

Towards Firm Value Based on Capital Structure

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Abstract

The determinants of firm value in this study are the influence of profitability, liquidity, dividend policy through the capital structure as a mediating variable. This research was conducted on the Indonesia Stock Exchange using the company analysis unit in the Jakarta Islamic Index. This study used the purposive sampling method, which amounted to 56 companies with the research period in 2016-2019. This type of research is quantitative research. The results of this study indicate that profitability has a positive effect on capital structure and firm value. Meanwhile, liquidity has a negative effect on capital structure but has no significant positive effect on firm value. Furthermore, dividend policy has a positive effect on firm value. This study found that capital structure has a significant positive effect on firm value, but the capital structure cannot mediate the relationship between profitability and liquidity on firm value.

Keywords: profitability, liquidity, dividend policy, capital structure, firm value.

Introduction

The development of globalization and information technology has made competition in the business world increasingly fierce. This will make companies always required to have creativity and develop innovation to have high competitiveness. The company's primary goal is not to obtain maximum profit but to maximize the firm value by increasing the prosperity of the owners or shareholders. Maximized firm value is considered more appropriate as a goal because it means the same as maximizing the present value of all profits received by shareholders in the future in the long term (Crisóstomo, 2011; Saona and San Martín 2018).

The firm value is related to the stock price in the capital market. If the stock price in the capital market is high, it will make the firm value also increase the prosperity of the owners or shareholders. Therefore, the management needs to pay attention to the factors that can affect the firm value so that it can increase as expected by the owner of the company and ultimately prosper the shareholders.

Research conducted by Deswanto (2018) and Purwanto (2017) found that profitability significantly affects firm value. The greater the profit obtained, it shows high profitability and will increase the firm value. However, this finding is different from Oktrima(2017)that profitability did not affect firm value. With low profitability, the firm will use debt in capital and impact decreasing the firm value.

Research conducted by Barclay (2003)found that liquidity significantly influences firm value. A high liquidity ratio means increasing the company's ability to pay its short-term obligations, which can attract investors' confidence and increase the firm value. However Amihud (2008) and Osazuwa(2016)that liquidity does not affect firm value. Investors do not consider the company's liquidity ratio in investing because this ratio is considered only to cover the company's short-term liabilities with the company's current assets.

Saona(2018)and Hauser(2017)found that dividend policy significantly affects firm value. This shows that the higher the dividend policy, the higher the stock price and the impact on the increase in firm value. However, Dennis(2014)otherwise that dividend policy does not affect firm value. The dividend payout ratio is just a detail that does not affect the welfare and prosperity of the shareholders. Thus, increasing the dividend value is not always followed by an increase in the firm value.

According to Saona(2018)capital structure significantly affected firm value. The use of high debt will be able to increase the firm value. This is because the policy of using debt in the capital structure signals to investors or signs that the funding policy can affect the firm value. However,Vo and Ellis(2017)found that capital structure does not affect firm value. Companies that have a high capital structure tend to have a high level of investment risk and can reduce the firm value.

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Based on the previous studies, it can be concluded that there are differences in the results found by several researchers. This shows a research gap on the effect of profitability, liquidity, dividend policy and capital structure on firm value. This research is a development of the research from Alfi(2016); Chen (2011) between this research and previous research is that the liquidity and capital structure variables are added. These two variables are added because they can measure the company's state from the fulfillment of its short-term obligations and the state of its financial structure. In addition, this study takes a sample of manufacturing companies listed on the Jakarta Islamic Index (JII) in 2016-2019 with the reason that currently Sharia-based shares are in demand by foreign and domestic investors where Sharia-based share ownership provides peace of mind because it avoids usury.

Literature Review and Hypotheses Development

Pecking Order Theory

Pecking Order Theory assumes that the company's goal is to maximize shareholder wealth. This theory also states that companies prefer internal financing, such as from the company's operational results in retained earnings rather than external financing. This theory can be a reference that companies are very profitable because they generally have less debt, which will increase the firm value. This is not because the company has a low target debt ratio but because the company does not need funds from external parties (Brealey, 2005).

Signaling Theory

Based on the signaling theory, companies should provide negative or positive signals about financial and non-financial information to stakeholders so that investors can quickly analyze in making investment decisions. This theory can be a determinant for disclosing good news to external parties as reflected in profitability, liquidity, and dividend policy within the company. The higher the profitability, liquidity and dividend policy, which are considered capable of providing information to stakeholders with favorable prospects, will avoid the sale of shares and seek any new capital needed in other ways, including the use of debt that exceeds the target capital structure. This information provides instructions for investors on how management views the company's prospects and going concerns that can improve the company's image, which will ultimately prosper the shareholders.

Hypothesis Development

Effect of Profitability on Capital Structure

The measurement of the company's ability to earn profits can use profitability with the Return on Equity (ROE) indicator, which can affect the company's capital structure. High profitability means that the company has sufficient capital to finance the company's operational activities. The results of research from Andika(2016) also show that high profitability reflects that the company has sufficient profits to fund its business activities from its internal funding sources obtained by the company without adding external funds. Furthermore, Chen(2011) supports the pecking order theory and has a significant adverse effect on the company's capital structure. The hypothesis is proposed as follows:

H1: Profitability has a significant negative effect on capital structure.

The Effect of Profitability on Firm Value

Profitability is the company's ability to generate profits. The higher the profitability of the company, the company will have a good performance in generating a net income from its operational activities. To attract investors, the management will provide positive information on the increase in stock prices in the capital market, which means that the firm value is in a good position in the market (Crisóstomo, 2011). It means, profitability is a description of the performance of management in controlling the company. This is under signaling theory because high profitability can attract investor confidence to invest in the company. Then the hypothesis is proposed as follows:

H2: Profitability has a significant positive effect on firm value.

Effect of Liquidity on Capital Structure

Companies with a high level of liquidity reflect that the company's internal funds fund the company's operational costs without having to rely on external funds. This is in line with the pecking order theory, where the higher the liquidity, the company will have sufficient excess assets and can be used to finance the company's operational activities to reduce the portion of debt in the composition of the company's capital structure. Owino (2011) found that liquidity results had a negative effect on the company's capital structure. Then the hypothesis is proposed as follows:

H3: Liquidity has a significant negative effect on capital structure.

Effect of Liquidity on Firm Value

The higher the company's liquidity, the more funds available to the company to finance its operations and investments, so that investors' perceptions of the company's performance will increase and subsequently affect the firm value(Owino 2011).Liquidity means that the company can meet its short-term obligations. This is under the signaling theory, that good liquidation will signal the market a positive response. Thus, it can improve the company's good reputation and attract stakeholders to invest in the company(Hersugondo, 2019; Purwanto 2017; Wahyudi et al. 2019). The hypothesis is proposed as follows:

H4: Liquidity has a significant positive effect on firm value.

Effect of Capital Structure on Firm Value

Capital is an essential aspect for every company because it directly influences the company's financial position. In this case, the optimal capital structure is comparing the value of debt with the value of assets or equity that causes an increase in stock prices and firm value. The company's capital structure can use the indicator of Debt to Equity Ratio (DER). The use of debt as additional capital will increase the firm value. In this case, the company's management can provide an excellent signal to investors that there are good prospects for its operations in the future because it uses debt to increase stock prices. If the stock price increases, the firm value also automatically increases. The capital structure is the key to managing the source of funds from the company's performance because by looking at the company structure, it can be seen whether or not the company's performance is good.

This is in accordance with signaling theory, where the high capital structure can signal investors. Saona(2018); Nababan(2016); La Rocca(2007)explained that capital structure positively influenced firm value. Thus, the hypothesis is proposed as follows:

H5: Capital structure has a significant positive effect on firm value.

Effect of Dividend Policy on Firm Value

Dividend policy can use the Payout Ratio indicator, a percentage of income that will be paid to shareholders as cash dividends (Saona and San Martín 2018).Increases and decreases in dividends can affect stock prices. If dividends are increased, the company's stock price in the capital market will increase, and vice versa. This is supported by signaling theory, where companies that have a dividend policy with a high dividend distribution will attract investors to invest in the company. Saona (2018); Anton(2016); Baker (2012); Hauser (2017)also found that dividend policy has a positive influence on firm value. Then the hypothesis is proposed as follows:

H6: Dividend policy has a significant positive effect on firm value.

Based on the proposed hypothesis, the research model can be described as follows:

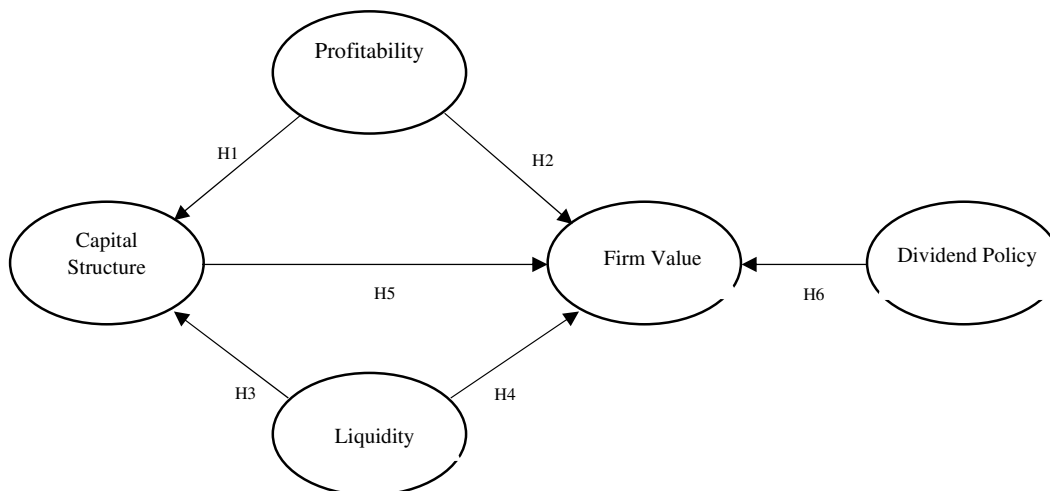


Figure 1. Research Model

Methodology

Population and Sample

This study focuses on companies included in the Jakarta Islamic Index (JII) because sharia-based stocks tend to increase and develop rapidly. It is desirable to foreign and domestic investors because it provides peace of mind and avoids usury in investment. The purposive sampling method was used as a sampling technique. Hypothesis testing in this study used Structural Equation Modeling based on Partial Least Square (SEM-PLS) with Smart PLS 3.0.

Operational Definition of Variables

Profitability

Profitability is a measure to find out how far the effectiveness of management in managing the company's operations (Rusydia 2016). Return on Equity (ROE) is used as a benchmark for the company's ability to measure the rate of return generated by management on the capital invested by shareholders after deducting liabilities to investors (Chen 2011). ROE is formulated as follows:

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit after Tax}}{\text{Total Equity}}$$

Liquidity

This study used the Current Ratio (CR) as a measurement indicator of liquidity. The higher the company's liquidity ratio, the better for investors. This is because the company has relatively good internal financing, thereby reducing debt in the capital structure (Loncan 2014; Yeo 2016). The current Ratio is formulated as follows:

$$\text{Current Ratio (CR)} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

Dividend Policy

The dividend policy in this study is confirmed in the form of a Dividend Payout Ratio (DPR). The use of this indicator is based on the fact that the DPR can better describe opportunistic managerial behavior in distributing profits to shareholders during the AGM (Saona 2018). The dividend payout ratio is formulated as follows:

$$\text{Dividend Payout Ratio (DPR)} = \frac{\text{Dividend per Share}}{\text{Earning per Share}}$$

Capital Structure

Capital structure is a balance between own capital and foreign capital. The capital structure can indicate how the company's performance in financing the company's operational activities using internal or external funding. This study is a proxy for capital structure with debt to equity ratio (DER). DER can be formulated as follows:

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Firm Value

The firm value is an indicator for the stock market in assessing the company as a whole which can affect the perception of investors to invest their share capital in the company (Damodaran 2002). This high stock price can provide an excellent signal to attract investors in making investment decisions. This study used the ratio of Price to Book Value (PBV) to measure firm value. PBV is formulated as follows:

$$\text{Price to Book Value (PBV)} = \frac{\text{Share Price per Share}}{\text{Book Value per Share}}$$

Data Analysis Technique

The data analysis technique used in this research is Structural Equation Modeling based on Partial Least Square (SEM-PLS) with Smart PLS 3.0. This analysis technique is used because it does not see whether the data is normal or not. The SEM-PLS equation model is divided into two, namely the outer model equation and the inner model equation, as follows:

- a. *Outer Model Equation*
 - 1) Exogenous latent variable 1
 $X1 = \lambda X1\xi1 + \delta1$ (1)
 - 2) Exogenous latent variable 2
 $X2 = \lambda X2\xi2 + \delta2$ (2)
 - 3) Exogenous latent variable 3
 $X3 = \lambda X3\xi3 + \delta3$ (3)
 - 4) Endogenous latent variable 1
 $Y1 = \lambda Y1\eta1 + \varepsilon1$ (4)
 - 5) Endogenous latent variable 2
 $Y2 = \lambda Y2\eta2 + \varepsilon2$ (5)
- b. *Inner Model Equation*
 - $\eta1 = \gamma1\xi1 + \gamma2\xi2 + \varsigma1$ (6)
 - $\eta2 = \beta1\eta1 + \gamma3\xi1 + \gamma4\xi2 + \gamma5\xi3 + \varsigma2$ (7)

Note:

- X1 : ROE λX1: Outer Loading ROE
- X2 : CR λX2: Outer Loading CR
- X3 : DPR λX3: Outer Loading DPR
- Y1 : DER λY1: Outer Loading DER
- Y2 : PBV λY2: Outer Loading PBV
- ξ1 : Profitability
- ξ2 : Liquidity
- ξ3 : Dividend Policy
- η1 : Capital Structure
- η2 : Firm Value
- γ1 : Path Coefficient of Profitability on Capital Structure
- γ2 : Path Coefficient of Liquidity on Capital Structure
- γ3 : Path Coefficient of Profitability on Firm Value
- γ4 : Path Coefficient of Liquidity on Firm Value
- γ5 : Path Coefficient of Dividend Policy on Firm Value
- β1 : Path Coefficient of Capital Structure on Firm Value

Descriptive Statistical Analysis

Descriptive statistical analysis of this study used SPSS 16 to describe the interpretation of the data indicated by the results of measuring the mean, minimum value, maximum value, and standard deviation of each variable (ghozali 2013). This descriptive statistical analysis is used to facilitate researchers in interpreting the existing data.

Analysis of the Measurement Model (Outer Model)

Analysis of the measurement model was conducted to assess the validity and reliability of the research instrument. In assessing validity and reliability, there are several criteria, including:

Convergent Validity

Convergent Validity is assessed based on the correlation between the components of the score estimated using Smart PLS. The individual reflexive indicator size is high if the cross-loading value is > 0.7 with the construct being measured. However, for early-stage research, cross-loading values ranging from 0.5 to 0.6 are considered quite good.

Average Variance Extracted (AVE)

In confirmatory factor analysis, the average percentage of AVE value between items or indicators of a set of latent constructs is a summary of convergent indicators. The construct can be good if it meets the criteria, namely if the AVE value is 0.5.

Discriminant Validity

Discriminant Validity is used to measure how much a construct is different from other constructs. Testing discriminant validity by looking at the Cross-Factor Loadings value obtained from comparing the square root value of the AVE with the correlation value between constructs. If the square root value of AVE is greater than the correlation value between constructs, it can be said to have a good discriminant validity value.

Composite Reliability

Composite Reliability is used to assess construct Reliability. In assessing Reliability, it can be seen from the composite reliability value and Cronbach Alpha. The indicators and variables in the study can be said to be good if they have a composite reliability value and Cronbach Alpha 0.7.

Hypothesis testing

Structural Model Analysis (Inner Model)

Analysis of the structural or inner model was carried out to see the relationship between the constructs, the significance value, and the research model's R-Square. The tests used for the analysis of the structural model or inner model are as follows:

Coefficient of Determination (R-Square) Test

The coefficient of determination (R-Square) in this study is used to measure how the independent variables jointly explain the changes in the dependent variable (Dewi and Dini, 2015). R-Square is said to be good and has a value close to 1, which means that the level of ability of the independent variable in explaining the dependent variable is getting better and stronger and can provide the information needed to explain the dependent variable.

T-test

Hypothesis testing (t-test) can be seen from the significance probability value (sig) of each independent variable with a significant level used of 0.05. If the probability value of sig < 0.05, then the hypothesis is accepted, which means there is an effect of the independent variable on dependent variable. However, if the probability value of sig > 0.05, the hypothesis is rejected, which means that there is no effect of the independent variable on the dependent variable.

Results and Discussion

Results

Table 1: Research Sample Criteria

Criteria	Total
Companies listed in the 2016 Jakarta Islamic Index	30
Companies that are not consistently listed on the Jakarta Islamic Index during 2016-2019	(13)
Companies that do not present financial statements using the rupiah currency value during 2016-2019	(3)
Companies that do not present financial statements with the data needed for complete research	0
Companies that do not have positive profits and experience during 2016-2019	0
The number of companies that became the research sample	14
The number of observations during 2016-2019	56

Source: secondary data (2019)

Table 2: Firm Sample

No	Code	Name of Firm
1	AALI	PT. Astra Agro Lestari Tbk
2	AKRA	PT. AKR Corporindo Tbk
3	ASII	PT. Astra Internasional Tbk
4	ASRI	PT. Alam Sutera Realty Tbk
5	ICBP	PT. Indofood CBP Sukses Makmur Tbk
6	INDF	PT. Indofood Sukses Makmur Tbk
7	INTP	PT. Indocement Tunggul Prakarsa Tbk
8	KLBF	PT. Kalbe Farma Tbk
9	LPKR	PT. Lippo Karawaci Tbk
10	LSIP	PP London Sumatra Indonesia Tbk
11	SMGR	PT. Semen Indonesia Tbk
12	TLKM	PT. Telekomunikasi Indonesia Tbk
13	UNTR	PT. United Tractors Tbk
14	UNVR	PT. Unilever Indonesia Tbk

Source: secondary data (2019)

Descriptive Statistics Test Results

Table 3: Descriptive Statistics Test Results

	N	Min	Max	Mean	Std. Deviation
Profitability	56	0.05	1.25	0.2344	0.2321
Liquidity	56	0.45	6.91	2.2359	1.5974
Dividend Policy	56	0.10	2.57	0.4454	0.4016
Capital Structure	56	0.16	2.26	0.8357	0.5589
Firm value	56	1.02	58.48	6.0868	11.5151

Source: secondary data (2019)

The Measurement Model Results (Outer Model)

Table 4: Cross Loadings, AVE, and Composite Reliability and Cronbach's Alpha

	Profitability	Liquidity	Dividend Policy	Capital Structure	Firm value
ROE	1.00	-0.28	0.00	0.47	0.98
CR	-0.28	1.00	0.11	-0.38	-0.25
DPR	0.00	0.11	1.00	-0.22	0.04
DER	0.47	-0.38	-0.22	1.00	0.51
PBV	0.98	-0.25	0.04	0.51	1.00
AVE	1.00	1.00	1.00	1.00	1.00
Composite Reliability & Cronbach's Alpha	1.00	1.00	1.00	1.00	1.00

Source: secondary data (2019)

Based on the results of descriptive statistics in table 3, it can be shown that all variables have a good level of accuracy because the mean value is higher than the standard deviation value. However, the firm value variable has a low level of accuracy because the mean value of 6.087 is lower than the standard deviation of 11.515. Based on table 4, several criteria can be interpreted in the SEM-PLS, including:

Convergent Validity

Based on the results in table 4, it can be seen that the outer loading value of 1.00 indicates that each construct indicator has a value greater than 0.7 so it can be said that the data has met the requirements of convergent validity and the indicator is said to be good and valid.

Average Variance Extracted (AVE)

The output results of the AVE value can be seen in table 4 that each construct has a value of 1.00 and 0.05 so that it has met the criteria, and the construct is categorized as good.

Structural Model Test Results (Inner Model)

Table 5: R-Square (R²)

	R Square	R Square Adjusted
Capital Structure	0.294	0.267
Firm Value	0.961	0.957

Source: secondary data (2019)

Discriminant Validity

Based on table 4, it shows the cross-loading value of 1.00. This means that latent constructs can be predicted better by each of the indicators compared to indicators from other constructs and this means that the data has met the requirements.

Composite Reliability

Based on the processed results in table 4, each construct has composite reliability and Cronbach's alpha value of more than 0.7, which is 1.00. This means that each latent construct has good reliability because it has met the requirements of the composite reliability test and Cronbach's alpha.

Based on the results of data processing in table 5 above, it can be explained that the firm value has an R-Square (R²) better than the capital structure, which is 0.961 or 96.1%. This means that the firm value variable can be explained very well by the independent variables, namely profitability, liquidity, dividend policy, and capital structure of 96.1%, while other variables explain 3.9%.

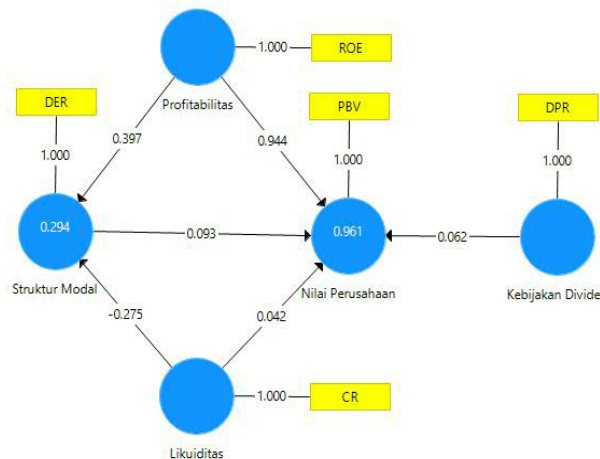


Figure 2: PLS Algorithm Path Model

Based on the path model, the equations for the outer model and inner model can be formulated as follows:

$$X1 = \xi_1 \quad (1)$$

$$X2 = \xi_2 \quad (2)$$

$$X3 = \xi3 \quad (3)$$

$$Y1 = \eta1 \quad (4)$$

$$Y2 = \eta2 \quad (5)$$

$$\eta1 = 0,397\xi1 - 0,275\xi2 + \zeta1 \quad (6)$$

$$\eta2 = 0,093\eta1 + 0,944\xi1 + 0,042\xi2 + 0,062\xi3 \quad (7)$$

Note :

X1:ROE $\xi1$: Profitability

X2: CR $\xi2$: Liquidity

X3: DPR $\xi3$: Dividend Policy

Hypothesis Test Results

T-test

Hypothesis testing can be seen in the P Values obtained through the bootstrapping method in the Path Coefficients table. According to Ghozali, I., & Chariri (2014), to test the hypothesis, it can use a probability significance of 0.05. The hypothesis can be accepted if it has a probability value or p values <0.05. The results of the processed data can be seen in table 6 Path Coefficients as follows:

Y1 : DER $\eta1$: Capital Structure

Y2: PBV $\eta2$: Firm Value

Table 6: Path Coefficients

Hypothesis	Path	P Values	Results
H1 : Profitability -> Capital Structure	0.397	0.021	The first hypothesis is rejected
H2 : Profitability -> Firm Value	0.944	0.000	The second hypothesis is accepted
H3 : Liquidity -> Capital Structure	-0.275	0.046	The third hypothesis is accepted
H4 : Liquidity -> Firm Value	0.042	0.178	The fourth hypothesis is rejected
H5 : Capital Structure -> Firm Value	0.093	0.035	The fifth hypothesis is accepted
H6 : Dividend Policy -> Firm Value	0.062	0.121	The sixth hypothesis is rejected
Profitability -> Capital Structure -> Firm Value	0.037	0.024	Capital structure cannot be a mediator
Liquidity -> Capital Structure -> Firm Value	- 0.025	0.195	Capital structure cannot be a mediator

Source: secondary data (2019)

Discussion

Effect of Profitability on Capital Structure

The result of the first hypothesis of this study is that the effect of profitability on capital structure shows a significant positive effect on capital structure. The first hypothesis is rejected. That is, if the profitability is higher, the capital structure will also increase. These results are in line with the research results conducted by Andika(2016)explains that profitability has a significant positive effect on capital structure. On the other hand, this study does not support the research results from Chen (2011) that profitability has a negative effect on capital structure. This means that the greater the profit earned by the company, the company will use its profits in the form of retained earnings for its business operations compared to using external funding such as debt, so that the proportion of debt in the capital structure will be lower which can minimize the company's risk.

The results of the first hypothesis analysis also do not support the pecking order theory because these results indicate that high profitability will increase the capital structure, which means that the proportion of debt will also increase. In contrast, in the pecking order theory, a company prioritizes internal financing in carrying out its business operations. A company with a high level of profitability means that the use of debt is relatively small because it has a large number of funds and retained earnings that can be used for the company's operational activities to minimize risk (Siddik, M., 2017).

Effect of Profitability on Firm Value

The second hypothesis of this study is that profitability has a significant positive effect on firm value. The second hypothesis is accepted. This means that the higher the company's profitability, will improve the company's image. The

results of this study also support research by Nababan (2016); Crisóstomo (2011); Deswanto (2018) investors interest in investing decisions. This is because the company has a going concern and good prospects for the future.

The results of this study are supported by signaling theory, where the company will always try to provide positive information to external parties regarding the company's performance. Furthermore, this is also an indication that the company is more efficient in utilizing its resources and facilities to generate greater profits and distribute its dividends (Nuryaman 2015; Osazuwa 2016; Purwanto 2017). Thus, the high interest of investors in investing can increase the company's stock price. This will also increase the firm value. However, this research does not align with research of Kodongo(2015)and Oktrima (2017)that profitability has no significant effect on firm value.

Effect of Liquidity on Capital Structure

The third hypothesis of this study is that liquidity has a significant negative effect on capital structure. The third hypothesis is accepted. This happens because the company has benefited from more liquid equity and will be more motivated to use more of its capital than its long-term debt and the increasing level of liquidity. Owino (2011) This result may also occur because more liquid companies will pay their debts, resulting in a lower level of debt use

This result aligns with the pecking order theory, that companies prefer internal funding rather than external funding. Companies with a high level of liquidity mean that the use of debt is relatively small because it has a large number of funds to be used for company operational activities to minimize risk.

Effect of Liquidity on Firm Value

The fourth hypothesis of this study is that the effect of liquidity on firm value shows a positive and insignificant effect on firm value. The sixth hypothesis is rejected. This is in line with the results of research by (Hersugondo, 2019; Purwanto 2017). This happens because it is possible that if liquidity is high, more assets are not managed effectively by the company so that it will affect the company's profit at the end of the period. In addition, descriptive statistics show the level of deviation from the average is relatively high at 0.638 or 63.8%, which is obtained from the difference between the average value and the standard deviation, causing insignificant results.

The results of this study have a discrepancy with the signaling theory where companies that have a good level of liquidity can provide positive information to give investors' confidence to invest in the company.

Effect of Capital Structure on Firm Value

The fifth hypothesis of this study is that the effect of capital structure on firm value shows a significant positive effect on firm value. The sixth hypothesis is accepted. This supports the research results by (Nababan 2016; La Rocca 2007; Saona and San Martín 2018). This means that the company's management can signal investors about the policy of using debt in the capital structure for the business expansion of the company. This is considered capable of providing good prospects by using debt to increase stock prices. If the share price increases, the firm value also increases. This is also attractive and gives investors' confidence in investing (Barclay, 2003).

On the other hand, this is not in line with the research conducted by Manurung (2014); Loncan(2014); Chen (2011)that the high capital structure of the company means the company also has a high level of risk. It can be said that the company prefers to increase its capital with debt rather than shares. This is certainly not desired by investors, so that they are not interested in investing in the company.

The signaling theory supports this result. If the company's nodal structure is high, then the company has good financial management because a high capital structure can reduce taxes. Furthermore, this can provide a positive perspective in the eyes of investors and attract them to invest and increase the firm value.

Effect of Dividend Policy on Firm Value

The sixth hypothesis of this study is that the effect of dividend policy on firm value shows a positive and insignificant effect on firm value. The sixth hypothesis is rejected. This is in line with the results of research conducted by Dennis (2014), that this is possible because of a separate analysis from investors where investors think that company managers are not sensitive to opportunities. Investments will benefit in the future by using their retained earnings rather than dividend payments. In addition, it was found that the average company has a policy in dividend distribution is that the value is fixed or does not experience an increase in the number of dividends every year so that the dividend policy does not have a significant effect on the firm value. However, this hypothesis research supports the literature results by Saona (2018); Anton (2016); Baker 2012); Hauser (2017), that dividend policy has a significant positive effect on firm value.

Effect of Profitability on Firm Value through Capital Structure

The theoretical analysis results of the effect of profitability on firm value mediated by capital structure show a significant positive effect on firm value. This means that companies that have a high level of profitability can improve the company's reputation indirectly through the capital structure

The results obtained from the data processing that have been carried out show that the direct test of profitability on the firm value has a parameter coefficient of 0.944, which is greater than the indirect test of 0.037. This shows that the capital structure is not able to mediate the relationship between profitability and firm value. Investors ignore the size of the capital structure in investing their capital, but investment decisions are determined by its performance in generating profits.

Effect of Liquidity on Firm Value through Capital Structure

Based on the analysis results of the effect of liquidity on firm value mediated by capital structure, it shows a negative and insignificant effect on firm value. These results indicate that companies with a high level of liquidity will indirectly reduce the firm value through the capital structure.

The results obtained from the data processing that have been carried out show that the direct test of liquidity on firm value has a parameter coefficient of 0.042, which is greater than the indirect test of -0.025. These results indicate that the capital structure cannot mediate the relationship between liquidity and firm value. This is because the size of liquidity is not too much attention by investors. After all, an essential thing in investment is seen from the profit generated by the company.

Conclusion

Based on the results of hypothesis testing, the main findings are; profitability has a significant positive effect on capital structure. The hypothesis is rejected. The higher the profitability it will also increase the company's capital structure. This is because companies with high profits will tend to do external financing for expansion, thereby increasing the proportion of debt in the capital structure. Profitability has a significant positive effect on firm value. The hypothesis is accepted. This shows that the higher the company's profitability, the higher its reputation will automatically be because it can attract investors in the company.

Meanwhile, liquidity has a negative effect on the capital structure. The hypothesis is accepted, meaning that companies with high levels of liquidity will reduce their capital structure. This reflects that the company has sufficient internal financing to carry out its operations so that it can reduce the proportion of debt in its capital structure. Liquidity has no significant effect on firm value. The hypothesis is rejected, meaning that higher company liquidity can provide positive information to stakeholders but cannot influence investors to invest. This is because investors do not always pay attention to liquidity proxied by the current ratio.

Capital structure has a significant positive effect on firm value. That is the higher the capital structure in the company, the better the company's image. This is because the use of debt by the company as a benefit from the use of taxes ultimately provides a positive perspective in the eyes of investors. Thus, it will automatically increase the firm value. Dividend policy has no significant effect on firm value. The hypothesis is rejected, meaning that the higher the company's dividend policy can provide positive disclosures to stakeholders, but it has not a significant effect because investors do not pay too much attention to the size of dividend payments.

Furthermore, profitability has a positive and significant effect on firm value through capital structure. Capital structure cannot mediate the relationship of profitability to firm value because the value of the coefficient of the direct influence parameter is greater than the coefficient of the indirect influence parameter. Liquidity has a negative but not significant effect on firm value through capital structure. Capital structure cannot mediate the relationship between liquidity and firm value because the value of the coefficient of the direct influence parameter is greater than the coefficient of the indirect influence parameter.

Limitation

This research is limited to companies in the Jakarta Islamic index listed on the IDX for the 2016-2019 period, and in the end, the sample size obtained is relatively small, so it might not represent the entire sample. In addition, the findings of the standard deviation of the firm value variable proxied by PBV are more significant than the average, which means that the proxy is considered less capable of being an accurate indicator because it has pretty high fluctuations, which causes the data to have low accuracy.

Suggestion

Future research should use a more extended observation period in order to obtain more diverse results. Based on the value of R2, there are still other variables that can explain variations in the capital structure, such as business risk and ownership structure which are possible to contribute in explaining the capital structure variable because in determining the capital structure, one must also pay attention to business risk factors so that they are right in making decisions. Moreover, it can minimize all possible risks, and company managers are more careful in borrowing debt.

In addition, the measurement of variables can be carried out with other relevant measurements and compared to determine the most valid measurement. Like the value of the company using Tobin's Q measurement, the calculation includes elements of the company's debt and share capital and all company assets. Thus, the focus of the study is not only on one type of investor but also on providing information to creditors. This is because the financing is not only from equity but from loans provided by creditors.

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