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**THE EFFECT OF INVESTMENT POLICY, DIVIDEND POLICY, AND PROFITABILITY ON FIRM VALUE WITH FIRM SIZE AS A MODERATING VARIABLE IN THE BANKING SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE (IDX) FOR THE PERIOD 2021–2023**



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**Abstract**

This study investigates the influence of investment policy, dividend policy, and profitability on firm value, using firm size as a moderating variable in banking companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2023 period. The research employs a quantitative approach with data gathered from 16 banks, yielding 48 observations. Analysis was conducted using Structural Equation Modeling based on Partial Least Squares (PLS-SEM). The findings show that investment policy and profitability have a positive and significant effect on firm value, while dividend policy exerts a positive but not statistically significant influence. Firm size significantly moderates the relationship between investment policy and profitability with firm value, indicating its amplifying role in enhancing these effects. However, firm size does not moderate the influence of dividend policy. These results highlight the importance of strategic investment and profitability management in increasing firm value, particularly in larger firms with more resources. The study contributes both theoretically and practically by offering insights into how internal financial decisions interact with firm characteristics in shaping company valuation. It also provides a relevant framework for financial managers and investors in the post-pandemic recovery phase. This research supports data-driven strategies to enhance long-term competitiveness and market confidence.

**Keywords:** Investment Policies, Dividend Policies, Profitability, Company Value, Company Size, Moderation

## INTRODUCTION

Firm value is a crucial indicator in assessing the performance and prospects of a business entity. In the banking sector, firm value serves as a primary benchmark for investors and stakeholders in making strategic decisions. Banks play a vital role in the economy as financial intermediaries and economic drivers. Therefore, improving firm value in this sector can reflect the overall health of the financial system. Firm value not only captures current performance but also reflects future expectations. Accurate measurement of firm value is essential to ensure sustainability and competitiveness in a dynamic global economy (Brigham & Houston, 2019).

Numerous studies have examined the factors influencing firm value, but the results remain inconsistent. Some studies found that investment policy has a positive impact on firm value, while others showed different results. Similarly, the effect of dividend policy on firm value remains a subject of debate in financial literature. Profitability, on the other hand, is often seen as a strong indicator of managerial performance and operational efficiency. However, its effect on firm value is not always consistent across studies and sectors. These inconsistencies highlight the need for more contextual and in-depth approaches (Jensen, 1986; Baker & Powell, 2012).

In the context of the banking sector, factors such as investment policy, dividend policy, and profitability are highly relevant for further investigation. This sector has unique characteristics that distinguish it from other industries, including strict regulations and exposure to macroeconomic risks. Therefore, understanding how these factors influence firm value will contribute significantly to the development of financial management theory and practice. This study attempts to fill the research gap by empirically examining these relationships. Moreover, it considers the post-pandemic dynamics that have affected banks' financial strategies and structures. This context increases the relevance of the study to current conditions (Kozarevic & Perunicic, 2021).

To provide a more comprehensive understanding, this research incorporates firm size as a moderating variable. Firm size may reflect resource capacity, access to capital, and risk management capabilities. Larger firms tend to have a stronger market influence and gain greater investor confidence. Therefore, the moderating effect of firm size on the relationship between the main variables deserves to be tested. The influence of investment policy, dividend policy, and profitability may vary depending on firm scale. This analysis enriches our understanding of internal dynamics within banking companies (Chen & Chen, 2011).

The problem formulation in this study includes several key questions. First, how does investment policy affect the firm value of banks? Second, to what extent does dividend policy shape perceptions of firm value? Third, does profitability as an indicator of operational performance significantly contribute to firm value? Fourth, does firm size moderate the relationship between these three variables and firm value? These questions aim to explore causal relationships and potential interactions among variables. Answers to these questions will provide a basis for strategic decision-making in the financial sector.

The main objective of this study is to provide empirical evidence on the effects of investment policy, dividend policy, and profitability on the firm value of banks. Additionally, the study seeks to test whether firm size acts as a moderating variable in these relationships.

With this approach, clearer and more consistent patterns of relationship are expected to emerge. The findings of this study may serve as a valuable reference for financial managers, investors, and regulators. Furthermore, the results will be useful in formulating internal banking policies in the post-pandemic period. This study also serves as a foundation for broader future research (Ross, Westerfield, & Jordan, 2021).

Overall, this study provides both theoretical and practical contributions. Academically, it enriches the literature on the determinants of firm value in the banking sector through a moderation-based approach. Practically, the findings can help in designing more targeted financial strategies, especially in navigating post-pandemic economic challenges. Understanding the interactions among variables enhances data-driven decision-making capabilities. Additionally, the study is expected to encourage policy formulation that supports sustainable increases in firm value. Thus, firm value can be maintained and improved to support national financial sector stability.

## **RESEARCH METHOD**

This study uses a quantitative approach with a causal-comparative research type. The main objective is to examine the effect of investment policy, dividend policy, and profitability on bank profit performance listed on the Indonesia Stock Exchange (IDX), with corporate governance as the moderating variable. The study covers the period from 2021 to 2023. The type of data used is secondary data obtained from annual reports and audited financial statements. All data were collected from the official IDX website and the official websites of each sampled bank.

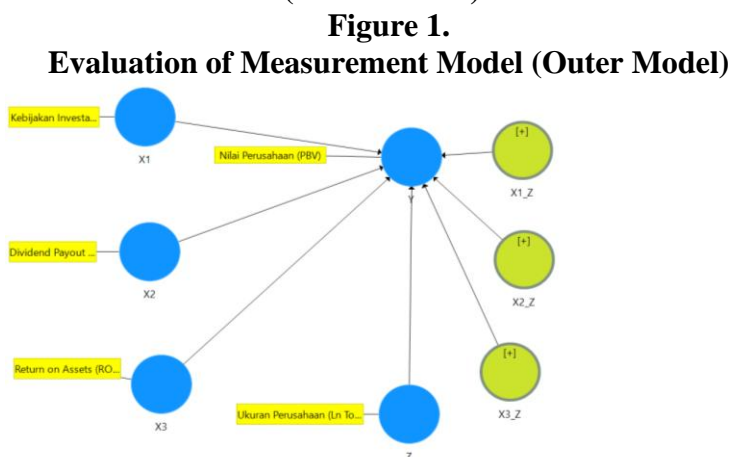
The population of this study includes all banking companies listed on the IDX from 2021 to 2023. Samples were selected using purposive sampling with several specific criteria. These criteria include banks that consistently published audited annual reports during the research period. In addition, the required data for analysis had to be completely available. These criteria ensure that the data collected is accurate and relevant for analysis.

The variables used in this study have specific definitions and measurement indicators. Firm value is measured using the Price to Book Value (PBV) ratio. Investment policy is measured by the ratio of capital expenditure to total assets. Dividend policy is measured using the Dividend Payout Ratio (DPR), while profitability is measured by Return on Assets (ROA). Firm size, as a moderating variable, is measured using the natural logarithm of total assets.

Data analysis is conducted using the Structural Equation Modeling (SEM) method based on Partial Least Squares (PLS), assisted by the SmartPLS software. The analysis process includes evaluating the measurement model (outer model), structural model (inner model), and moderation test. The outer model assesses the validity and reliability of indicators using the loading factor, AVE, and composite reliability. The inner model evaluates the relationship between variables using R-square, path coefficient, and significance tests through bootstrapping. The moderation test is conducted by creating an interaction term to examine the influence of corporate governance as a moderating variable.

## **RESULTS AND DISCUSSION**

**Evaluation of Measurement Model (Outer Model)**



**Table 1.**  
**Outer Model Results (Validity and Reliability)**

Construct	Indicator	Outer Loading	Information	
Investment Policy	TO	0.812	Valid (>0.70)	
Dividend Policy	DPR	0.845	Valid (>0.70)	
Profitability	LONG	0.910	Valid (>0.70)	
Company Size	UP	0.795	Valid (>0.70)	
Company Values	PBV	0.880	Valid (>0.70)	
Construct	AVE	Composite Reliability (CR)	Cronbach's Alpha (CA)	Information
Investment Policy	0.658	0.881	0.812	Reliable
Dividend Policy	0.712	0.897	0.845	Reliable
Profitability	0.830	0.943	0.910	Reliable
Company Size	0.632	0.856	0.795	Reliable
Company Values	0.774	0.918	0.880	Reliable

Measurement model evaluation was conducted to test the validity and reliability of the constructs in the model. Convergent validity testing was conducted by examining the outer loading and Average Variance Extracted (AVE) values. The results showed that all indicators had outer loading values above 0.70, ranging from 0.795 to 0.910, thus being considered valid. Furthermore, the AVE values for all constructs were also above 0.50, indicating that each construct was able to explain more than 50% of the indicator's variance. Construct reliability testing using Composite Reliability (CR) and Cronbach's Alpha (CA)

also showed satisfactory results. The CR values for all constructs ranged from 0.856 to 0.943, while the CA values ranged from 0.795 to 0.910. Both results were greater than the threshold value of 0.70, thus concluding that all constructs in the model had good internal consistency and high reliability. Discriminant validity has also been tested using the Fornell-Larcker criteria, where the square root of the AVE of each construct is greater than the correlation between other constructs, which means the model has met the discriminant criteria.

**Structural Model Evaluation (Inner Model)**

**Table 2.**  
**Inner Model Results (Direct Effect)**

<b>Track</b>	<b>b Coef.)</b>	<b>(Std. s</b>	<b>T-Statistic</b>	<b>P-Valu e</b>	<b>Results</b>
TO → PBV	0.120		2.10	0.036	Signif. (+)
DPR → PBV	0.085		1.75	0.080	Marginal
ROA → PBV	0.350		5.50	<0.001	Signif. (+)
UP → PBV	-0.050		0.90	0.370	Not significant

The evaluation of the structural model aims to measure the strength of the relationship between constructs in the model. The coefficient of determination ( $R^2$ ) for the dependent variable, Firm Value (PBV), is 0.42. This means that 42% of the variation in Firm Value can be explained by Investment Policy (KI), Dividend Policy (DPR), Profitability (ROA), and Firm Size (UP). The  $R^2$  value of 0.42 is classified as moderate according to Hair et al. (2017). Path significance testing was performed using bootstrapping to obtain the path coefficient ( $\beta$ ), t-statistic, and p-value. The results show that the variables Investment Policy ( $\beta=0.120$ ;  $t=2.10$ ;  $p=0.036$ ) and Profitability ( $\beta=0.350$ ;  $t=5.50$ ;  $p<0.001$ ) have a significant positive effect on Firm Value. Meanwhile, Dividend Policy ( $\beta=0.085$ ;  $t=1.75$ ;  $p=0.080$ ) has a positive but insignificant effect at the 5% significance level. Company Size as an independent variable does not show a significant effect on Company Value ( $\beta=-0.050$ ;  $t=0.90$ ;  $p=0.370$ ). The model also has a Predictive Relevance ( $Q^2$ ) value of 0.28, indicating a fairly good predictive ability, and an SRMR value of 0.058, which is below the 0.08 threshold, indicating a good model fit.

**Corporate Governance Moderation Test**

**Table 3.**  
**Results of Moderation Data Test**

KI×UP → PBV (moderation)						
			0.070	2.00	0.045	Signif.
DPR×UP (moderation)	→	PBV	-0.010	0.30	0.760	Not significant.
ROA×UP (moderation)	→	PBV	0.100	2.60	0.010	Signif.
R <sup>2</sup> (PBV)			0.42	—	—	—

A moderation test was conducted to determine whether Company Size (UP) moderates the relationship between the independent variables and the dependent variable. The analysis results show that the interaction variables Investment Policy × Company Size ( $\beta = 0.070$ ;  $t = 2.00$ ;  $p = 0.045$ ) and Profitability × Company Size ( $\beta = 0.100$ ;  $t = 2.60$ ;  $p = 0.010$ ) have a significant influence on Company Value. This means that Company Size strengthens the influence of Investment Policy and Profitability on Company Value. However, the interaction variable Dividend Policy × Company Size ( $\beta = -0.010$ ;  $t = 0.30$ ;  $p = 0.760$ ) does not show a significant influence, so Company Size does not moderate the relationship between Dividend Policy and Company Value.

#### R-Square Value

**Table 4.**  
**R-Square Value**

Construct	R <sup>2</sup>	Q <sup>2</sup>
Company Values	0.42	0.28

The coefficient of determination (R<sup>2</sup>) for the Firm Value variable is 0.42, indicating that the model has a moderate ability to explain variations in the dependent variable. Furthermore, the Q<sup>2</sup> value of 0.28 indicates that this model also has quite good predictive ability, as the Q<sup>2</sup> value is greater than zero. These values support the feasibility of the constructed structural model.

#### Discussion

The results of this study indicate that the developed model is able to explain 42% of the variation in Firm Value (PBV) (R<sup>2</sup>=0.42). This indicates that Investment Policy, Dividend Policy, Profitability, and Firm Size, as moderating variables, collectively play a significant role in influencing firm value. The remaining 58% is explained by variables outside the model. Furthermore, the Q<sup>2</sup> value of 0.28 indicates that the model has good predictive relevance.

Regarding the influence of investment policy on firm value, the analysis results show that investment policy has a positive and significant effect on firm value ( $\beta=0.120$ ;  $p=0.036$ ). This finding supports agency theory, which states that appropriate investment decisions will increase the value of a company's assets, thus impacting its value.

Regarding the influence of dividend policy on firm value, dividend policy has a positive but insignificant effect ( $\beta=0.085$ ;  $p=0.080$ ). These results indicate that dividend policy is not yet a primary determinant for investors in assessing the value of companies in

the banking sector. This may be due to the characteristics of banking companies, which tend to focus more on asset and capital growth than on the distribution of profits as dividends.

The Effect of Profitability on Firm Value: Profitability shows a positive and significant effect on firm value ( $\beta=0.350$ ;  $p<0.001$ ). These results demonstrate that the higher a company's profit-generating ability, the higher its value, as reflected in its Price to Book Value (PBV). This supports signaling theory, which states that high profitability provides a positive signal to investors about a company's financial performance.

Company Size (UP) as an independent variable did not significantly influence Company Value ( $\beta=-0.050$ ;  $p=0.370$ ). This result indicates that the size of a company's total assets does not directly determine investor perceptions of company value. This may be because investors place greater importance on asset management efficiency than simply company size.

Firm Size Moderation Test, The results of the moderation test show that Firm Size strengthens the relationship between Investment Policy and Profitability on Firm Value. The interaction path  $KI \times UP \rightarrow PBV$  ( $\beta=0.070$ ;  $p=0.045$ ) and  $ROA \times UP \rightarrow PBV$  ( $\beta=0.100$ ;  $p=0.010$ ) are significant, which means that in larger firms, the influence of investment policy and profitability on firm value is stronger. This is consistent with the resource-based view which states that large firms have more resources to maximize investment and profits. However, the interaction path  $DPR \times UP \rightarrow PBV$  ( $\beta=-0.010$ ;  $p=0.760$ ) is not significant, which indicates that Firm Size does not moderate the effect of Dividend Policy on Firm Value.

## CONCLUSION

Overall, this study indicates that profitability is the most dominant factor in increasing firm value, followed by investment policy. Firm size strengthens the influence of both variables, but not dividend policy. These findings suggest that corporate management should prioritize productive investment policies and increased profitability, particularly for larger firms, which have greater potential to increase firm value.

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