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The Moderating Role of Profitability in the Effect of Independent Commissioners and Capital Structure on Firm Value

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Abstract

The value of a company is a crucial indicator for investors as it reflects management's effectiveness and future growth prospects. In Indonesia's manufacturing sector, fluctuations in company value often arise from both governance and financial decisions, making it important to explore internal determinants. This study aims to empirically test whether profitability can moderate the influence of independent commissioners and capital structure on company value. This study uses secondary data from financial reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2021-2023. There were 84 populations in this study, then based on the criteria, 33 samples were obtained with a research period of 3 years, resulting in 99 samples. The results of this study indicate that profitability can moderate the effect of independent commissioners on company value, but profitability is less able to moderate the effect of capital structure on company value. The results reveal that independent commissioners and capital structure significantly affect company value. Profitability strengthens the effect of independent commissioners but does not moderate the impact of capital structure. These findings highlight the importance of governance effectiveness and financial strategies in enhancing firm value while emphasizing profitability as a catalyst for governance effectiveness.

Keywords

Capital Structure, Company Value, Independent Commissioners, Profitability.

1. Introduction

Company value is an important indicator that reflects the success of management in managing the company and is the main objective of every business entity. Company value is a fundamental benchmark in investment decision-making for investors, because high company value indicates future profit prospects and ensures business sustainability (Wau et al., 2021). Good company value also reflects public confidence in the company's performance and prospects, which can attract more capital and support sustainable growth in the company. Fluctuations in company value are an interesting phenomenon to observe. The manufacturing sector is the backbone of the Indonesian economy, contributing significantly to the Gross Domestic Product (GDP) and employment (Martin & Indrati, 2024). Companies in this sector are facing various challenges in their performance, ranging from intense global competition, technological disruption, to changes in consumer preferences.

The performance of manufacturing companies on the Indonesian Stock Exchange (IDX) shows various types of instability. Although some companies have managed to maintain or even increase their value, there are also many that have experienced a decline or stagnation. For example, in the 2021-2023 period, after the COVID-19 pandemic, the manufacturing sector faced challenges of uneven global economic recovery, rising raw material prices, and supply chain issues. Historical data on the IDX shows that the manufacturing sector index has experienced significant dynamics, often not always in line with macroeconomic growth (Pratiwi & Hidayati, 2024). This raises questions about internal factors that may affect company value, regardless of external economic conditions.

One aspect that has come under scrutiny is corporate governance (GCG), particularly the role of independent commissioners. The concept of independent commissioners was introduced to ensure objective oversight of management and protect the interests of minority shareholders (Samosir et al., 2025). The presence of independent commissioners is expected to reduce opportunistic management practices, increase transparency, and encourage business decisions that are more conducive to long-term value creation.

The effectiveness of the role of independent commissioners is often questioned. Several cases in Indonesia show that even though the composition of the board of commissioners has complied with regulations, there has still been a decline in performance or corporate scandals that have led to a decline in value (Hasanudin et al., 2022; Wardhana, 2025). This indicates that the mere existence of independent commissioners may not be enough, but the effectiveness of the role of independent commissioners in strategic supervision and decision-making is key to achieving company performance. In addition to governance factors, financial aspects such as capital structure also play an important role in determining company value.

Capital structure is a crucial factor in determining a company's value. Decisions regarding the proportion of debt and equity in a company's financing have direct implications for the cost of capital, financial risk, and ultimately profitability (Purwaningsih & Mardiana, 2023; Sari & Astuty, 2023). The pecking order theory is one approach often used to explain how companies choose their capital structure. However, manufacturing companies in Indonesia are often faced with the dilemma of whether to take advantage of the tax shield from debt to reduce capital costs or to avoid high financial risk. Suboptimal financing decisions can lead to increased capital costs or the risk of bankruptcy (Tantra, 2018; Martin & Indrati, 2024). This can depress the value of the company in the eyes of investors. Therefore, profitability is an important factor that can strengthen or weaken the influence of capital structure on company value.

Profitability, as a reflection of the effectiveness of capital management, has a positive effect on company value, and its role is further strengthened by good

corporate governance practices, including ownership structure, number of directors, independent board of commissioners, and audit committee (Yoewono et al., 2023; Wiandra, 2024; Dewi et al., 2025). Other studies also show that profitability functions as a mediating variable between GCG mechanisms and company value, and that corporate governance and profitability simultaneously increase company value, while aggressive capital structure can decrease it (Susilowati et al., 2022; Hidayat et al., 2025).

This phenomenon makes this study relevant to examine in depth the influence of independent commissioners and capital structure on company value, with profitability as a moderating variable, in manufacturing companies listed on the IDX for the period 2021-2023. The selection of the period in this study is also important because it describes the conditions of the new global economic dynamics. This study is expected to provide empirical contributions and practical implications for company management in increasing company value amid the complexity of the current business environment.

2. Literature Review and Hypothesis Development

2.1. Agency Theory of Company Value

Company value serves as a critical indicator of a firm's overall success and investor perceptions, often quantified through Tobin's Q , which divides the sum of market value of equity and debt by the book value of equity (Azahra et al., 2024). This measure captures not only current performance but also future growth potential, influencing investment decisions by signaling sustainability and profitability prospects (Pratiwi & Hidayati, 2024). In the context of manufacturing firms, company value reflects how effectively resources are managed amid economic volatilities, providing a benchmark for shareholder wealth maximization (Mahdaleta et al., 2016). Profitability, representing a company's capacity to generate earnings from its assets, is typically assessed using Return on Assets (ROA), computed as net profit after tax over total assets (Adriaty et al., 2019; Toni et al., 2021). It acts as a gauge of operational efficiency and managerial competence, where higher levels indicate stronger financial health and the ability to reinvest in growth initiatives (Christina & Wahyudi, 2022; Ardiansah & Wahyudi, 2022).

Independent commissioners function as an essential governance mechanism, ensuring impartial supervision to align management with shareholder interests, measured by the ratio of independent to total board members (Prayanthi & Laurens, 2020). Rooted in agency theory, they mitigate conflicts arising from principal-agent separations by promoting transparency and ethical decision-making (Hasanudin et al., 2022). Capital structure delineates the blend of debt and equity in financing, commonly evaluated via the Debt-to-Equity Ratio (DER), which highlights leverage levels and associated risks (Rahmawati & Mildawati, 2023). Drawing from pecking order theory, firms prioritize internal funds to avoid asymmetric information issues, resorting to debt before equity to optimize costs and signal stability (Adriaty, 2019). These foundational elements interconnect, as effective governance and financing strategies bolster profitability, ultimately enhancing company value in dynamic markets like Indonesia's manufacturing sector (Susilowati et al., 2022; Dewi et al., 2025; Hidayat et al., 2025). Understanding these theories provides a robust lens for analyzing empirical relationships, emphasizing how internal factors drive firm outcomes beyond external pressures.

2.2. Direct Influences on Company Value

Independent commissioners significantly contribute to elevating company value by offering unbiased oversight that curtails agency conflicts and enhances decision-making quality (Prayanthi & Laurens, 2020; Oktaviyanti & Sumartik, 2023). Role in monitoring management ensures adherence to shareholder priorities, fostering

greater transparency and reducing opportunistic behaviors that could erode trust (Rahmawati, 2021; Syahrudin et al., 2025; Yonathan & Apriwenni, 2025). In Indonesian manufacturing contexts, a higher proportion of independent commissioners correlates with improved governance practices, leading to heightened investor confidence and superior market valuations as measured by Tobin's Q (Puspa et al., 2021; Andika & Istanti, 2024). This relationship underscores the importance of board independence in mitigating risks and promoting long-term strategic alignment, particularly in sectors prone to performance fluctuations (Pramesti & Rita, 2022; Dewi et al., 2025). Empirical studies affirm that effective independent oversight translates into tangible value creation, as it signals robust internal controls to the market (Susilowati et al., 2022; Wiandra, 2024; Cahyani et al., 2024).

Capital structure directly impacts company value by determining the optimal mix of debt and equity, which affects financial risk and capital costs (Mahdaleta et al., 2016). A balanced DER allows firms to leverage debt's tax benefits while avoiding excessive leverage that heightens bankruptcy threats, thereby influencing investor perceptions positively (Asmawi, 2018; Rahmawati & Mildawati, 2023; Ulia et al., 2025). According to pecking order theory, preferring internal financing or moderate debt conveys efficiency and stability, enhancing Tobin's Q in competitive environments (Cahyani et al., 2024). However, suboptimal structures can signal distress, diminishing value, especially in manufacturing where economic cycles amplify risks (Samosir et al., 2025; Hidayat et al., 2025). Research indicates that prudent capital decisions foster sustainable growth, attracting capital inflows and bolstering overall firm worth.

H1: Independent commissioners has a significant influence on company value.

H2: Capital structure has a significant influence on company value.

2.3. Moderating Role of Profitability

Profitability moderates the linkage between independent commissioners and company value by intensifying governance effects in profitable firms, where ample earnings enable the implementation of oversight-driven strategies (Toni et al., 2021; Christina & Wahyudi, 2022). High ROA provides the financial flexibility for independent commissioners to enforce rigorous monitoring, amplifying their impact on transparency and ethical practices, which in turn elevates Tobin's Q (Ardiansah & Wahyudi, 2022; Safitri & Wahyudi, 2022). This interaction aligns with agency theory, as profitability reinforces board independence, reducing conflicts and enhancing value creation through resource-efficient decisions (Pramesti & Rita, 2022; Dewi et al., 2025). In manufacturing settings, profitable companies benefit more from independent oversight, as earnings signal managerial efficacy and attract investor trust (Fitriani & Priyadi, 2021; Susilowati et al., 2022; Hidayat et al., 2025). Conversely, low profitability may dilute this effect, limiting the commissioners' ability to drive meaningful changes.

Profitability also moderates the association between capital structure and company value, potentially enhancing the benefits of optimal financing in high-earning firms (Adriaty et al., 2019). Elevated ROA equips companies to manage DER-related risks effectively, such as debt servicing, thereby strengthening positive market signals and boosting Tobin's Q. Under pecking order theory, profitable entities can rely on internal funds, minimizing external financing drawbacks and magnifying structure's value impact (Rahmawati & Mildawati, 2023; Samosir et al., 2025; Ulia et al., 2025). However, in less profitable scenarios, this moderation weakens, as insufficient profits heighten leverage vulnerabilities, potentially offsetting structural advantages (Andika & Istanti, 2024; Laurence et al., 2025). Studies highlight sector-specific variations, emphasizing profitability's role in sustaining financial strategies for long-term valuation.

H3: Profitability moderates the effect of independent commissioners on company value.

H4: Profitability moderates the effect of capital structure on company value.

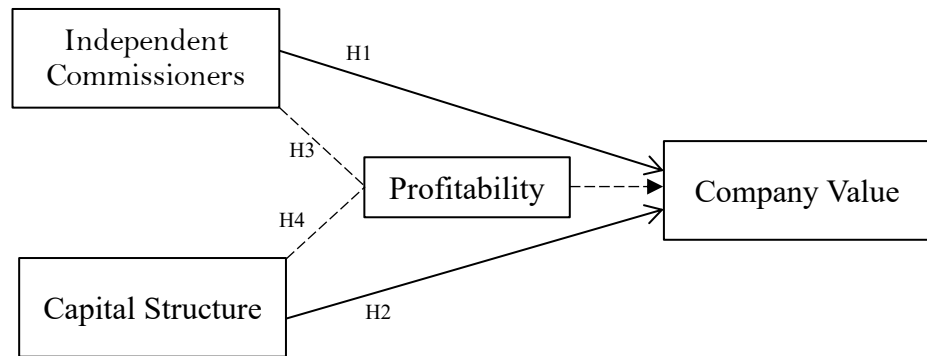


Figure 1. Conceptual Framework

Figure 1 displays a hypothetical research model that tests the relationship between several variables in the context of finance and corporate governance. This model indicates that firm value (Y) is directly influenced by independent commissioners (X1) and capital structure (X2), as hypothesized through paths H1 and H2. In addition, this model also tests the role of profitability (Z) as a mediating variable, where profitability is predicted to be influenced by independent commissioners (H3) and capital structure (H4), and in turn, profitability itself has the potential to influence firm value (dotted path to Y), suggesting that profitability may be an indirect mechanism for X1 and X2 in influencing firm value.

3. Methods

This study is a quantitative study with a causal approach. The purpose of this study is to determine the effect of independent commissioners and capital structure on company value and to determine whether profitability can moderate the relationship. This study uses secondary data obtained from annual reports and financial reports of manufacturing companies listed on IDX for the period 2021–2023. Secondary data were analyzed using multiple linear regression with a sample of companies selected based on specific criteria.

This study uses secondary data obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id). The population of this study is all food and beverage manufacturing companies listed on IDX during the period 2021–2023, totaling 84 companies. The research sample was selected using purposive sampling with the following criteria: companies that were consistently listed on the IDX during that period, had complete financial reports and annual reports, and included data related to independent commissioners, capital structure, profitability, and company value. Samples that meet these criteria will be analyzed to support the validity of the research results. The population in this study consisted of 84 companies, with 46 companies not meeting the sample criteria, resulting in a sample of 33 companies. The research period was 3 years, resulting in a total of 99 data points processed.

This study employs four main variables with specific operational definitions and measurement methods. The proportion of independent commissioners (IC) is measured by comparing the number of independent commissioners to the total number of board members and multiplying the result by 100 percent, reflecting the level of governance independence. Capital structure is represented by the Debt-to-Equity Ratio (DER), calculated by dividing total debt by total equity to indicate a firm's financial leverage. Company value is measured using Tobin's Q, obtained by dividing the sum of the total market value and total book value of liabilities by the total book value of assets, capturing both market performance and asset utilization efficiency. Profitability is assessed through Return on Assets (ROA), computed as profit after tax divided by total assets and multiplied by 100 percent, to evaluate the firm's ability to generate earnings from its assets. These indicators collectively assess corporate governance, financial structure, firm value, and performance.

This study employs the Partial Least Squares (PLS) path analysis method using SmartPLS version 4.0 software for data processing. The PLS approach was selected because it effectively handles small sample sizes, non-normal data distributions, and various measurement scales (Hair et al., 2021). The analytical procedure includes descriptive statistics analysis to identify data characteristics, followed by the multicollinearity test using the Variance Inflation Factor (VIF) to ensure the absence of correlation among independent variables. Furthermore, the R-square and Adjusted R-square tests were conducted to determine the explanatory power of the model. Finally, the path coefficient and hypothesis testing were performed to assess the direct and moderating effects among variables, providing a comprehensive understanding of the relationships within the research model.

4. Results

Based on the research results, it was found that the presence of independent commissioners has a significant influence on company value. This indicates that the higher the proportion of independent commissioners, the better the management oversight mechanism, thereby increasing investor confidence and creating added value for the company. This finding aligns with agency theory, which emphasizes the role of independent commissioners as independent monitors capable of mitigating conflicts of interest between owners and managers. Meanwhile, capital structure has also been shown to significantly influence company value. Companies that manage their debt and equity composition appropriately are perceived as more efficient in using funds, thus enhancing positive market perception. This supports Pecking Order Theory, which emphasizes that prudent financing decisions can enhance financial stability and company value.

Furthermore, this study examined the role of profitability as a moderating variable. The results indicate that profitability strengthens the relationship between independent commissioners and company value. Good financial condition makes independent commissioner oversight more effective in promoting transparency and accountability, thereby increasing investor confidence. However, profitability does not moderate the relationship between capital structure and company value. This indicates that decisions regarding debt and equity are directly assessed by the market without considering the company's profit level. Thus, profitability plays a greater role as a catalyst for the effectiveness of corporate governance than financing policies.

This study's results emphasize the importance of good governance through the active role of independent commissioners and appropriate capital structure management in increasing company value. Profitability is proven to strengthen the positive impact of independent commissioners, but it does not significantly influence the relationship between capital structure and company value. These findings

provide practical implications for management in improving financial performance and governance, and for investors in assessing the key factors influencing company value in the manufacturing sector.

Table 1. Descriptive Statistics Test

Name	Mean	Median	Scale min	Scale max	Standard deviation
X1	0.409	0.333	0.167	0.750	0.096
X2	0.548	0.243	0.010	2.700	0.650
Y	2.320	2.417	0.083	4,756	1.036
Z	0.153	0.136	0.014	0.313	0.070

Based on the descriptive statistics in Table 1, it can be seen that the Independent Commissioner (X1) variable has a relatively small data distribution, while Capital Structure (X2) and Company Value (Y) show greater data variation. Profitability (Z) has a fairly stable data distribution. The diversity of values in each of these variables forms the basis for examining the relationship between variables in regression analysis. High variation in variables X2 and Y can provide more diverse information in testing the influence of independent commissioners and capital structure on company value, as well as the role of profitability as a moderating variable. Thus, the regression analysis is expected to reveal the extent to which differences in data between companies affect this relationship.

Table 2. Multicollinearity Test

Variable	VIF
X1	1.00
X2	1.000
Y	1.000
Z	1.000
Z x X1	1.000
Z x X2	1.000

Table 2 is a Multicollinearity Table that displays the Variance Inflation Factor (VIF) values for each variable in the model, namely X1, X2, Y, Z, and the interactions Z×X1 and Z×X2. All variables in the table have a VIF value of 1,000. The VIF value is used to detect multicollinearity issues between independent variables in the regression model. In general, a VIF value below 5 or 10 indicates that there is no significant multicollinearity. In this case, since all VIF values = 1.000, it can be concluded that there is no multicollinearity between variables in the model used, including between moderator variables and interactions.

Table 3. R-Square

Model	Y
R-square	0.159
Adjusted R-square	0.111

Table 3 shows that the R-square value of 0.159 means that variables X1, X2, and Z in this model are able to explain approximately 15.9% of the changes that occur in variable Y. Meanwhile, the adjusted R-square value of 0.111 indicates that after adjusting the calculation with the number of variables used, the model's ability to explain variable Y decreases slightly to 11.1%.

Table 4. Hypothesis Test

Hypothesis	O	M	STDEV	T-Statistics	P-values	Description
X1 → Y	0.259	0.267	0.087	2.989	0.003	Significant

Hypothesis	O	M	STDEV	T-Statistics	P-values	Description
$X2 \rightarrow Y$	0.203	0.199	0.088	2.308	0.021	Significant
$Z \times X1 \rightarrow Y$	- 0.226	- 0.223	0.092	2.463	0.014	Significant/Can Moderate
$Z \times X2 \rightarrow Y$	- 0.116	- 0.131	0.101	1.152	0.249	Not Significant/Not Moderating

Table 4 shows the results of the hypothesis test that examines the direct and moderating effects between variables in the research model. Based on the analysis results, variable X1 has a significant effect on Y, with an original sample value of 0.259, a t-statistic value of 2.989, and a p-value of 0.003. Similarly, variable X2 also shows a significant effect on Y with a t-statistic value of 2.308 and a p-value of 0.021. Furthermore, the interaction variable $Z \times X1$ has a t-statistic value of 2.463 and a p-value of 0.014, which means that profitability (Z) can significantly moderate the relationship between X1 and Y. Conversely, the interaction $Z \times X2$ shows a t-statistic value of 1.152 and a p-value of 0.249, indicating that profitability cannot moderate the effect of X2 on Y. Thus, these results show that profitability only acts as a moderator in the relationship between X1 and Y, but not in the relationship between X2 and Y.

5. Discussion

Independent commissioners have a significant effect on company value, with a p-value of 0.003. This value indicates that a large proportion of independent commissioners will have a significant effect on corporate governance, which can be considered as the existence of an independent supervisory mechanism that is sufficiently effective in monitoring management decisions and actions. This will help ensure that the interests of shareholders are protected, thereby increasing the confidence of investors and potential investors in the company, which in turn can increase the company's value.

The results of this study are in line with agency theory, whereby the existence of independent commissioners aims to oversee the actions of managers so that they remain in line with the interests of shareholders, thereby increasing public trust and company value. These findings are also supported by research by Rahmawati (2021) and Oktaviyanti and Sumartik (2023), which states that an independent board of commissioners has a positive effect on company value because it can increase the effectiveness of management oversight and accountability. The results of this study also reinforce the argument that the presence of independent commissioners as part of good corporate governance plays an important role in creating added value for the company, especially in increasing investor confidence in management transparency and performance (Prayanthi & Laurens, 2020).

The effect of capital structure has a significant impact on company value with a p-value of 0.021, which is < 0.05 . This shows that capital structure can have a significant effect on company value. This means that companies that manage their debt and equity composition appropriately will have a greater impact on increasing company value. This study is in line with the findings of Christina and Wahyudi (2022), who states that capital structure has a positive effect on company value, especially when management is able to utilize debt efficiently without increasing excessive risk.

These results can be explained through the perspective of pecking order theory, which states that companies have a preferred order of financing, namely: using internal funds first, then debt, and finally issuing new shares. This theory emphasizes that companies that use more internal financing or debt (if internal funds are

insufficient) will be viewed as more efficient and stable, thereby increasing investor confidence in the company's value. The prudent use of debt reflects that management does not send negative signals (such as issuing new shares) that could lower the company's market value. This is also in line with the research by Azahra et al. (2024), which found that profitability, liquidity, and company size significantly affect capital structure, in accordance with the pattern described by the Pecking Order Theory.

The results of this study indicate that profitability can moderate the influence of independent commissioners on company value. This is indicated by a p-value of 0.014, which is below the significance threshold of 0.05. Profitability, as one of the indicators of company performance in this study, can strengthen the market's positive perception of the effectiveness of supervision by independent commissioners, thereby increasing company value.

These results are in line with research by Mahdaleta et al. (2016) which found that profitability strengthens the influence of corporate governance mechanisms, including independent commissioners, on company value. The study emphasizes that good financial conditions are a catalyst that magnifies the role of corporate governance in creating added value for shareholders (Martin & Indrati, 2024). The results of this study show that profitability is unable to moderate the influence of capital structure on company value. This is indicated by a p-value of 0.249, which is well above the significance threshold of 0.05. Thus, it can be concluded that profitability, as one of the indicators of company performance in this study, is unable to strengthen capital structure in relation to company value.

This result is in line with the research by Cahyani et al. (2024), which found that profitability cannot moderate capital structure on company value. This research shows that company financing decisions, whether through debt or equity, both directly affect company value regardless of profitability conditions. In other words, investors assess capital structure decisions independently of company profit performance. This result differs from some previous studies, such as Adriaty et al. (2019) which found that profitability can strengthen the influence of capital structure on company value in the property sector. However, differences in industry sectors and company characteristics can lead to varying results.

6. Conclusion

Study reveals that independent commissioners play a crucial role in boosting company value in Indonesian manufacturing firms. A higher proportion of these independent overseers leads to better transparency and oversight, building investor trust and ultimately elevating firm worth. On the flip side, capital structure doesn't seem to have a direct impact on company value, suggesting that how companies mix debt and equity doesn't sway market views much in this sector. Profitability steps in as a key moderator for the link between independent commissioners and company value high profits amplify the positive effects of strong governance. However, it doesn't moderate the capital structure relationship, meaning earnings neither enhance nor diminish financing decisions' influence on value.

Practically, companies should focus on strengthening the role of independent commissioners, especially when profitability is strong, to drive up value through better governance. Investors can use these insights to prioritize firms with solid profitability and governance in their portfolios. Theoretically, this adds to agency and pecking order theories by showing how profitability interacts with governance to shape value, offering fresh perspectives on corporate finance in emerging markets like Indonesia. This research is limited by its focus on manufacturing companies listed on the IDX from 2021-2023, which might not generalize to other sectors or time periods, and relies on secondary data that could miss qualitative nuances. For future work, researchers could incorporate variables like company size, ownership

structure, or business risks, and expand the dataset to include more industries or longer timelines for deeper, more robust insights.

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Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.



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