INVESTMENT DECISIONS AS A MODERATOR IN CAPITAL STRUCTURE, FIRM SIZE, PROFITABILITY, AND FIRM VALUE

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Abstract

This research investigates how financial leverage, firm size, and profitability influence firm valuation, with capital allocation choices examined as a moderating variable. Specifically, it seeks to answer whether these financial factors significantly affect firm value and whether investment decision proxies strengthen these relationships. Utilizing a quantitative approach, the study analyzes secondary data from the financial statements of conventional banks listed on the Indonesia Stock Exchange (IDX) between 2020 and 2022. Multiple linear regression assesses direct effects, while moderated regression analysis tests the interaction effects using SPSS software. Financial leverage is measured through the debt-to-equity ratio (DER), firm size by the natural logarithm of total assets (Ln), profitability by return on equity (ROE), capital allocation choices by the price-earnings ratio (PER), and firm valuation by price-to-book value (PBV). Findings reveal that financial leverage and profitability significantly influence firm valuation, while firm size does not. The lack of significance for firm size may reflect that larger banks in Indonesia are not inherently more efficient or value-generating due to structural or operational inefficiencies. Capital allocation choices have a direct, positive effect on firm valuation, but moderate the impact of profitability, rather than leverage or size. This suggests that investors prioritize profitability when making valuation-based investment decisions. These results are consistent with prior studies that highlight the dominant role of profitability in driving firm value, particularly in emerging markets, where size alone does not guarantee performance or market perception.

Keywords: Capital Structure, Firm Size, Investment Decisions, Profitability, Firm Value

INTRODUCTION

The banking sector plays a pivotal role in maintaining economic stability and fostering national development. As financial intermediaries, banks channel funds from the public to productive sectors, thereby enhancing economic growth and improving societal welfare (Mulia & Setyawan, 2022). Investors rely heavily on banks' financial indicators to make strategic investment decisions, especially as stock price movements and corporate financial reports reflect market sentiment and company health (Mudjijah et al., 2019).

Corporate valuation is one such critical indicator. A company's value is seen as a reflection of market confidence, long-term performance, and investor trust (Wijayaningsih & Yulianto, 2021). High corporate value not only indicates strong financial fundamentals but also attracts future investments, increases shareholder wealth, and enhances the firm's strategic capabilities (Arsyana & Hwihanus, 2023). In the capital market, corporate valuation is commonly represented by stock prices, which mirror investor perceptions and company achievements (Kolamban et al., 2020).

Prior research has identified several key factors influencing corporate value, such as profitability (Azhari & Nuryatno, 2019), capital structure (Amrulloh & Amalia, 2020), company size (Wibowo et al., 2021), investment decisions (Syamsudin et al., 2020), and corporate governance (Santosa et al., 2022). However, existing studies often examine these variables in isolation. The interplay between capital structure, profitability, and company size—particularly with investment decisions as a moderating factor—remains underexplored, especially in the context of the banking sector in emerging economies.

This study aims to fill that gap by analyzing how capital structure, company size, and profitability affect corporate valuation, with a focus on how investment decisions moderate these relationships. By addressing this gap, the study not only contributes theoretically to financial management literature but also offers practical implications for investors seeking reliable benchmarks, banks optimizing their internal strategies, and policymakers designing financial regulations to promote long-term stability.

Based on this background, the research hypothesizes that capital structure, company size, and profitability significantly influence corporate valuation, and this relationship is strengthened through strategic investment decisions.

REVIEW OF LITERATURE

Agency Theory

Agency Theory, introduced by Ross (1973) and later refined by Jensen and Meckling (1976), explains the relationship between principals (e.g., shareholders) and agents (e.g., managers) in an organization. This theory highlights how delegated authority can lead to conflicts of interest, as agents may pursue personal goals over organizational ones. In the context of corporate finance, agency problems arise when managers possess better access to internal information and may withhold or manipulate disclosures. Monitoring mechanisms such as equity incentives or performance-based compensation aim to align the interests of both parties. In this study, Agency Theory helps explain how corporate decisions particularly those related to capital structure and investment can impact firm value due to information asymmetry and control mechanisms.

Signaling Theory

Signaling Theory, as proposed by Spence (1973), emphasizes the importance of credible signals in reducing information asymmetry between corporate insiders and external investors. Managers, having access to private information, may signal firm value through financial decisions, such as capital structure, profitability disclosures, and investment strategies. In the Indonesian banking sector, for example, high profitability or stable capital structures can serve as positive signals to investors, influencing stock prices and perceived firm value. This theory supports the premise that firms convey their quality and future prospects through observable indicators that investors interpret when assessing corporate worth.

Firm Value

Firm value refers to the overall market perception of a company's financial health, commonly reflected in its stock price and market capitalization. It encapsulates investor expectations about future earnings, stability, and growth. According to Santosa et al. (2022), firm value is driven by current and projected cash flows. A consistently high firm value can indicate strong managerial performance, efficient capital allocation, and investor confidence. However, empirical findings vary: some studies report a strong correlation between financial decisions and firm value, while others find the relationship weak or insignificant. This

variation highlights the need to re-examine firm value determinants in the context of regional markets like Indonesia.

Investment Decisions

Investment decisions involve allocating financial resources across current and fixed assets to maximize long-term returns. These decisions significantly shape a firm's asset base, operational efficiency, and profitability. Firms with sound investment strategies are generally viewed as more stable and attractive to investors. While many studies, including Syamsudin et al. (2020), support a positive relationship between investment decisions and firm value, others note that poor investment choices can increase risk and reduce valuation. Thus, the quality of investment decisions may act as a key moderating factor in enhancing the impact of financial strategies on firm value.

Capital Structure

Capital structure defines how a firm finances its operations through a mix of debt and equity. A well-balanced capital structure can lower the cost of capital and improve firm value. However, excessive reliance on debt increases financial risk and may harm investor perception. According to Agency Theory, debt can serve as a control mechanism to limit managerial discretion. From a signaling perspective, a prudent capital structure signals financial health to external stakeholders. Yet, empirical studies reveal mixed findings some demonstrate a positive impact on firm value, others negative, and some show no effect. These contradictions underscore the importance of context in evaluating capital structure outcomes.

Firm Size

Firm size can be measured by total assets, revenue, or market share. Larger firms typically enjoy economies of scale, greater access to capital, and higher investor confidence. However, size does not universally translate into higher firm value. While some researchers argue that large firms have more resources to influence valuation positively, others point out that size may lead to bureaucratic inefficiencies. The inconsistency in prior studies suggests that the influence of firm size on firm value may depend on other factors, such as investment quality and sector-specific dynamics.

Profitability

A company's profitability is determined by its ability to generate earnings relative to its financial resources. Wijayaningsih & Yulianto (2021) describe profitability as a critical measure of corporate success, highlighting its impact on financial sustainability. Azhari & Nuryatno (2019) define it as a firm's capability to yield profits over a specific accounting period through effective capital utilization. Higher profitability translates to enhanced corporate efficiency, increased investor interest, and superior financial performance. Syamsudin et al. (2020) emphasize that profitability reflects an organization's competence in asset management and revenue generation. Pangestuti et al. (2022) note that profitability not only influences corporate growth but also serves as a determinant for investment decisions. Prospective investors assess profitability indicators before committing capital, interpreting high profit margins as signals of robust financial health and long-term stability.

The Influence of Capital Structure on Firm Value

Wijayaningsih & Yulianto (2021) state that the capital structure composition includes funds obtained from internal sources, such as retained earnings and ownership equity, alongside externally obtained financing, encompassing both short-term and long-term financial liabilities. A well-balanced capital structure enhances shareholder returns and corporate performance. Agency theory posits that a firm's financial stance and sustainability are shaped by its capital structure, where judicious debt utilization positively impacts firm value. Conversely, signaling theory suggests that an optimal capital structure conveys financial stability, reducing perceived bankruptcy risk. Mulia & Setyawan (2022) assert that a capital structure lowering the overall average cost of capital, weighted by the proportion of each funding source, enhances firm value. However, Rossa et al. (2023) indicate a negative correlation, where an increase in leverage diminishes firm value. Empirical findings vary, with Syamsudin et al. (2020) supporting a positive relationship, Rossa et al. (2023) demonstrating a negative impact, and Wijayaningsih & Yulianto (2021) finding no significant effect. Hence, the following hypothesis is proposed:

H1: Capital structure influences firm value.

The Influence of Firm Size on Firm Value

Wijayaningsih & Yulianto (2021) define firm size as the magnitude of a company based on its total assets. Agency theory suggests that larger firms have greater access to internal and external financing, allowing management to optimize firm value. Signaling theory posits that firm size communicates investment potential to stakeholders. Larger firms tend to exhibit higher operational returns due to economies of scale. Dunnas et al. (2020) highlight firm size as an indicator of business capacity, where higher revenues signify increased valuation. Wijayaningsih & Yulianto (2021) found that firm value is adversely affected by firm size, while Rossa et al. (2023) report a positive correlation. In contrast, Amrulloh & Amalia (2020) find no significant impact. Based on these insights, the hypothesis is formulated as follows:

H2: Firm size influences firm value.

The Influence of Profitability on Firm Value

Wijayaningsih & Yulianto (2021) describe profitability as the ability to generate returns from invested capital over a specified period. Signaling theory suggests that higher profitability serves as an indicator of corporate health, attracting investors and enhancing firm value. Increased profitability correlates with favorable growth prospects, enticing capital inflows and reinforcing firm valuation. Isnaeni et al. (2021) emphasize profitability's significance in measuring corporate efficiency and performance. Empirical evidence varies; Wijayaningsih & Yulianto (2021) and Ramdhonah et al. (2019) report a positive association, whereas Mulia & Setyawan (2022) identify a negative correlation. Consequently, the hypothesis is articulated as follows:

H3: Profitability influences firm value.

The Influence of Investment Decisions on Firm Value

Wijayaningsih & Yulianto (2021) argue that prudent investment decisions elevate firm value and shareholder wealth by fostering a robust asset composition that appeals to investors. Investment decisions define the asset allocation strategy, ensuring an optimal balance between current and fixed assets for maximal returns. Syamsudin et al. (2020) concur that well-executed investment strategies enhance corporate valuation by attracting capital inflows. The positive relationship is further substantiated by empirical findings from

Syamsudin et al. (2020) and Suryandari et al. (2021). Consequently, the following hypothesis is formulated:

H4: Investment decisions influence firm value.

Investment Decisions Strengthening the Influence of Capital Structure on Firm Value

According to Wijayaningsih & Yulianto (2021), external liabilities, which consist of both short-term and long-term debt, along with internally sourced capital like retained earnings and shareholder equity, form the composition of capital structure. The interplay between capital structure and firm value is amplified by strategic investment choices, which enhance corporate attractiveness and financial stability. Effective investment allocation optimizes asset distribution, fostering a well-structured capital framework that entices investors and augments firm value. Thus, the following hypothesis is proposed:

H5: Investment decisions strengthen the influence of capital structure on firm value.

Investment Decisions Strengthening the Influence of Firm Size on Firm Value

As articulated by Wijayaningsih & Yulianto (2021), firm size is quantified through asset accumulation, where larger firms typically exhibit superior financial resilience. Astute investment decisions amplify the influence of firm size on corporate valuation, which bolster asset utilization and financial efficiency. Optimal investment allocations facilitate higher returns, enhancing a firm's appeal to potential investors. Consequently, investment decisions intensify the relationship between firm size and firm value. The hypothesis is therefore stated as follows:

H6: Investment decisions strengthen the influence of firm size on firm value.

Investment Decisions Strengthening the Influence of Profitability on Firm Value

Wijayaningsih & Yulianto (2021) define profitability as a firm’s capacity to generate returns on invested capital within a specified timeframe. Strategic investment decisions considerably enhance the effect of profitability on firm value. Higher profitability enhances operational efficiency, allowing firms to reinvest in value-generating activities that attract investors and sustain corporate growth. Proper investment decisions optimize asset distribution, further reinforcing the profitability-firm value nexus. Therefore, the proposed hypothesis is as follows:

H7: Investment decisions strengthen the influence of profitability on firm value.

RESEARCH METHOD

This study adopts a quantitative approach, utilizing statistical techniques to analyze the relationships among variables with a focus on objective, numerical data interpretation. The main analytical tools employed are multiple linear regression and moderated regression analysis (MRA), both conducted using SPSS software. Multiple linear regression is selected to examine the direct influence of independent variables on the dependent variable, while MRA is chosen to evaluate whether the moderating variable (investment decisions) alters the strength or direction of these relationships. These methods are deemed appropriate as they enable the researcher to quantify and interpret the linear effects and interaction effects between variables in a structured and robust statistical framework.

The population in this research includes all conventional banking institutions listed on the Indonesia Stock Exchange (IDX). The sample is selected through purposive sampling, with criteria including: (1) banks consistently publishing annual financial reports from 2020 to 2022, (2) financial reports presented in Indonesian Rupiah, and (3) availability of complete data on variables required for this study. These criteria ensure data reliability and comparability, especially considering regulatory compliance and uniformity in currency presentation.

The data are obtained from secondary sources, specifically annual financial statements accessed via the official IDX website. Although relying on a single source may introduce potential bias due to data limitations or inconsistencies, the IDX is considered a credible and centralized repository of financial data for publicly listed companies in Indonesia, ensuring data authenticity and standardization.

The time frame from 2020 to 2022 is deliberately selected to reflect recent financial performance trends while capturing potential impacts of significant events such as the COVID-19 pandemic, which may have influenced banks' capital structure, profitability, and valuation. This period also ensures the relevance of the findings in the post-pandemic economic recovery context.

The operational variables are as follows: corporate valuation is measured using the price-to-book value (PBV), which reflects market perception of a firm's value relative to its book value. Capital structure is represented by the debt-to-equity ratio (DER), capturing the

extent of financial leverage. Firm size is proxied by the natural logarithm of total assets, reflecting scale and operational capacity. Profitability is assessed using return on equity (ROE), indicating how efficiently equity capital is utilized to generate profit. Investment decisions, the moderating variable, are measured using the price-earnings ratio (P/E ratio), which signals market expectations of future earnings and is widely used by investors as a benchmark for valuation and decision-making. Although investment decisions are multifaceted, the P/E ratio provides a practical and market-based proxy for investor sentiment and expected returns.

Data analysis consists of descriptive statistics, classical assumption testing (normality, multicollinearity, heteroscedasticity, autocorrelation), and hypothesis testing using regression analysis. Model significance is assessed using F-tests, t-tests, and coefficients of determination (R^2) to evaluate the explanatory power and the effect of each variable on corporate valuation.

RESULTS AND DISCUSSION

Overview of Research Object

This study focuses on conventional banks listed on the Indonesia Stock Exchange (IDX) during the 2020–2022 period. Initially, 48 banks were identified as meeting the criteria of being listed and publishing complete financial reports in Rupiah over the three-year period. After applying further selection criteria, particularly regarding the availability and completeness of share-related data, 10 banks were excluded due to inconsistencies, resulting in 38 eligible banks.

From these 38 banks over a 3-year period, a total of 114 observations were compiled (38 banks × 3 years). However, 28 observations were identified as outliers due to extreme values that could potentially distort the regression analysis. These outliers were removed based on significant deviations from the interquartile range (IQR), following standard practices for improving the robustness and validity of the statistical results (Solekhah & Efendi, 2020). Thus, the final dataset consists of 86 observations. The sampling process is summarized in Table 1:

Table 1.
Details of Company Sample

No.	Criteria	Total
1.	Conventional banking companies listed on the Indonesia Stock Exchange (IDX) in the 2020-2022 period consecutively.	48
2.	Banking companies that publish financial reports sequentially and completely during the 2020-2022 period.	48
3.	Banking companies that publish financial reports using the rupiah currency (Rp).	48
4.	Banking companies that publish shares during the 2020-2022 period.	38
5.	Banking companies that do not publish shares during the 2020-2022 period.	(10)
6.	Number of research samples for 3 years	114
7.	Outlier	(28)
8.	Number of samples processed over three years	86

Source: 2025 Data Analysis Results

Descriptive Statistical Test Results

Table 2.
Results of Descriptive Statistical Tests

Variable	N	Minimum	Maximum	Mean	Std. Dev
DER	86	0,42	10,81	5,13	2,34
SIZE	86	28,95	35,23	31,80	1,75
ROE	86	-0,15	0,21	0,05	0,07
PBV	86	0,31	5,98	1,36	1,11
PER	86	-54,69	269,16	41,57	66,83

Source: 2025 Data Analysis Results

Based on Table 2, the total research sample comprises 86 corporate data points. Additionally, the dataset includes information on minimum and maximum values, mean, and standard deviation. Since the mean surpasses the standard deviation, the dataset exhibits superior quality. The standard deviation signifies the extent of deviation between individual data points and the mean. Each research variable is meticulously elaborated below:

The statistical analysis of the capital structure variable, measured by the debt-to-equity ratio (DER), shows a range from 0.42 to 10.81, with an average value of 5.1304 and a standard deviation of 2.34438. The data is considered reliable as the average surpasses the

dispersion measure. The lowest DER in 2022 was observed in PT Bank Amar Indonesia Tbk, whereas PT Bank Nationalnobu Tbk recorded the highest in the same year.

Regarding firm size, measured by the natural logarithm of total assets (Ln), the minimum and maximum values are 28.95 and 35.23, respectively. The average stands at 31.8055, with a standard deviation of 1.74667, ensuring strong data integrity since the mean is higher than the standard deviation. The smallest firm size in 2020 belonged to PT Bank of India Indonesia Tbk, while PT Bank Mandiri (Persero) Tbk had the largest in 2022.

Profitability, represented by return on equity (ROE), fluctuates between -0.15 and 0.21, with an average of 0.0528 and a standard deviation of 0.07276. Unlike other variables, the dataset for profitability demonstrates lower reliability, as the mean falls below the standard deviation. PT Bank Jago Tbk had the lowest ROE in 2020, whereas Bank Mega Tbk reached the highest in 2021.

The firm value variable, reflected through price-to-book value (PBV), varies from 0.31 to 5.98. With a mean of 1.3646 and a standard deviation of 1.10640, the data is considered reliable since the mean surpasses the standard deviation. PT Bank Artha Graha Internasional Tbk recorded the lowest PBV in 2020, while PT Allo Bank Indonesia Tbk attained the highest in 2022.

Investment decisions, assessed using the price-earnings ratio (PER), display values between -54.69 and 269.16. The mean stands at 41.5730, with a standard deviation of 66.83140, indicating weak data integrity due to the mean being lower than the standard deviation. PT Bank of India Indonesia Tbk had the lowest PER in 2021, whereas PT Bank Amar Indonesia Tbk recorded the highest in the same year.

Classical Assumption Test Results

Normality Test Results

Table 3.
Results of the One-Sample Kolmogorov-Smirnov Test for Normality

Test Statistic	0,131
Asymp. Sig. (2-tailed)	0,001c

Source: 2025 Data Analysis Results

Referring to Table 3, a significance value of 0.001 suggests that the data deviates from a normal distribution, as it falls below the 0.05 (5%) threshold. However, based on the

Central Limit Theorem (CLT), the normality assumption becomes negligible when the sample size surpasses 30 (n > 30) (Handayani, 2023). Since this study utilizes a sample of 86, which significantly exceeds 30, the data can be regarded as approximately following a normal distribution.

Multicollinearity Test Results

Table 4.
Multicollinearity Test Results

Variable	Tolerance	VIF	Interpretation
DER	0.878	1.139	No Multicollinearity
SIZE	0.510	1.962	No Multicollinearity
ROE	0.561	1.782	No Multicollinearity
PER	0.891	1.122	No Multicollinearity

Based on the 2025 Data Analysis Findings

Based on the data in Table 4, the regression model is free from multicollinearity, as no substantial relationship exists among the independent variables, namely capital structure, firm size, profitability, and investment decisions. This conclusion is supported by the Variance Inflation Factor (VIF) values, which remain under 10, and tolerance values that surpass 0.10.

Heteroscedasticity Test Results

Table 5.
Results of the Heteroscedasticity Test

Variable	Sig. (2-tailed)	Interpretation
DER	0.191	No Presence of Heteroscedasticity
SIZE	0.314	No Presence of Heteroscedasticity
ROE	0.977	No Presence of Heteroscedasticity
PER	0.190	No Presence of Heteroscedasticity

Based on the 2025 Data Analysis Findings

As shown in Table 5, all independent variables (capital structure, firm size, profitability, and investment decisions) have significance values greater than 0.05 (5%). This indicates that heteroscedasticity is not present in the regression model, indicating a consistent variance of residuals across different values of independent variables.

Autocorrelation Test Results

Table 6.
Results of the Autocorrelation Test

Durbin-Watson	Interpretation
2.061	No Autocorrelation

Based on the 2025 Data Analysis Findings

Referring to Table 6, the Durbin-Watson statistic obtained from the calculation is 2.061, while the upper bound (dU) is 1.7478, and 4 - dU = 2.2522. Since the obtained value falls within the acceptable range (1.7478 < 2.061 < 2.2522), it can be inferred that no autocorrelation is present in the model. This confirms that the residuals are independent and do not exhibit systematic patterns over time.

Hypothesis Testing Results

F-Statistic Test Results

Table 7.
F-Statistic Test Results

Model	F	Sig.
Regression Residual	5,411	0,001

Based on the 2025 Data Analysis Findings

The F-statistic test in Table 7 shows a significance level of 0.001, which is lower than the 0.05 threshold (0.001 < 0.05). This suggests that the independent variables capital structure, firm size, profitability, and investment decisions jointly impact the dependent variable, firm value. These findings confirm that the regression model employed in the study is statistically significant and appropriate for analysis.

Coefficient of Determination (Adjusted R^2) Test Results

Table 8.
Adjusted R^2 Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,459a	0,211	0,172	1,007

Based on the 2025 Data Analysis Findings

Based on Table 8, firm value is influenced by capital structure, firm size, profitability, and investment decisions, with these variables collectively accounting for 17.2% of its variation, as reflected in the Adjusted R Square value of 0.172. The remaining 82.8% of the variation is shaped by other determinants outside the scope of this regression model.

T-Test Analysis Results

Table 9.
T-Test Analysis Results

Variable	B	Std. Error	t	Sig.	Remark
(Constant)	2.879	2.711	1.062	0.291	-
DER	-0.111	0.050	2.225	0.029	H1 Approved
SIZE	-0.046	0.088	-0.528	0.599	H2 Declined
ROE	7.103	2.004	3.545	0.001	H3 Approved
PER	0.004	0.002	2.069	0.042	H4 Approved

Based on the 2025 Data Analysis Findings

Based on Table 9, the multiple linear regression equation is expressed as **PBV = 2.879 - 0.111 DER – 0.046 SIZE + 7.103 ROE + 0.004 PER + e**. The constant (2.879) represents the estimated firm value when all independent variables, capital structure, firm size, profitability, and investment decisions, are held constant. Capital structure (DER) has a negative coefficient (-0.111) and a significance value of 0.029 (< 0.05). The findings confirm H1, demonstrating a statistically significant and inverse correlation with firm value. A higher debt-to-equity ratio reduces firm value, while a lower ratio increases it. Firm size (SIZE) has a negative coefficient (-0.046) but is not statistically significant (Sig. 0.599 > 0.05), leading to the rejection of H2, meaning firm size does not necessarily impact firm value. Profitability (ROE) has a positive coefficient (7.103) with a significance value of 0.001 (< 0.05), confirming a direct and significant influence on firm value (H3 accepted), where higher profitability leads to a higher firm value. Investment decisions (PER) also show a positive impact (0.004) with a significance of 0.042 (< 0.05), supporting H4, meaning higher investment decisions contribute to increased firm value. Lastly, the error value (2.711) reflects the degree of deviation or potential model inaccuracies.

Results of the Moderated Regression Analysis (MRA) and Adjusted R^2 Test

Table 10
Presents the Results of the Adjusted R Square Test After Conducting a Moderated Regression Analysis (MRA)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,982a	0,964	0,961	0,2195

Based on the 2025 Data Analysis Findings

From Table 10, the Adjusted R Square value is 0.961 or 96.1%, indicating that the independent variables capital structure, firm size, profitability, and investment decisions jointly influence firm value after incorporating the moderating variable (investment decisions). The explanatory power of the model has increased to 96.1%, meaning that only 3.9% of variations in firm value are influenced by factors outside the regression equation.

Results of the T-Test Analysis

Table 11
Presents the T-Test Analysis Results for the Moderated Regression Analysis (MRA)

Variable	B	Std. Error	t	Sig.	Conclusion
(Constant)	2.879	2.711	1.062	0.291	-
DER	-0.111	0.050	2.225	0.029	H1 Approved
SIZE	-0.046	0.088	-0.528	0.599	H2 Declined
ROE	7.103	2.004	3.545	0.001	H3 Approved
PER	0.004	0.002	2.069	0.042	H4 Approved
DER*PER	0.000	0.000	-0.733	0.466	H5 Declined
SIZE*PER	0.000	0.001	0.798	0.427	H6 Declined
ROE*PER	0.981	0.026	35.158	0.000	H7 Approved

Based on the 2025 Data Analysis Findings

The Moderated Regression Analysis (MRA) equation is derived from the unstandardized beta coefficients as follows:

PBV= 2,879 - 0,111 DER – 0,046 SIZE + 7,103 ROE + 0,004 PER + 0,000 DER*PER+ 0,000 SIZE*PER + 0,981 ROE*PER + e

Based on the regression model, the interpretation of the regression coefficients is as follows: The constant value of 2.879 represents the expected firm value when all independent variables (capital structure, firm size, profitability, and investment decisions) are held constant. The negative regression coefficient for capital structure (-0.111) and its significance value (0.029 < 0.05) indicate that a higher debt-to-equity ratio lowers firm value, while a lower ratio increases it, confirming that capital structure significantly influences firm value (H1 accepted). Firm size (-0.046) is not significant (0.599 > 0.05), meaning it does not impact firm value (H2 rejected). Profitability (7.103) has a significant positive effect (0.001 < 0.05), showing that higher profitability leads to higher firm value (H3 accepted). Investment decisions (0.004) also positively influence firm value (0.042 < 0.05), confirming H4. However, the interaction between capital structure and investment decisions (0.000, sig.

0.466 > 0.05) and firm size with investment decisions (0.000, sig. 0.427 > 0.05) are not significant, indicating that investment decisions do not moderate their impact on firm value (H5 and H6 rejected). Conversely, the interaction between profitability and investment decisions (0.981, sig. 0.000 < 0.05) is significant, showing that investment decisions strengthen the effect of profitability on firm value (H7 accepted). Lastly, the error value of 0.736 represents the degree of unexplained variance in the model.

The Influence of Capital Structure on Firm Value

The empirical findings indicate that capital structure significantly impacts firm value, confirming H1. This supports prior studies by Syamsudin et al. (2020), Budiarta & Dewi (2023), and Setiawan et al. (2021), and aligns with signaling theory, which posits that optimal debt utilization sends a positive signal to investors. In conventional banks, effective debt management strategies such as maintaining an optimal loan-to-deposit ratio (LDR), minimizing non-performing loans (NPL), and ensuring adequate capital adequacy ratio (CAR) are critical. These mechanisms ensure financial health and regulatory compliance, boosting investor confidence. When banks demonstrate prudent leverage and sound risk management, they project resilience and profitability, encouraging capital inflow and enhancing firm value.

The Influence of Firm Size on Firm Value

Empirical analysis shows that firm size does not significantly influence firm value, leading to the rejection of H2. This result echoes Suhendar & Paramita (2024) and Thamrin & Jasriana (2022), and suggests that sheer asset volume is not a sole predictor of value. In the context of conventional banking, several contextual factors may contribute to this outcome. Regulatory constraints such as capital requirements and macroprudential policies can limit the ability of large banks to convert scale into value. Additionally, economic fluctuations and digital disruption may erode the competitive advantages traditionally enjoyed by large banks, allowing smaller, tech-savvy institutions to compete effectively. Thus, size alone may not guarantee superior valuation without efficiency and innovation.

The Influence of Profitability on Firm Value

The findings affirm that profitability significantly influences firm value, confirming H3. This aligns with the works of Budiarta & Dewi (2023), Asmeri et al. (2022), and

Haryanto & Susanto (2021), and reinforces signaling theory. High profitability in banks signals operational efficiency, strong asset utilization, and competent management. For investors, consistent returns reflect stability and growth potential, enhancing valuation. In the banking sector, return on assets (ROA) and return on equity (ROE) are key indicators. When banks maintain robust margins and cost-efficiency, they attract investor trust, elevating stock prices and firm value.

The Influence of Investment Decisions on Firm Value

Empirical analysis establishes that investment decisions significantly impact firm value, confirming H4. This finding aligns with the research of Suhendar & Paramita (2024) and Ludianingsih et al. (2022), which indicate that investment decisions influence the valuation of conventional banking firms. The results substantiate that strategic resource allocation fosters corporate expansion and profitability, thereby enhancing firm value. Companies making sound investment decisions positively impact firm valuation, as investors gravitate toward firms exhibiting promising growth prospects. Well-executed investments amplify revenue streams and profitability while ensuring consistent and sustainable cash flows. Conversely, ill-advised, high-risk investments can impose financial burdens, inflating debt and non-productive expenditures, ultimately diminishing firm valuation. Optimal investment decisions elevate stock prices, fortify market perception, and heighten investor interest. Therefore, prudent investment decisions act as a positive market signal, reinforcing the notion that conventional banking firms possess strong future growth potential, ultimately augmenting firm valuation.

Investment Decisions as a Moderator Between Capital Structure and Firm Value

Empirical findings reveal that investment decisions fail to moderate the relationship between capital structure and firm value, leading to the rejection of H5. This conclusion concurs with the study by Wijayaningsih & Yulianto (2021), which demonstrates that investment decisions do not amplify the effect of capital structure on firm valuation. The results indicate that firms with non-optimal capital structures, even when moderated by investment decisions, exhibit significantly low valuation. Hence, whether a firm maintains an ideal or suboptimal capital structure, investment decisions do not enhance the effect of

capital structure on firm valuation. Given that investment decisions do not directly alter capital structure, they fail to attract investors or elevate firm value.

Investment Decisions as a Moderator Between Firm Size and Firm Value

Empirical evidence indicates that investment decisions do not moderate the relationship between firm size and firm value, leading to the rejection of H6. This finding aligns with Wijayaningsih & Yulianto (2021), which establishes that investment decisions fail to strengthen the link between firm size and firm valuation. The results confirm that firms with larger asset bases, when moderated by investment decisions, exhibit notably low valuation. Consequently, investment decisions do not enhance the effect of firm size on firm valuation, as they do not directly influence asset magnitude. Since investment decisions do not significantly impact firm size, they do not attract investors or elevate firm value.

Investment Decisions as a Moderator Between Profitability and Firm Value

Empirical findings validate that investment decisions successfully moderate the relationship between profitability and firm value, confirming H7. This aligns with Wijayaningsih & Yulianto (2021), which demonstrates that investment decisions reinforce the link between profitability and firm valuation. The results affirm that firms leveraging investment decisions effectively amplify the influence of profitability on firm valuation, aligning with signaling theory. Greater profitability generates positive investor sentiment, prompting heightened investment, which consequently enhances firm value. The study underscores that elevated net profits relative to total asset investment signify strong profitability. Moreover, optimal investment decisions facilitate equilibrium between long-term and short-term assets, ensuring effective resource utilization that sustains operational efficiency. Consequently, well-executed investment decisions fortify firms' capacity to enhance profitability, reinforcing investor confidence, bolstering stock purchases, and driving firm value appreciation.

CONCLUSION

This study examines the effect of capital structure, firm size, and profitability on firm value in conventional banks listed on the IDX from 2020 to 2022, with investment decisions as a moderating variable. Results show that capital structure (DER) and profitability (ROE)

significantly influence firm value (PBV), consistent with signaling theory, where lower leverage and higher profitability enhance investor confidence. However, firm size (Ln) has no significant impact, indicating that scale alone does not guarantee higher valuation without performance efficiency. Investment decisions (PER) positively affect firm value and strengthen the effect of profitability but do not moderate the influence of capital structure or firm size. The limited three-year period, narrow scope, and single-variable proxies may reduce generalizability, especially due to the market disruptions during the COVID-19 pandemic. Practically, bank managers should focus on maximizing profitability and maintaining efficient capital structure to improve firm value, while investors may prioritize these indicators for decision-making. Future studies are encouraged to include broader samples such as LQ-45 firms, extend the timeframe, adopt alternative proxies like Total Asset Growth (TAG), and incorporate governance factors for a more comprehensive analysis.

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