

The Effects of Profitability, Leverage, and Company Size on Firm Value (A Study of Companies in the Basic Materials Sector Listed on the Indonesia Stock Exchange for the Period 2021–2024)

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Abstract

This research aims to examine the effects of profitability, leverage, and firm size on firm value among companies in the Basic Materials sector listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. Profitability was proxied by Return on Assets (ROA), leverage was proxied by the Debt-to-Equity Ratio (DER), firm size was proxied by the natural logarithm of total assets (SIZE), and firm value was measured using Tobin's Q. This research employed a quantitative approach using secondary data obtained from financial statements and annual reports published on the official IDX website. Using a purposive sampling technique, 45 companies were selected, resulting in 132 valid observations after outlier elimination. The data were analyzed using multiple linear regression with SPSS. The results showed that, partially, profitability (ROA) had no significant effect on firm value ($t = 1.340$; $\text{Sig.} = 0.183 > 0.05$), leverage (DER) had a positive and significant effect on firm value ($t = 7.546$; $\text{Sig.} = 0.000 < 0.05$), while firm size had a negative and significant effect on firm value ($t = -10.755$; $\text{Sig.} = 0.000 < 0.05$). Simultaneously, the three variables significantly affected firm value, with an Adjusted R Square value of 59.0% ($F = 63.835$; $\text{Sig.} = 0.000 < 0.05$). These findings indicate that, in the Basic Materials sector, investors place greater emphasis on capital structure and asset utilization efficiency than on short-term profitability levels when assessing firm value. This research is expected to contribute to investment decision-making and corporate financial management strategies in the Basic Materials sector.

INTRODUCTION

The rapid development of the business environment in the era of globalization has created intense competition across various industrial sectors. Companies are required to maintain business continuity while increasing firm value as a means of creating shareholder wealth. Firm value is an important indicator used by investors to assess a company's prospects and performance; therefore, increasing firm value is a primary objective for publicly listed companies (Brigham & Houston, 2022).

Firm value is generally reflected in the stock price formed in the capital market. A high stock price indicates that the market has a positive assessment of a company's performance and prospects. According to Brigham and Houston (2022), firm value represents investors' perceptions of a company's level of success, which is often associated with stock prices. The higher the firm value, the greater the potential wealth received by shareholders. In this study, firm value was proxied by Tobin's Q, which compares a company's market value with its total assets (Sudana, 2019).

From the perspective of Signaling Theory, companies attempt to provide positive signals to investors through various forms of published information, such as financial statements and annual reports. Investors use this information as a basis for investment decision-making (Spence, 1973). When a company demonstrates strong financial performance, investors tend to respond positively, which is reflected in increased stock prices and firm value. Therefore, various financial factors, such as profitability, leverage, and firm size, are considered factors that may influence firm value (Ross, 1977).

One of the relevant sectors to examine is the Basic Materials sector listed on the Indonesia Stock Exchange (IDX). This sector includes companies engaged in mining, chemicals, packaging, paper, steel, and cement industries. The Basic Materials sector is highly dependent on fluctuations in global commodity prices, causing companies within this sector to experience more volatile financial performance compared with other sectors (Sudana, 2019). This condition makes the Basic Materials sector a relevant research object for examining the relationship between financial factors and firm value.

Sembiring et al. (2025) explained that the Basic Materials sector provides products and services used by other industries as primary inputs for producing finished goods. Therefore, increases in product prices within this sector can directly affect production costs in other industrial sectors. This condition makes the Basic Materials sector a promising investment sector. Companies in this sector play an important role in providing reliable supplies of goods and services to support industries that depend on raw materials. Consequently, fluctuations in the performance of this sector may have broad effects on the overall industrial ecosystem (Arief Gunawan & Imronudin, 2025).

The phenomenon observed among companies in the Basic Materials sector listed on the IDX during the 2021–2024 period indicates fluctuations in firm value, which was proxied by Tobin's Q. Based on processed data from the annual financial reports of the sampled companies, the average Tobin's Q value showed a consistent downward trend. In 2021, the average Tobin's Q value was recorded at 1.3946 and declined to 1.3772 in 2022 (a decrease of 1.25%), followed by 1.3138 in 2023 (a decrease of 4.60%), and reached its lowest point at 1.0780 in 2024 (a decrease of 17.95%). The continuous decline in Tobin's Q over four consecutive years indicates weakening investor perceptions regarding the prospects of companies in the Basic Materials sector (Harmono, 2021).

A more notable phenomenon is that the decline in firm value does not always correspond with changes in profitability and leverage conditions. In 2022, the average ROA increased from 0.0637 to 0.0778; however, Tobin's Q continued to decline. Similarly, DER showed a decreasing trend from 0.6947 in 2021 to 0.4730 in 2024, which theoretically should provide a positive signal to investors, yet Tobin's Q continued to decrease. This condition indicates a gap between theoretical expectations and empirical evidence, requiring further investigation.

This contradictory phenomenon was also observed at the individual company level. Several sampled companies experienced increases in profitability while their Tobin's Q values declined. PT Aneka Tambang Tbk (ANTM) recorded an increase in ROA from 0.0566 to 0.0865 during the 2021–2024 period; however, its Tobin's Q value decreased from 0.3686 to 0.2776. PT Cita Mineral Investindo Tbk (CITA) showed a more significant contradiction, where ROA increased substantially from 0.1320 to 0.3134, while Tobin's Q declined from

0.5885 to 0.0406. PT Avia Avian Tbk (AVIA) and PT Semen Baturaja Tbk (SMBR) demonstrated similar patterns, in which increasing ROA was not followed by increasing Tobin's Q values.

One factor suspected to influence firm value is profitability, which is proxied by Return on Assets (ROA). Profitability reflects a company's ability to generate profits through the utilization of its assets (Kasmir, 2022). According to Signaling Theory, high profitability provides a positive signal to investors because it indicates effective financial performance and promising growth prospects, thereby encouraging increased stock demand and ultimately improving firm value (Spence, 1973). Companies with high profitability are considered capable of managing assets efficiently to generate profits, reflecting favorable future prospects and strengthening investor confidence (Setiawan et al., 2025).

However, previous research findings regarding the effect of profitability on firm value remain inconsistent. Studies supporting a significant positive effect include Purba et al. (2025), who examined companies in the Basic Materials sector and found that ROA positively influenced Tobin's Q. They explained that higher profits reflect growth potential and business sustainability, encouraging investors to provide higher valuations to companies capable of efficiently converting assets into profits. Similarly, Prayogo et al. (2025) found that profitability significantly affected firm value among mining companies, while Priyananda and Nuswandari (2025) reported similar findings using ROA as a profitability proxy. Specifically, within the Basic Materials sector, Setiawan et al. (2025) and Wulandari and Dewi (2025) also found that profitability had a positive and significant effect on firm value. Consistent with these findings, Muttakin and Suryani (2024), who examined IDX manufacturing companies during the 2019–2023 period, found that profitability (ROA) positively affected firm value because higher profits signal effective management in utilizing company resources.

Conversely, different findings were reported by Justiansyah (2024) in IDX-listed mining companies. The study explained that asset utilization efficiency in generating net profit after tax was not the primary consideration for investors when assessing company performance, meaning that high profitability does not always guarantee increased stock prices or firm value. Similar results were found by Safira and Lestari (2025), who examined IDX mining companies during the 2020–2023 period and found that ROA had no significant effect on firm value. They argued that investors in commodity-based sectors tend to consider external factors, such as global commodity price fluctuations and geopolitical conditions, rather than short-term profitability reflected by ROA. Likewise, Nur Anisa et al. (2023), who studied IDX coal mining companies during the 2018–2021 period, found that ROA did not affect firm value because investors consider broader factors, including industry conditions, exchange rate fluctuations, transaction volume, and economic, social, and political stability. Zalsyabillah (2023) also found similar results among IDX mining companies in 2022, indicating that changes in profitability levels do not necessarily translate into changes in company valuation. In contrast, Khasbulloh et al. (2023), who examined IDX mining companies during the 2017–2022 period, found that profitability positively affected firm value. Based on Signaling Theory, they explained that high profits serve as a signal of strong long-term performance and prospects, resulting in positive market responses. Wardhani and Triyonowati (2024) further supported these findings among IDX coal mining companies during the 2018–2022 period, concluding that ROA positively and significantly affected firm value because high profitability reflects

promising future prospects that attract investors, increase stock prices, and ultimately enhance firm value. These inconsistent findings, particularly in sectors dependent on commodity prices such as mining and Basic Materials, indicate the existence of a research gap requiring further examination, especially among Basic Materials companies listed on the IDX during the 2021–2024 period.

In addition to profitability, leverage, proxied by the Debt-to-Equity Ratio (DER), is also considered a factor that may influence firm value. Leverage reflects the extent to which companies use debt to finance operational activities and investments (Hery, 2021). Based on Trade-Off Theory, the optimal use of debt can increase firm value through tax benefits because interest expenses can reduce taxable income (Brigham & Houston, 2022). From the perspective of Signaling Theory, a company's decision to use debt in a controlled manner may provide a positive signal to investors regarding management's confidence in the company's ability to generate profits and fulfill its obligations (Ross, 1977). Although leverage can strengthen company performance, excessive use of debt may increase financial risk and the possibility of financial distress, limiting companies' ability to invest in value-enhancing projects (Gunawan & Imronudin, 2025). Therefore, properly managed leverage is expected to influence firm value.

Based on the identified problems and research gaps, this study aims to: (1) examine the effect of profitability (ROA) on firm value (Tobin's Q) among Basic Materials sector companies listed on the IDX during the 2021–2024 period; (2) examine the effect of leverage (DER) on firm value (Tobin's Q) among Basic Materials sector companies listed on the IDX during the 2021–2024 period; and (3) examine the effect of firm size (SIZE) on firm value (Tobin's Q) among Basic Materials sector companies listed on the IDX during the 2021–2024 period. This research is expected to provide theoretical and practical contributions. Theoretically, this study contributes to financial management literature, particularly regarding the application of Signaling Theory and Trade-Off Theory in the Indonesian Basic Materials sector, while enriching empirical studies on the determinants of firm value in commodity-based industries. Practically, this research provides insights for investors in making investment decisions, assists company management in formulating optimal financial policies, serves as a reference for future academic research, and provides evaluation material for regulators in developing capital market policies related to the Basic Materials sector.

METHOD

Research Design

This study employed a quantitative approach with a causal associative research design to examine the effects of profitability, leverage, and firm size on firm value among Basic Materials sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period (Sugiyono, 2022; Sekaran & Bougie, 2019). The population consisted of 113 companies in the Basic Materials sector listed on the IDX during the research period. Using purposive sampling, 45 companies were selected based on the following criteria: (1) listed on the IDX during the research period; (2) published complete financial statements; (3) did not report losses or negative equity; (4) provided complete data for all research variables; and (5) did not experience delisting or suspension. The independent variables consisted of profitability measured by Return on Assets (ROA), leverage measured by Debt-to-Equity Ratio (DER), and firm size measured by the natural logarithm of total assets. The dependent variable, firm value,

was measured using Tobin's Q, calculated based on market value of equity, total liabilities, and total assets (Chung & Pruitt, 1994). This study used secondary data obtained from financial statements and annual reports published on the official IDX website for the 2021–2024 period, including financial information and year-end stock prices.

Data analysis was conducted using multiple linear regression with SPSS. The analysis stages included descriptive statistics to describe data characteristics (Ghozali, 2021); classical assumption tests consisting of normality, multicollinearity, heteroscedasticity, and autocorrelation tests (Ghozali, 2021; Sugiyono, 2022); and multiple linear regression analysis using the equation $LN_TOBIN = \alpha + \beta_1 LN_ROA + \beta_2 LN_DER + \beta_3 SIZE + \varepsilon$. Variable transformation using the natural logarithm (LN) was applied to improve data distribution and reduce the influence of extreme values. Hypothesis testing was performed through partial tests (t-tests) to examine the effects of individual independent variables, simultaneous tests (F-tests) to examine the joint effects of independent variables, and the coefficient of determination (Adjusted R²) to measure the contribution of independent variables in explaining variations in firm value (Ghozali, 2021).

Data collection was conducted using documentation methods by collecting financial data, including total assets, liabilities, equity, net profit, and stock prices. The collected data were processed to calculate research variables and eliminate outliers using the Z-score method with a threshold of ± 3 standard deviations. After the outlier elimination process, the final sample consisted of 132 valid observations from 44 companies during the 2022–2024 period, which met the requirements for regression analysis (Ghozali, 2021).

RESULTS AND DISCUSSION

The Effect of Leverage (LN_DER) on Company Value (LN_TOBIN)

The Leverage variable (LN_DER) has a calculated t-value of 7.546 with a significance value of 0.000 and a regression coefficient of positive value (0.550). The calculated t-value (7.546) is greater than the t-table (1.657) and the significance value (0.000) is smaller than 0.05. This shows that Leverage has a positive and significant effect on the Company's Value. Thus, H₂ is accepted.

Effect of Company Size (SIZE) on Company Value (LN_TOBIN)

The Company Size variable (SIZE) has a calculated t-value of -10.755 with a significance value of 0.000 and a negative regression coefficient (-0.130). The calculated value of the absolute t-value (10.755) is greater than the table t (1.657) and the significance value (0.000) is smaller than 0.05. This shows that the Company Size has a negative and significant effect on the Company Value. Thus, H₃ is accepted, but in the opposite direction from the hypothetical.

Table 1. Summary of Hypothesis Test Results

H	Statement	Test Results	Verdict	Ket.
H ₁	Profitability (ROA) has a positive and significant effect on Company Value (Tobin's Q)	t = 1.340; Sig. = 0.183 > 0.05	Rejected	–
H ₂	Leverage (DER) has a significant effect on Company Value (Tobin's Q)	t = 7.546; Sig. = 0.000 < 0.05	Accepted	+
H ₃	Company Size (SIZE) has a positive	t = -10.755; Sig. =	Accepted	–

H	Statement	Test Results	Verdict	Ket.
	and significant effect on Company Value (Tobin's Q)	$0.000 < 0.05$		

Source: Primary data processed using SPSS (2026)

The Effect of Profitability (ROA) on Company Value (Tobin's Q)

The results of the first hypothesis test show that Profitability proxied by *Return on Assets* (ROA) does not have a significant effect on the Company Value (Tobin's Q) in companies in the Basic Materials sector listed on the IDX for the 2021–2024 period. This is evidenced by a calculated t value of 1.340 which is smaller than the t table of 1.657 and a significance value of 0.183 which is greater than 0.05. Thus, H_1 which states that Profitability has a positive and significant effect on the Company's Value is rejected.

The lack of profitability on the value of the company in the Basic Materials sector can be explained by the special characteristics of this sector which are highly dependent on fluctuations in global commodity prices. This condition results in the profits generated by the company not always being captured directly by the market as a positive signal of the company's value, as described in *Signaling Theory* (Spence, 1973). Investors in this sector tend to consider long-term fundamental factors such as natural resource reserves, commodity demand prospects, and operational efficiency, rather than short-term profitability reflected in ROA (Kasmir, 2022). This is in line with the findings of Justiansyah (2024) on IDX mining sector companies who revealed that the effectiveness of using company assets to generate net profit after tax is not the main benchmark for investors in investing capital and assessing company performance, so profitability is not a guarantee to increase stock prices. Safira and Lestari (2025) also strengthen this finding by concluding that long-term profit-oriented investors are not solely based on company profits, but also consider various other factors such as fluctuations in global commodity prices, geopolitical conditions, economic, social, and political stability of a country, the health of related sectors, and exchange rate dynamics and transaction volumes in the capital market.

This condition is increasingly confirmed from research data. 2022 recorded a surge in commodity prices due to the Russia-Ukraine conflict which pushed the average sample ROA to increase from 0.0637 to 0.0778, but Tobin's Q continued to decline. This shows that investors have anticipated a correction in commodity prices that will then occur in 2023, so the increase in short-term profitability does not translate into a sustained increase in company value. Zalsyabillah (2023) also found that profitability does not have an impact on the company's value, which indicates that an increase or decrease in *Return on Asset* does not necessarily have an impact on the company's value in the market. Kusumowati and Tere (2025) on 25 IDX mining companies for the 2021–2023 period also found that profitability does not affect the company's value, with the explanation that the company's value reflects more market expectations for future performance than the profit that has been achieved in the current period, so investors are more oriented towards the company's long-term growth potential and cash flow factors rather than the current profit rate.

The Effect of Leverage (DER) on Company Value (Tobin's Q)

The results of the second hypothesis test show that Leverage proxied by *the Debt to Equity Ratio* (DER) has a positive and significant effect on the Company Value (Tobin's Q) in

companies in the Basic Materials sector listed on the IDX for the 2021–2024 period. This is evidenced by a calculated t value of 7.546 which is greater than the t table of 1.657, a significance value of 0.000 which is smaller than 0.05, and a positive coefficient direction (0.550). Thus, H₂ is accepted.

The positive effect of leverage on the value of the company is consistent with *the Trade-Off Theory* which states that the use of debt to the optimal limit will increase the value of the company due to the benefit of tax savings (*tax shield*) from interest expense (Brigham & Houston, 2022). In the context of the capital-intensive Basic Materials sector, including mining, chemical industry, steel, cement, and packaging, the use of debt is seen as a rational expansion strategy and even expected by the market. In the perspective of *Signaling Theory*, investors respond positively to increased leverage as a signal that the company has confidence in utilizing financial leverage to create added value for shareholders (Ross, 1977).

The data trends in this study also strengthen this explanation. The average DER of the sample companies is in the range of 0.47-0.69 during 2021-2024, which falls into the moderate leverage zone. Interestingly, the downward trend of DER from 0.6947 in 2021 to 0.4730 in 2024 actually goes hand in hand with the decline in Tobin's Q, which indirectly confirms that investors positively assess the use of managed leverage in this sector. This means that debt reduction does not necessarily increase investor perception, because in a capital-intensive sector, the company's ability to access external financing is actually seen as an expansion capacity and a signal of management's confidence in the future business prospects.

The results of this study are in line with Wijaya (2024) in his research on the IDX raw goods industry sector for the 2021-2023 period and also found that leverage has a significant effect on company value, with the explanation that the use of debt to fund investments or profitable business expansion is a positive signal for investors, thereby increasing stock prices. Khasbulloh et al. (2023) on IDX mining companies for the 2017-2022 period also found that leverage has a positive effect on the company's value, where increased leverage is seen as a signal that the company dares to grow and expand to increase its value. Wardhani and Triyonowati (2024) also found similar results, where increasing debt in a company is considered to be mature planning for the future because with high leverage the company has the ability to use its capital to grow. Kusumowati and Tere (2025) also reinforce by explaining that companies that are able to implement the optimal composition of debt and equity will be more trusted by investors as entities that are able to manage financial risks while taking advantage of growth opportunities in a sustainable manner.

The Effect of Company Size (SIZE) on Company Value (Tobin's Q)

The results of the third hypothesis test show that the Company Size (SIZE) has a negative and significant effect on the Company Value (Tobin's Q) in companies in the Basic Materials sector listed on the IDX for the 2021–2024 period. This is evidenced by a calculated t-value of -10.755, a significance value of 0.000 which is smaller than 0.05, and a negative coefficient direction (-0.130). Thus, H₃ is accepted, but in the opposite direction of influence from the hypothesized one (negative, not positive).

The negative influence of company size on company value shows that the larger the company size measured from total assets, the more Tobin's Q value tends to decrease. This phenomenon can be explained through two complementary perspectives. First, in terms of the Tobin's Q formula which divides the market value of a company by its total assets: a company

with a very large total asset but a disproportionate growth in market value will mathematically result in a low Tobin's Q. In the context of the Basic Materials sector, many large companies are facing market value pressures due to slowing demand and correction in commodity prices in the 2023–2024 period, so that their Tobin's Q ratio is actually lower than that of smaller companies that are more agile in optimizing their assets (Harmono, 2021). Second, from a managerial perspective, companies that are too large are prone to experiencing *diseconomies of scale*, conditions where high operational complexity and heavier bureaucracy actually reduce the effectiveness of the overall use of assets. Within the framework of *Agency Theory*, the larger the company, the greater the potential for conflict of interest between management and shareholders which can lead to suboptimal investment decisions and reduce the value of the company (Jensen & Meckling, 1976).

This condition is confirmed by the data pattern of the research sample, where the companies with the largest SIZE actually recorded Tobin's Q below the sample average, while smaller companies showed a relatively higher Tobin's Q. This pattern indicates that in the Basic Materials sector, investors do not necessarily give a valuation premium simply because the size of large companies that is more important is how efficiently the asset is managed to generate value for shareholders (Sudana, 2019).

The results of this study are in line with the research conducted by Ismawati and Kusumastuti (2025) in their research on the IDX Basic Materials sector for the 2020-2024 period, which found that company size has a negative and significant effect on the value of companies with a coefficient of $-22,241$, which indicates that in this sector, very large companies do not always get a higher valuation from the market because investors pay more attention to the efficiency of asset use than the size of the asset itself. Wardhani and Triyonowati (2024) on IDX coal mining companies for the 2018-2022 period also found that company size has a negative and significant effect on company value, where companies that have very large total assets actually give negative signals to investors because too large a size can cause less efficiency in monitoring operational activities by management, thereby reducing the company's value.

Rizki Amilia and Santoso (2026) who used the same company value proxy (Tobin's Q) also found that company size has a negative and significant effect, with the explanation that high total assets are considered a negative signal because it indicates that assets are not managed effectively so that there is a slowdown in accumulation and asset turnover. Wijaya and Susilowati (2024) in the IDX mining sector for the 2019–2022 period also confirmed that a size that is too large has the potential to send a less favorable signal for investors. Meanwhile, Muttakin and Suryani (2024) and Nafi'ah and Karyadi (2026) found that company size does not have a significant effect on company value. In line with that, Setiawan et al. (2025) in the IDX Basic Materials sector for the 2021-2023 period also found that the size of the company has no effect on the company's value, with the argument that managing large amounts of assets requires large maintenance and storage costs, so that it can reduce profits and returns for investors; On the other hand, companies with fewer assets tend to have lower management costs so that their profits can be more optimal. These findings consistently show no positive relationship between the size of assets and the value of Tobin's Q in the raw material-based sector.

CONCLUSION

Based on the results of the research and discussion regarding the effects of profitability, leverage, and firm size on firm value among Basic Materials sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period, it can be concluded that profitability, proxied by Return on Assets (ROA), did not have a significant effect on firm value, proxied by Tobin's Q ($t = 1.340$; Sig. = $0.183 > 0.05$). This indicates that investors in the Basic Materials sector tend to consider long-term fundamental factors, such as global commodity price fluctuations, rather than short-term profitability levels. Leverage, proxied by the Debt-to-Equity Ratio (DER), had a positive and significant effect on firm value ($t = 7.546$; Sig. = $0.000 < 0.05$; coefficient = 0.550), which is consistent with the Trade-Off Theory that optimal debt utilization can provide tax shield benefits. Firm size, proxied by the natural logarithm of total assets (SIZE), had a negative and significant effect on firm value ($t = -10.755$; Sig. = $0.000 < 0.05$; coefficient = -0.130), indicating that larger companies in this sector may experience operational inefficiencies associated with diseconomies of scale. Simultaneously, the three variables significantly affected firm value, with an Adjusted R^2 value of 59.0% ($F = 63.835$; Sig. = $0.000 < 0.05$). This means that the three independent variables explained 59.0% of the variation in firm value, while the remaining 41.0% was explained by other factors outside the research model.

Based on the research findings and conclusions, several recommendations are proposed for relevant stakeholders. For investors, it is recommended that greater attention be given to leverage and firm size rather than short-term profitability when making investment decisions in the Basic Materials sector. Investors should also consider global commodity price trends and external factors, such as geopolitical conditions, that may influence company valuation. For company management, it is recommended to optimize debt utilization within an appropriate level to obtain tax benefits while maintaining operational efficiency and minimizing the risk of diseconomies of scale. Management should also focus on improving asset utilization efficiency to enhance firm value. For academics and future researchers, it is recommended to include additional variables, such as liquidity, dividend policy, or corporate governance; extend the research period to capture long-term trends; use alternative firm value proxies, such as Price-to-Book Value (PBV) or Market-to-Book Value (MBV); and expand the research scope to other industrial sectors to examine the consistency and generalizability of the findings.

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