–Watson value is 0.771, suggesting the presence of positive autocorrelation in the regression residuals. Following the application of the Lag Method, the Durbin–Watson value increases to 1.937, which is close to 2. This result indicates

that the residuals do not exhibit significant autocorrelation, and the regression model meets the autocorrelation assumption.

The Lag Method yielded an R Square value of 0.364 and an Adjusted R Square value of 0.324. The Adjusted R Square demonstrates that profitability, capital structure, firm size, and dividend policy collectively account for 32.4% of the variation in firm value, whereas the remaining 67.6% is attributable to factors not included in the model. Consequently, the Lag Method produces a regression model that meets the autocorrelation assumption and is suitable for subsequent hypothesis testing.

Table 6. Heteroscedasticity Test

Model	B	Std. Error	Beta	t	Sig.
Constant	0.405	0.447	—	0.907	0.368
Profitability	0.00006739	0.000	0.164	1.345	0.183
Capital Structure	0.00001217	0.002	0.001	0.006	0.995
Firm Size	-0.004	0.016	-0.034	-0.275	0.784
Dividend Policy	-0.118	0.087	-0.165	-1.363	0.178

Table 6 reports the results of the heteroscedasticity assessment conducted using the Glejser test. The significance values for profitability, capital structure, firm size, and dividend policy are 0.183, 0.995, 0.784, and 0.178, respectively. Since all significance values are greater than 0.05, none of the independent variables exerts a statistically significant effect on the absolute residuals. Consequently, the regression model does not exhibit heteroscedasticity and meets the homoscedasticity assumption. The constancy of residual variance across observations supports the validity of the regression model for further analysis and hypothesis testing.

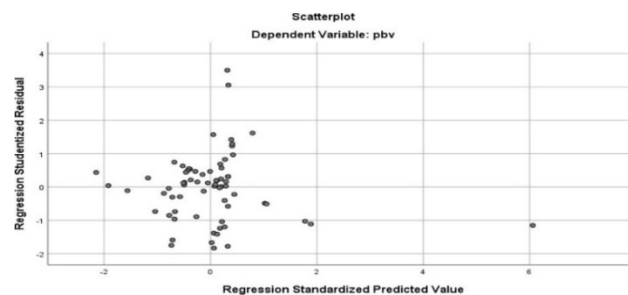


Figure 3. Scatter Plot

Figure 3 demonstrates that the residual points in the scatterplot are randomly distributed around the zero line, with no discernible patterns such as funneling, widening, narrowing, or wave-like shapes. The points appear both above and below the regression studentized residual zero line, suggesting that the residual variance remains stable across varying levels of predicted values. Consequently, the regression model meets the homoscedasticity assumption and does not present evidence of heteroscedasticity.

Table 6 reports the results of the MRA. Profitability demonstrates a positive but statistically insignificant effect on firm value, with a coefficient of 0.000 and a significance value of 0.080 (> 0.05). In contrast, capital structure exhibits a positive and statistically significant effect on firm value, as shown by a coefficient of 0.010 and a significance value of 0.004 (< 0.05). Firm size displays a negative and statistically significant effect on firm value, with a coefficient of -0.099 and a significance value of 0.000 (< 0.05). These results suggest that capital structure significantly increases firm value, firm size significantly decreases firm value, and profitability does not exert a statistically significant effect on firm value.

Table 6. Moderated Regression Analysis (MRA)

Variable	B	Std. Error	Beta	t	Sig.
Constant	2.602	0.715	-	3.639	0.001
Profitability→Firm Value	0.000	0.000	0.180	1.782	0.080
Capital Structure→Firm Value	0.010	0.003	0.302	3.006	0.004
Firm Size→Firm Value	-0.099	0.026	-0.389	-3.823	0.000
Profitability× Dividend Policy	5.570	2.761	0.220	2.018	0.048
Capital Structure × Dividend Policy	0.031	0.198	0.041	0.154	0.878
Firm Size × Dividend Policy	-0.008	0.013	-0.164	-0.610	0.544

The results indicate that dividend policy significantly moderates the relationship between profitability and firm value. The interaction between profitability and dividend policy produces a positive coefficient of 5.570 and a significance value of 0.048, which is below the 0.05 threshold. This outcome indicates that dividend policy amplifies the effect of profitability on firm value. Conversely, the interaction between capital structure and dividend policy is positive but not statistically significant, with a coefficient of 0.031 and a significance value of 0.878. Likewise, the interaction between firm size and dividend policy is negative and statistically insignificant, with a coefficient of -0.008 and a significance value of 0.544. Therefore, dividend policy acts as a significant moderator only in the relationship between profitability and firm value, and does not significantly moderate the relationships between capital structure or firm size and firm value.

Table 7. F test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.084	3	1.695	10.471	0.000
Residual	10.681	66	0.162	-	-
Total	15.765	69	-	-	-

Table 7 presents the F-test results, with an F-value of 10.471 and a significance value of 0.000, which is below the 0.05 threshold. These findings demonstrate that profitability, capital structure, and firm size collectively exert a statistically significant effect on firm value. Consequently, the regression model is statistically significant and offers a robust basis for explaining variation in firm value.

5. Discussion

Profitability did not exhibit a statistically significant effect on firm value, indicating that increased profitability alone was insufficient to enhance market valuation among textile and garment companies during 2020–2024. Investors likely considered additional factors, including earnings sustainability, business risk, and prevailing industry conditions, when evaluating firm value. According to Signaling Theory, profitability can communicate information regarding a company's future prospects; however, its signaling effect may be constrained when earnings are uncertain. This result contrasts with the findings of Jihadi et al. (2021), Pangestuti et al. (2022), and Al-Khawaja et al. (2024), who identified a significant relationship between profitability and firm value. Such discrepancies may stem from differences in industry characteristics, observation periods, or market conditions.

Capital structure has a positive effect on firm value, indicating that debt financing can enhance value when managed efficiently and allocated to productive activities. Debt offers additional resources for business expansion without immediate ownership dilution. According to Signaling Theory, effective debt utilization may signal management's confidence in future cash flows, as debt financing imposes financial obligations that must be met. This result aligns with the findings of Masulis

(1983), Antwi et al. (2012), and Bui et al. (2023), who demonstrated the significance of capital structure in firm valuation. Furthermore, the result supports Pecking Order Theory, which posits that firms typically prefer internal financing, then debt, and lastly equity issuance due to information asymmetry between managers and investors.

Firm size was found to negatively affect firm value, suggesting that a larger asset base does not necessarily lead to higher market valuation. While larger firms typically have greater resources and financing capacity, these advantages may fail to create additional value if assets are not utilized efficiently. According to Signaling Theory, firm size may indicate organizational strength; however, investors primarily evaluate whether corporate resources yield sustainable benefits. This result aligns with Reschiwati et al. (2020) and extends the findings of Nursetya and Hidayati (2021) and Wijayaningsih and Yulianto (2022), who demonstrate that the relationship between firm size and firm value is contingent upon corporate and financial conditions. Therefore, investors may place greater emphasis on efficiency and performance rather than asset size alone.

Dividend policy strengthens the relationship between profitability and firm value, suggesting that profitability is more significant when accompanied by dividend distribution. Dividends offer shareholders a direct return and can reduce uncertainty about corporate earnings. According to Signaling Theory, dividend payments reinforce the credibility of reported profitability by conveying management's confidence in the company's financial condition. This result aligns with the findings of Sondakh (2019), Belinda and Dewi (2023), and Al-Khawaja et al. (2024), which highlight the importance of dividend policy in firm value models. Consequently, dividend policy may enhance the informational value of profitability rather than merely serve as an earnings distribution mechanism.

The relationship between capital structure and firm value is not moderated by dividend policy. Investors tend to evaluate debt financing based on its productive application and associated financial risk, rather than the amount of dividends distributed. This interpretation is supported by Pecking Order Theory, which posits that financing decisions are shaped by information asymmetry and funding preferences. This result aligns with the findings of Antwi et al. (2012), Bui et al. (2023), and Belinda and Dewi (2023), who suggest that capital structure and dividend policy fulfill distinct functions within firm value models. Therefore, the influence of capital structure on firm value appears to function independently of dividend policy.

Furthermore, the relationship between firm size and firm value is not moderated by dividend policy. While dividend payments may signal positive prospects, they do not offset inefficient asset utilization or operational challenges often present in larger firms. Consequently, investors are likely to prioritize efficiency and growth potential. This interpretation is consistent with the findings of Reschiwati et al. (2020), Adiputra and Hermawan (2020), and Nursetya and Hidayati (2021), which demonstrate that multiple financial attributes influence firm value. Dividend policy serves as a selective moderator, enhancing the relationship between profitability and firm value, but does not alter the relationships between capital structure and company size.

6. Conclusion

The results indicate that profitability does not have a statistically significant effect on firm value, whereas capital structure has a positive and significant effect, and firm size has a negative and significant effect. Dividend policy enhances the association between profitability and firm value, suggesting that dividend distribution increases the relevance of profitability information for market valuation. However, dividend policy does not significantly moderate the relationships between

capital structure and firm value or between firm size and firm value. These findings have important implications for corporate managers and investors in evaluating financial performance, financing decisions, firm characteristics, and dividend distribution in relation to firm value. Managers are advised to prioritize productive financing, efficient asset utilization, and credible dividend decisions, while investors should assess financial performance using a comprehensive set of indicators beyond profitability. The results also reinforce the applicability of Signaling Theory in explaining how profitability and dividend information influence investor perceptions, and demonstrate that Pecking Order Theory provides a useful framework for understanding financing choices involving internal and external funds.

Several limitations are present in this study. The sample is restricted to textile and garment companies listed on the Indonesia Stock Exchange from 2020 to 2024, which may constrain the generalizability of the findings to other industries or timeframes. Additionally, the analysis focuses on only three financial determinants and one moderating variable, excluding other potential factors that may influence firm value. Future research should consider extending the observation period, including companies from various industrial sectors, and incorporating additional variables such as liquidity, growth opportunities, investment decisions, business risk, corporate governance, and macroeconomic conditions. Further studies may also employ alternative measures of firm value and dividend policy or investigate different economic periods to provide more comprehensive evidence regarding the determinants of firm value.

References

- Adiputra, I. G., & Hermawan, A. (2020). The effect of corporate social responsibility, firm size, dividend policy, and liquidity on firm value: Evidence from manufacturing companies in Indonesia. *International Journal of Innovation, Creativity and Change*, 11(6), 325–338.
- Akhmadi, A., & Januarsari, Y. (2021). Profitability and firm value: Does dividend policy matter for Indonesian sustainable and responsible investment (SRI)-KEHATI listed firms? *Economies*, 9(4), 163. <https://doi.org/10.3390/economies9040163>.
- Al-Khawaja, H. A., Al-Omari, R., Oroud, Y., Makhlouf, M. H., & Alshehadeh, A. R. (2024). The impact of profitability and asset management on firm value and the moderating role of dividend policy: Evidence from Jordan. *Asian Economic and Financial Review*, 14(1), 1–11. <https://doi.org/10.55493/5002.v14i1.4937>.
- Antwi, S., Mills, E. F. E. A., & Zhao, X. (2012). Capital structure and firm value: Empirical evidence from Ghana. *International Journal of Business and Social Science*, 3(22), 103–111.
- Atiningsih, S., & Izzaty, K. N. (2021). The effect of firm size on company value with profitability as intervening variable and dividend policy as moderating variable. *International Journal of Economics, Business and Accounting Research*, 5(4), 90–104. <https://doi.org/10.29040/ijebar.v5i4.3450>.
- Belinda, B., & Dewi, S. P. (2023). Factors affecting firm value with dividend policy as moderating variable. *International Journal of Application on Economics and Business*, 1(2), 150–161. <https://doi.org/10.24912/ijaeb.v1i2.150-161>.
- Brigham, E. F., & Houston, J. F. (2019). *Fundamentals of financial management* (15th ed.). Boston: Cengage Learning.
- Bui, T. N., Nguyen, X. H., & Pham, K. T. (2023). The effect of capital structure on firm value: A study of companies listed on the Vietnamese stock market. *International Journal of Financial Studies*, 11(3), 100–112. <https://doi.org/10.3390/ijfs11030100>.
- Connelly, B. L., Certo, S. T., Reutzel, C. R., DesJardine, M. R., & Zhou, Y. S. (2025). Signaling theory: State of the theory and its future. *Journal of Management*, 51(1), 24–61. <https://doi.org/10.1177/01492063241268459>.
- Dang, H. N., Vu, V. T. T., Ngo, X. T., & Hoang, H. T. V. (2019). Study the impact of growth, firm size, capital structure, and profitability on enterprise value: Evidence of enterprises in Vietnam. *Journal of Corporate Accounting & Finance*, 30(1), 144–160. <https://doi.org/10.1002/jcaf.22371>.

- El-Deeb, M. S., & Allam, M. F. (2024). The moderating effect of dividend policy on the relationship between the corporate risk disclosure and firm value: Evidence from Egypt. *Future Business Journal*, 10(1), 1-15. <https://doi.org/10.1186/s43093-024-00311-x>.
- Ghozali, I. (2018). *Aplikasi analisis multivariate dengan program IBM SPSS 25* (Ed. 9). Semarang: Badan Penerbit Universitas Diponegoro.
- Hanafi, M. M., & Halim, A. (2018). *Analisis laporan keuangan* (Ed. 5, Cet. 2). Yogyakarta: UPP STIM YKPN.
- Heni, F. P., & Utami, E. S. (2025). The impact of capital structure and profitability on company value. *Research Horizon*, 5(3), 467-478. <https://doi.org/10.54518/rh.5.3.2025.597>.
- Ispryahadi, H., & Abdulah, B. (2021). Analysis of the effect of profitability, leverage and firm size on firm value. *Journal of Business Management and Accounting*, 3(2), 64-80.
- Jihadi, M., Vilantika, E., Hashemi, S. M., Arifin, Z., Bachtiar, Y., & Sholichah, F. (2021). The effect of liquidity, leverage, and profitability on firm value: Empirical evidence from Indonesia. *Journal of Asian Finance, Economics and Business*, 8(3), 423-431.
- Kasmir. (2018). *Analisis laporan keuangan* (Cet. 11). Depok: Rajawali Pers.
- Kaulika, F. M., & Imronudin, I. (2025). The influence of profitability, firm size, and company growth on firm value. *Indonesian Interdisciplinary Journal of Sharia Economics*, 8(1), 1284-1300. <https://doi.org/10.31538/ijse.v8i1.6068>.
- Khoirunnisa, F., Purnamasari, I., & Tanuatmodjo, H. (2018). Pengaruh struktur modal terhadap nilai perusahaan pada perusahaan tekstil dan garmen. *Journal of Business Management Education*, 3(2), 21-32. <https://doi.org/10.17509/jbme.v3i2.14211>.
- Lestari, E., Setyawati, Y., Indah, S., Hirdinis, H., & Goncalves, M. (2025). Firm size and firm value in manufacturing companies listed on the Indonesia Stock Exchange: Does profitability mediate the relationship?. *Jurnal Aplikasi Bisnis dan Manajemen*, 11(3), 833-833. <https://doi.org/10.17358/jabm.11.3.833>.
- Markonah, M., Salim, A., & Franciska, J. (2020). Effect of profitability, leverage, and liquidity to the firm value. *Dinasti International Journal of Economics, Finance & Accounting*, 1(1), 83-94. <https://doi.org/10.38035/dijefa.v1i1.225>.
- Masulis, R. W. (1983). The impact of capital structure change on firm value: Some estimates. *The Journal of Finance*, 38(1), 107-126. <https://doi.org/10.1111/j.1540-6261.1983.tb03629.x>.
- Nursetya, R. P., & Hidayati, L. N. (2021). How does firm size and capital structure affect firm value? *Journal of Management and Entrepreneurship Research*, 1(2), 67-76. <https://doi.org/10.34001/jmer.2020.12.01.2-7>.
- Pangestuti, D. C., Muktiyanto, A., Geraldina, I., & Darmawan, D. (2022). Role of profitability, business risk, and intellectual capital in increasing firm value. *Journal of Indonesian Economy and Business*, 37(3), 311-338. <https://doi.org/10.22146/jieb.v37i3.3564>.
- Prameswari, I. A. N. (2024). The effect of profitability on company value with dividend policy as a moderating variable. *Jurnal Inovasi Akuntansi*, 2(1), 21-28. <https://doi.org/10.36733/jia.v2i1.8909>.
- Pratiwi, R. D. (2020). Do capital structure, profitability, and firm size affect firm value? *Jurnal Penelitian Ekonomi dan Bisnis*, 5(2), 194-202. <https://doi.org/10.33633/jpeb.v5i2.3717>.
- Puspitaningtyas, Z., Prakoso, A., & Masruroh, A. (2019). Pengaruh profitabilitas terhadap kebijakan dividen dengan likuiditas sebagai pemoderasi. *Jurnal Administrasi Bisnis (JAB)*, 9(3), 1-17. <https://doi.org/10.35797/jab.v9.i3.1-17>.
- Reschiwati, R., Syahdina, A., & Handayani, S. (2020). Effect of liquidity, profitability, and size of companies on firm value. *Utopía y Praxis Latinoamericana*, 25(6), 325-332. <https://doi.org/10.5281/zenodo.3987632>.
- Sánchez-Vidal, J., & Martín-Ugedo, J. F. (2005). Financing preferences of Spanish firms: Evidence on the pecking order theory. *Review of Quantitative Finance and Accounting*, 25(4), 341-355. <https://doi.org/10.1007/s11156-005-5459-6>.
- Sondakh, R. (2019). The effect of dividend policy, liquidity, profitability and firm size on firm value in financial service sector industries listed in Indonesia Stock Exchange 2015-2018 period. *Accountability*, 8(2), 91-101. <https://doi.org/10.32400/ja.24760.8.2.2019.91-101>.
- Wijayaningsih, S., & Yulianto, A. (2022). The effect of capital structure, firm size, and profitability on firm value with investment decisions as moderating. *Accounting Analysis Journal*, 10(3), 150-157. <https://doi.org/10.15294/aaj.v10i3.50744>.



Copyright: © 2026 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution-ShareAlike 4.0 International License (<https://creativecommons.org/licenses/by-sa/4.0/>).