

Moderating Effect of Profitability: An Analysis of Factors that Determine Firm Value in the Jakarta Islamic Indeks

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77

Andi Amri

Universitas Muhammadiyah Prof DR HAMKA, Jakarta, Indonesia
andiamri@uhamka.ac.id

Ardio Sagita

Telkom University, Indonesia
ardiosagita@telkomuniversity.ac.id

Ramadhi

Universitas Adzkia, Indonesia
ramadhi@adzkia.ac.id

Abstract

The value of a firm is often examined by linking the factors that influence on its value. However, this method is no longer adequate because profitability also has a significant role in determining the value of a firm. Thus, incorporating the role of profitability in strengthening firm value is a necessary further step. This quantitative research uses samples of all JII companies within five years, from 2016 to 2020. Seventy financial statements were obtained as samples. Secondary data were obtained through the company website and www.idx.go.id. The analysis of data adopted was the Structural Equation Modelling (SEM) with the help of Smart PLS software. The findings show that the liquidity and debt policy have a positive and significant effect on firm value, but the capital structure, dividend policy, and profitability have no effect on firm value. Meanwhile, profitability has an effect as a moderator in the relationship between liquidity and debt policy on firm value. Nevertheless, profitability has no effect on the relationship between capital structure and dividend policy on firm value. This study could have practical implications whereby investors are more aware that stocks listed in the JII also have bright prospects in addition to their conventional counterparts.

Keywords: *Profitability, Capital Structure, Liquidity, Finance Policy, Firm Value*



INTRODUCTION

Stock indexes can be used to measure capital market performance and investment products. They have a number of benefits for investors, such as recognizing the overall picture of the stock price movement through the

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Jakarta Stock Exchange Composite (JCI), acting as guidelines to see the performance of the stock portfolio, and determining productive stocks in order to get profits (Alam et al., 2020). One significant aspect to consider is that stock indexes can also be used as an active portfolio reference. Consequently, stock portfolio performance appraisal certainly requires a reference for comparative analysis.

This reference for comparison usually examines the types of stock price indexes. Currently, the Indonesian Stock Exchange has 37 types of stock price indexes. Frequently used stock indexes include the LQ45, IDX30, Jakarta Islamic Index (JII), Kompas100, MNC36, SRI-KEHATI, and PEFINDO25. An example of this comparison is the case of investing shares in the financial sector, where the more appropriate index to use as a reference is the financial sector index, not the Composite Stock Price Index (IHSG, Indeks Harga Saham Gabungan). Meanwhile, when investing in Sharia shares, the correct step is to examine the shares included in the Sharia stock index, such as the Indonesian Sharia Stock Index (ISSI, Indeks Saham Syariah Indonesia) or the JII.

This research focuses on the Islamic Index, which is part of the JII. JII stocks are ones that adhere to Islamic Sharia principles, which include, among others, prohibiting gambling, trade, usury, or forbidden food or drink. Furthermore, stocks must not produce, distribute, or provide goods or services that can damage morals. Stocks incorporated in the JII collaborate with the Indonesian Capital Market (OJK, 2021).

The JII was chosen for this research because the joined stocks already have a high level of investor confidence, especially for those who understand Islamic law. According to Andrianto and Mirza (2016) and Rudiawarni et al. (2022), the stock index incorporated in the JII adheres to Islamic principles and is able to provide benefits for investors by carrying out Islamic rules. Moreover, for Indonesian Muslims who invest in stock markets, shares incorporated in the JII are considered one of the best options. Indicators that demonstrate the interests of the Indonesian people are the development of the Islamic Index, as seen through the development of capitalization and the stock market index in the JII, shown in Table 1.

Table 1. The Development of capitalization and index in the Jakarta Islamic Index (JII) for the 2015–2020 period

No	Year	JII Index	JII Capitalization Value (Rp Trillion)
1	2015	603.35	1,737.29
2	2016	694.13	2,035.19
3	2017	759.07	2,288.02
4	2018	685.22	2,239.51
5	2019	689.09	2,318.57
6	2020	530.19	2,058.77
7	2021	550.10	2,015.19
8	2022	574.56	2,155.45

Source: *www.ojk.go.id* (2022)

Based on Table 1, the JII index for the 2015–2022 period fluctuated, but in 2017, there was a notable increase of 759.07. However, this did not last long, and they experienced a significant decline of 530.19 in 2020. In addition, the capitalization of shares tended to increase from 2015 to 2022, although this fell in 2021, leading to a value of IDR2,015.19 trillion. The value of this stock capitalization is obtained by multiplying the number of shares recorded with the initial share price for companies that make public offerings or stock prices on the exchange. Based on the analysis of two specific data points, particularly capitalization and index, it becomes apparent that a significant fall occurred in 2020 and 2022. This was due to the economic and financial conditions of Indonesia which were caused by the pandemic. This is the main foundation in terms of a fundamental analysis, meaning that the stocks included in the JII experienced a significant decline. This indicates that all stocks, not only the Islamic Index, experienced a decrease at this time. Overall, investors' yearly interest shows positive results when viewed before the COVID-19 pandemic.

In addition to the above indicators, the development of the Islamic Index can also be shown through the development of the Islamic Index in general, such as data obtained from *www.google.finance.com* (2022). The data contain charts of the development of Sharia shares, which shows that

the Islamic Index in Indonesia over the past six years, namely from 2016–2021, experienced a positive trend. Both periods 1 and 2 experienced similar phenomena. During the period 1, 2016 had the lowest growth, specifically 321, whereas the most significant increase occurred in 2020, with a rise of 457. Meanwhile, in period 2, the smallest increase was also seen in 2016, with 345; the highest increase occurred in 2021, with 495.

The development of the Islamic Index is indicated by various indicators, one of which is through the financial statements presented by each company that is included in the Sharia shares, especially those incorporated in the JII index. These financial statements contain various information related to firm value that can be further investigated. Financial statements, which reflect financial management, have the main goal of being able to maximize firm value.

The valuation of a firm is a crucial factor to consider when assessing the fundraising activities undertaken by the company. This instrument is intended to be used by parties with a vested interest in facilitating the best possible outcomes and strategic decision-making to drive company growth. The company makes the value of the company an inseparable part because it is related to the company's internal factors, such as the company's fundamental performance and the company structure (Olarewaju & Msomi, 2021; Shuwaikh & Dubocage, 2022). This statement is supported by the results of empirical research by Maslukhah (2017), who found that firm value was highly dominated by the company's performance. Firm value is urgent and needs to be improved for the benefit of shareholders, resulting in the improvement of shareholders' welfare and to the benefit of others.

Meanwhile, in layman's terms, profitability is understood as the company's strength to earn as much profit as possible. In realizing this goal, there will be potential investors who will be involved in investing their funds in the company in order to get a return. The size of the company's ability to earn profits will directly affect the return expected by investors to be even greater. This could increase the firm value (Bahloul & Bouri, 2016; Saidi, 2004; Škrinjarić, 2020; Yavar Panah et al., 2014). Previous research concluded that profitability is significantly affected (Ayem Nugroho, 2016; Chen et al., 2017; Sucuahi & Cambarihan, 2016). Conversely, research conducted by Irawan and Nurhadi (2016), Hirdinis (2019), and Sukmawardini and Ardiansari, (2018) found that profitability had no effect on firm value.

Capital structure can be interpreted as a comparison of a company's finances. Thus, the capital owned can come from long-term debt, short-term debt, or originate from the investor's own capital (Ramadhi et al., 2021; Ulbert et al., 2022). In this case, capital structure and firm value have a close relationship. The relationship of capital structure with firm value has been examined by Al-Fisah (2016), Hermuningsih (2012), and Hasbi (2015), who found that capital structure has a significant positive influence on firm value. This research is not consistent with studies from Sari et al. (2020), Vo and Ellis (2017), and Cuevas-Vargas et al. (2021), who concluded that capital structure has a significant negative effect on firm value.

A company's performance to fulfill financial obligations in the short term, which must be paid immediately, is called liquidity. An outstanding firm is characterized by its ability to meet these responsibilities within the designated timeframe. According to Galleno and Liscano (2013) and Suardi et al. (2022), the liquidity level can be measured by the liquidity ratio. Liquidity has a close relationship with firm value. The capacity of the firm to fulfill its short-term debt obligations has an indirect impact on the overall worth of the firm. Several experts, such as Fang et al. (2009), Chen et al., (2017), and Jihadi et al. (2021) found that liquidity has a significant influence on firm value. Different results were generated by Sari (2020), who revealed that there was no liquidity influence and that it had negative statistical results.

Next, the objective of the dividend policy is to ascertain the amount of profit that may be allocated to shareholders in the form of dividends, as well as the portion of earnings that will be retained inside the firm for internal financing reasons. Brigham and Houston (2020) revealed that creditors, shareholders, and external parties aim for the company to determine the ideal dividend policy. This interest in companies is a value that can improve the company's performance. The results of previous studies by Giriati (2016) and Seth and Mahenthiran (2022) revealed the potential impact of dividend policy. Meanwhile, Anita and Yulianto (2014) found different outcomes, as their research indicated no discernible impact of dividend policy on firm value.

Finally, the company carries out a debt policy to fund its operations using financial debt, commonly called financial leverage. Financial leverage is the level of debt and preferred shares used in the capital structure of a company (Brigham & Houston, 2013; Sun et al., 2022). Previous research conducted by Rompas (2013) and Dwiastuti and Dillak (2019) found that

debt policy has a significant effect on firm value. This means that if debt policy decreases, firm value increases accordingly. However, this is inversely proportional to the research conducted by Amri (2021) and Hidayat (2013), which discovered that debt policy has no effect on firm value.

The main foundation of this research is related to profitability, capital structure, liquidity, dividend policy, debt policy, and firm value in companies listed on the JII. Several studies examine the role of profitability in companies incorporated in the JII, which is linked with other variables in strengthening the firm's value. At this point, the existing literature has mostly examined the impact of profitability, capital structure, liquidity, dividend policy, and debt policy on firm value in a broad context without specifically considering firms that are members of the JII, as previously explained. Several prior research, such as the one conducted by Lubis et al. (2017), have examined banking enterprises that are listed on the Indonesia Stock Exchange (IDX). In addition, Sintyana and Artini (2018) focus on property and real estate companies, while finally, research from Riki et al. (2022) selected the object of research on primary consumer goods sector companies.

Research that makes profitability a moderator variable has been conducted by Ariani and Bawono (2018), Alsmady (2022), Ghafran et al. (2022), and Zahid et al. (2022), who discussed the effect of the size and age of the company on audit report lag. Meanwhile, Wahyuni (2018), Siddiqui et al. (2023), Peng et al. (2023), and Tarjo et al. (2022) examined the effect of corporate social responsibility on firm value, with profitability as a moderating variable. This research shares similarities with the current research; however, the variables discussed in her study are limited to corporate social responsibility. In addition, the novelty of this study also originates from the fact that there are still limited studies that have reviewed firms in the JII, such as the research conducted by Amri and Ramdani (2020), which examined the influence exchange rate, capital structure and dividend policy on stock returns. Most studies in Indonesia have studied the performance of conventional shares, and only some have focused on Sharia-based stocks. This is what makes this study novel. The main differentiator of this research indeed lies in the moderating variable involved, namely profitability. The existence of profitability variables will be a reinforcement in the variables studied. Given that the capitalization of Islamic stocks, especially the JII, has begun to increase after several years of the COVID-19 pandemic.

Therefore, due to various discrepancies in existing research and the majority of research in this field focusing more on conventional stock groups, limited studies have analyzed the performance of Islamic stocks. As a result, this research focuses on examining stock groups that comprise the JII. This study also aims to establish the role of profitability as a moderator in the effect of capital structure, liquidity, dividend policy, and debt policy on firm value for firms in the JII.

LITERATURE REVIEW

According to Brigham and Houston (2020), The concept of firm value relates to an investor's perspective on the level of achievement shown by an enterprise. Firm value can be recognized by the company's stock price, whereby high stock prices contribute to increased firm value. Firms with high value will make people believe in their performance and prospects for the future. Firm value can be measured by PBV (Price Book Value), PER (Price Earning Ratio), and EPS (Earning Per Share).

Moreover, Jogiyanto (2018) explains that profitability is part of the signalling theory. This theory discusses the dynamics of prices in the market in which stocks, bonds, and mutual funds, among others, exist. This will have an impact on potential investors in making the best decisions. This investor response can be in the form of a negative or positive signal, which will later affect market conditions. This influence causes reactions of various perceptions. GPM (Gross profit margin), NPM (Net profit margin), and ROA (Return on assets) are three proxies that are often involved in measuring profitability.

Capital structure is a balance of permanent short-term debts, such as long-term debt, preferred shares, and ordinary shares. Besley and Brigham (2018) state that capital structure can affect a company's funding source. This funding can be obtained from relatively permanent working capital for short-term funding sources, although it has a higher risk. Capital structure can be measured using DER (Debt to Equity Ratio), DAR (Debt to Asset Ratio), and LTDE (long-term debt to equity).

The following variable is liquidity. According to Mousavi and Roshandel (2015), liquidity is a measure of the company's ability to pay short-term and long-term debt within the specified time. This debt is the company's

obligation to external and internal parties of the company. The liquidity of an entity can be assessed by examining its capacity to settle short-term debts using its current assets. The Current Ratio (CR) is considered an appropriate surrogate for this metric.

Dividend policy often exists in financial theory because it is related to company investment (Asadi & Oladi, 2015). In this policy, there will usually be a dividend payment involving two parties with different interests. These parties consist of the management of the company itself as well as potential shareholders. The proxy used is the DPR (Dividend Payout Ratio). Meanwhile, according to Jogiyanto (2013), debt policy is a strategic policy carried out to increase the existing funding within the company and later used for operational activities. In financing the company's activities, the company's management will also take advantage of the debt policy as the best alternative source to meet the financing source.

The framework of this research can be illustrated in Figure 1.

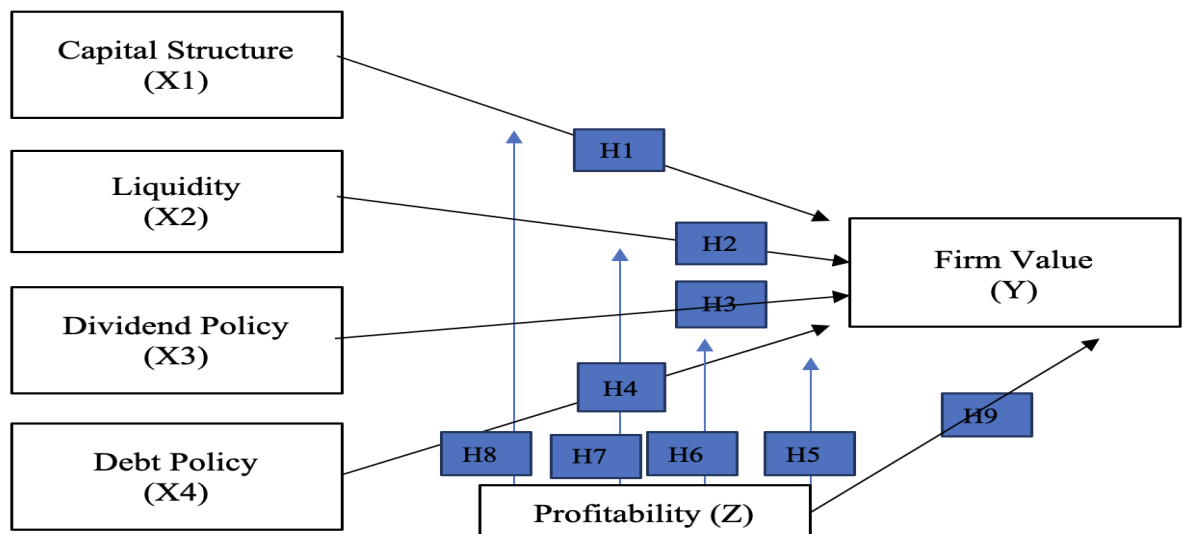


Figure 1. Framework of Research

RESEARCH METHOD

This study uses quantitative research. According to Goodwin and Goodwin (2013), quantitative research focuses on testing research variables that are strengthened through theory. The research involves numbers and statistical procedures. The data analysis method used in this study was SEM (Structural

Equation Model), which offered path analysis skills and was assisted by Smart PLS software. The research population was all companies listed in the JII, which included 30 companies. The sample uses the purposive sampling method by meeting the following criteria (see Table 2):

Table 2. The Process of Determining Research Samples

No	Fulfilment of criteria	Number
1	Companies that have been registered in the JII	30 Companies
2	Companies that did not routinely pay dividends from 2016–2020	5 Companies
3	Companies not registered in the JII from 2016–2020	11 Companies
4	Therefore, total number of companies that match the criteria for research samples	14 Companies

Based on Table 2, 14 companies became the object of research. Seventy observations were obtained from the specified financial statements. Detailed definitions of the operationalization of variables can be seen in Table 3:

Table 3. Operationalization of Research Variables

Variables	Operational definitions	Parameters
Firm value (Y)	The views of internal parties and investors related to stock prices with the aim of assessing the performance of a company.	PBV = Price per share/book value per share x 100% Source: Brigham & Houston (2020)
Capital Structure (X ₁)	Activities carried out by the companies to get funds, use funds and provide funds.	LDER = Long-term debt/ amount of capital x 100% Source: Besley & Brigham (2018)
Liquidity (X ₂)	The condition of the company to make payments on short-term debt according to a predetermined time.	CR = Current assets/current debt x 100% Source: Mousavi Shiri & Roshandel (2015)
Dividend Policy (X ₃)	Policies related to the use of profits for shareholders	DPR = Dividend per share/ profit per share Source: Amri & Ramadhi (2021) and Asadi & Oladi (2015)

Debt Policy (X ₄)	Policies carried out by the company in funding operational activities originating from debts	DER = Total Liabilities/Total Capital X 100% Source: Jogiyanto (2013)
Profitability (Z)	The company's efforts in generating maximum profits	ROA = Total debt/capital x 100% Source: Jogiyanto (2018)

Note: every unit variable uses percentage as an indicator measurement

RESULTS

General Description of Data Location (JII)

The purpose of forming this index is to measure investment performance, especially Islamic stocks. The aim is that investors can choose these shares to indirectly increase maximum trust and performance in investing in Sharia-based companies. At the current time, the stocks incorporated in the JII have amounted to 30 firms. These shares are in accordance with Islamic principles, so gambling, trade, *usury*, and forbidden foods and beverages are all prohibited, and the firms must not produce, distribute, and provide goods or services that can damage morals.

Results

Model Testing Measurement (Outer Model)

The results of the convergent validity test showed that each research variable indicator already has an outer loading value > 0.6, so conclusions can be drawn for further analysis. Furthermore, the results of the AVE test also showed good validity, whereby all the variables in this study were above 0.50 or exactly 1.00. Then, the discriminant validity results after data processing using Smart PLS 3.3 showed the cross-loading results with the value of the construct correlation and showed that the indicators were more significant than the other construct correlation values. Finally, it can be concluded that all constructions or latent variables already have good discriminants in each variable.

The R-Square estimation value can be seen in Table 4.

Table 4. R-Square Information

Variable	R-Square	R-Square Adjusted
Profitability (Z)	0.895	0.880

Based on Table 4, the R-Square value for the firm value variable is 0.895, which indicates that the magnitude of the influence of the variables studied in this article, namely capital structure, liquidity, dividend policy, and debt policy on company value, was 89.5%. Meanwhile, the remaining 10.5% was certainly influenced by other variables not studied in this paper.

Hypothesis Description

This test was carried out to determine whether the variables studied in this article have an effect or not. The test was done using the Bootstrapping function on Smart PLS, as shown in Figure 2:

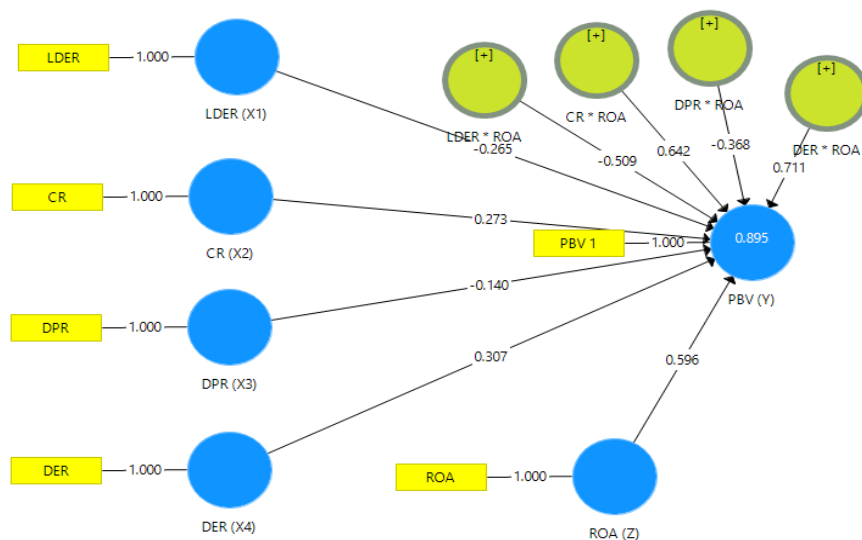


Figure 2. Bootstrapping Hypothesis

Figure 2, upon further analysis, can be shown through the following coefficient path (see table 6).

Table 5. Coefficient Path Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
CR (X2) -> PBV (Y)	0.273	0.283	0.107	2.553	0.011
CR * ROA -> PBV (Y)	0.642	0.627	0.319	2.012	0.045
DER (X4) -> PBV (Y)	0.307	0.289	0.133	2.312	0.021
DER * ROA -> PBV (Y)	0.711	0.645	0.289	2.460	0.014
DPR (X3) -> PBV (Y)	-0.140	-0.232	0.219	0.641	0.522
DPR * ROA -> PBV (Y)	-0.368	-0.598	0.596	0.617	0.537
LDER (X1) -> PBV (Y)	-0.265	-0.232	0.135	1.959	0.051
LDER * ROA -> PBV (Y)	-0.509	-0.390	0.320	1.591	0.112
ROA (Z) -> PBV (Y)	0.596	0.555	0.313	1.903	0.058

From Table 6, the value of the original sample, p-value or T statistics, is shown, which is used as a guide for accepting or rejecting a hypothesis. The hypothesis can be accepted if the t-value statistics > t table or the p-value < 0.05.

DISCUSSION

The effect of capital structure on firm value shows that there is no significant effect of capital structure on firm value for members of the JII. Evidence for this is the results of the path coefficients with the original sample value of -0.265, which showed a negative number, with a t-count value of 1.959 < 1.96 and a p-value greater than the 5% alpha. This implies that the presence of a large amount of debt does not always increase the financial risks faced by the firm. In financial theories such as agency theory, it is stated that the money owned by the company needs supervision. This supervision comes from outside so that there is no subjective element. Another perspective states that the

increasing debt in the capital structure section does not only have a negative impact. On the one hand, it also has a positive impact, where debt can reduce the use of shares and, of course, reduce the agency costs of capital that will arise. However, with all these positive impacts, of course, the company has an obligation to be able to pay debts and add interest periodically. Likewise, the negative side of uncontrolled debt will cause problems between creditors and investors. This aligns with research conducted by Putri (2019), Irawan and Nurhadi (2016), Hermuningsih (2012), and Hasbi (2015), which found that capital structure does not affect firm value.

Other results show that liquidity has a positive and significant effect on firm value for members of the JII. The results of path coefficients show this with an original sample value of 0.273, which demonstrates a positive number, with a T-count value of $22.553 > 1.96$ and a p-value smaller than the 5% alpha. This means that investors' perceptions of company performance grow when the company has high liquidity, which can also indicate the funds available to pay operations, investments, and dividends. This is because a company with high liquidity shows that it has large internal funds to finance its operations and external financing through debt. This attracts investors to invest their money into the company. This certainly aligns with research conducted by Putra and Lestari (2019), Rompas (2013), and Hanoatubun (2020), which finds that liquidity has a positive and significant effect on firm value.

Furthermore, dividend policy has no significant effect on firm value for members of the JII. This is demonstrated by the results of the path coefficients with the original sample value -0.140 – which shows a negative number with a t-count value of $0.641 < 1.96$ and a p-value greater than the 5% alpha. This result also accords with the theory proposed by Miller and Modigliani, whereby dividend policy has no effect on firm value because dividend payment ratios are only details and do not influence the welfare of shareholders or investors. In addition, the increasing value of dividends is not always accompanied by an increase in firm value. The main firm value is determined when the company can generate high profits from investment activities and assets owned by the company. This aligns with research conducted by Ilhamsyah (2017), Giriati (2016), and Seth and Mahenthiran (2022), who found that dividend policies have no effect on firm value.

Debt policy has a positive and significant effect on firm value for members of the JII. This is indicated by the results of the path coefficients with an original sample value of 0.307, which shows a positive number with a t-count value of 2,312 > 1.96 and a p-value smaller than the 5% alpha. This shows that debt is included in expenditures with a high level of vulnerability. High susceptibility to debt also results in high-interest rates, so companies often cannot pay off their debts. This result is in line with the trade-off theory, which assumes a high capital structure can be realized when the company is able to manage debt well, which results in a decrease in firm value. Debt will always be borne by the company even though the company has a stable profit. If the debt increases, the probability of bankruptcy will also increase. This resulted in the company being unable to pay off debt and interest. This accords with research by Laksmi and Budiarta (2020), Setiawan (2009), Sari et al. (2012) and Budiastra et al. (2020), which found that debt policy has a positive and significant effect on firm value.

As for the role of profitability, it does not act as a moderator in the effect of capital structure on firm value for members of the JII. This is evidenced by the results of the path coefficients with the original sample value of -0.509, which shows a negative number with a t-count value of 1.591 < 1.96 and a p-value greater than the 5% alpha. Various literature and previous studies were traced through search engines for this study, ranging from Google Scholar, Emerald Insight, MDPI Journal, Science Direct, Wiley Library, Springer, Taylor Franchise, and Elsevier. These studies found no role of profitability as a moderator on the effect of capital structure on firm value. Most studies show the effect of the moderator, such as that of Al-Fisah (2016), which found that profitability can only mediate (not moderate) the effect of capital structure on firm value. This finding illustrates that debt policy with capital structure variables has been able to provide a positive value. This positive situation is a signal that the policy of indirect funding has been able to increase profitability, and the most important output is that the value of the company also has an impact on the process that occurs, namely an increase. In contrast, the researchers produced different findings, where profitability and capital structure have not been able to influence the firm value variable positively. This suggests that corporations engaging in debt with the intention of exerting influence on a company's profitability ultimately have no impact. Despite the assumption, increasing the value of

the company to facilitate the implementation of the company's operations cannot be proven through this research.

In the meantime, the findings suggest that profitability serves as a moderator on the impact of liquidity on company value for JII members. The path coefficient results with an initial sample value of 0.642 demonstrate this by displaying a positive number with a t-count value of $2.012 > 1.96$ and a p-value less than the 5% Alpha. These findings conflict with the study by Farah et al. (2017), which found no relationship between profitability and the moderating effect of liquidity on business value. However, given that the majority of earlier studies concluded that there was no effect, different results like this can be challenging to interpret. The impact of profitability on a company's capacity to meet immediate financial obligations is significant. Specifically, profitability enables the company to use its existing assets to settle debts. As a result, profitability has the potential to moderate the association between liquidity and the total value of the firm. High current assets can improve a company's ability to raise money, and this is related to the profitability of the company. The ratio or distribution of current assets could benefit the business and boost market value.

Furthermore, the study discovered that business profitability does not moderate the impact of dividend policy on firm value for JII members. This is proven by the findings of the path coefficients with the original sample value of -0.368, which indicates a negative number with a t-count value of $0.617 < 1.96$ and a p-value greater than the 5% alpha. The findings of this study are consistent with those of Sari et al. (2020) and Oktaviani and Mulya (2018), who discovered that profitability could not improve the impact of dividend policy on company value. The dividend payment ratio can determine the amount of profit that can be retained in the business as a source of funding. However, by holding back profits in large quantities, the company has less money to pay shareholders in the form of dividends. Indirectly, this affects firm value.

Furthermore, the results show that profitability moderates the effect of debt policies on firm value in companies that are members of the JII. This is evidenced by the results of path coefficients with an original sample value of 0.711, which supports a positive number, with a t-count value of $2,460 > 1,960$ and a p-value smaller than the 5% alpha. The findings obtained by the authors are different from previous research, such as Maslukhah (2017), which states

that the debt policy with profitability on firm value produces an adverse effect and has no effect at all. The results of previous studies were negative, but that did not mean that these findings were rigid and standardized. Researchers view this debt policy activity differently, stating that it can optimize the value of the company when profitability increases. In addition, debt policy can also reduce firm value when profitability is low.

Finally, there is no significant effect of profitability on firm value for members of the JII. This is demonstrated by the results of the path coefficients with the original sample value of 0.596, which shows a positive number, with a T-count of $1.903 < 1.96$ and a p-value greater than the 5% alpha. This means that the profit of a company cannot be increased or reduced and/or directly influence firm value. Firms that are members of the JII are indicated to have a low average profitability (loss), whereas average firms have a stagnant value. This indicates that the research results have no significant effect despite having a positive original value. This accords with the research conducted by Thaib and Dewantoro (2017), Sucuahi and Cambarihan (2016), and Chen et al. (2017), which discovered that profitability has no effect on firm value.

CONCLUSION

The independent variables affecting firm value with moderating profitability include liquidity and debt policy. Meanwhile, the other two variables, namely capital structure and dividend policy, have no effect on firm value, with profitability as a moderator. The limitation of this research is that the research subjects were only Sharia-based firms. Future research could compare conventional firms and Islamic-based firms. Moreover, the subject of this study is limited to the period of 2016–2020. Hence, further studies have the potential to extend the period of research. The limited scope of examining a 5-year period has hindered the ability to accurately capture the best possible conditions of a firm.

Furthermore, regarding the procedure, upcoming research is expected to be able to consider more precisely the reach and accuracy in determining and selecting objects. The aforementioned assessment was derived from the personal experience of the author, when they noticed financial statements that were discovered to be inaccurate. Therefore, researchers must be more careful in incorporating financial statements that have been audited. Accuracy in choosing subjects must be an important part of the research

going forward, and it is also crucial to ensure that the financial statements used have been audited. Finally, researchers can further consider the data analysis process using more comprehensive software and more appropriate moderating variables with supporting theoretical bases.

The implications of this study are as follows: 1) For investors, especially investors who choose to invest in shares listed in the JII, it is essential to consider the firm value, capital structure, liquidity, profitability, dividend policy, and deb policy; 2) For researchers, they are expected to use other variables as an independent variable, because it is possible that other variables not included in this study have effects on firm value; 3) This study could have practical implications whereby investors are more aware that stocks listed in the JII also have bright prospects in addition to their conventional counterparts.

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