

The Effect of Capital Structure On Company Value with Profitability and Dividend Policy as A Mediating Variable

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ABSTRACT

The theory of capital structure with taxes is put forward by stating that the value of a company increases as the total debt increases. The use of debt in the company's capital structure, on the other hand, also incurs costs that can reduce the value of the company, so Modigliani and Miller (1963) the trade-off theory reveals that there is a so-called optimal capital structure. This study aims to test and analyze the influence of capital structure, profitability, and dividend policy on company value, both directly and indirectly. The population of this study is pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange for the period 2008-2022. The sampling technique used was the purposive sampling technique and samples were obtained from 6 companies with a total of 90 years of observation. This study uses secondary data in the form of annual financial statements of pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange for the 2008-2022 period. The data analysis technique in the study uses the dynamic panel method of the system generalized method of moments (GMM) with the Rstudio application. The results of the analysis provide evidence that capital structure, profitability, and dividend policy have a significant positive effect on the company's value. Capital structure has a significant positive effect on profitability and dividend policy. Capital structure affects the value of the company through profitability as a mediating variable. Capital structure affects the value of the company through dividend policy as a mediating variable. Company management is advised to always maintain an optimal capital structure for the company so that it can increase profitability and dividend distribution so as to increase the company's value. For the next researcher, it is recommended to increase the number of research samples so that the research results can be generalized widely.

Keywords : capital structure, company value, profitability, dividend policy

INTRODUCTION

In principle, the company's goal is to create an increase in the welfare of shareholders by increasing the value of the company. The value of a company describes how much the price is willing to be paid by potential buyers or commonly called investors. An increase in the value of the company will attract investors to invest in the company's shares. The company's management provides information through financial statements as a consideration for investors in making investment decisions that have an impact on the rise or fall of the company's value. The value of a company will be reflected in its share price. The market price of the company's shares formed between the buyer and the seller at the time of the transaction is called the market value of the company, because the market price of the stock is considered a reflection of the actual value of the company's assets (Arifianto & Chabachib, 2016; Iswajuni, Manasikana, & Soetedjo, 2018; Meckling & Jensen, 1976; Sari & Sedana, 2020)

The higher the share price, the higher the prosperity of shareholders. However, stock price movements in the capital market generally tend to fluctuate. The phenomenon that occurred on the Indonesia Stock Exchange in the last six years, from 2017 to 2022, is the average value of companies in the pharmaceutical sub-sector which is proxied by *the price to book value* (PBV) which tends to decline as presented in Figure 1 below.



Source : Indonesia Stock Exchange (2017-2022)

In 2019 to 2020 there was an increase influenced by the increase in demand for medicines during the Covid-19 pandemic, but the downward trend in the value of companies that are proxied with PBV in pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange is certainly an important concern for investors to avoid the risk of loss (*loss*) in investing because PBV is a reflection of the company's value. The value of a company that is proxied with PBV describes how much price is willing to be paid by potential buyers or commonly called investors (Iswajuni et al., 2018).

A pharmaceutical company or pharmaceutical company is a commercial business company that focuses on researching, developing and distributing drugs, especially in terms of health. Capital structure is important for pharmaceutical sub-sector companies which are research-intensive industries, innovative and balanced industries in the use of human resources and technology. The main characteristic of pharmaceutical companies is that they have a large working capital, because the raw materials needed by pharmaceutical companies are relatively expensive (Ariyani & Wirakusuma, 2018).

Large working capital causes management to pay attention to debt policy in the capital structure set by a company. The capital structure can come from both internal and external companies. Internal sources of funds are obtained from *retained earnings*, while external sources of funds are obtained from equity and loans or debt. The theory of capital structure with taxes is put forward by stating that the value of a company increases as the total debt increases. This theory suggests that the use of debt can reduce corporate taxes, the more debt, the higher the value of the company. Taxes on corporate profits always exist, while interest paid on debts is not included in the basis for taxation, this creates a (Modigliani & Miller, 1963)(Ariyani & Wirakusuma, 2018) "*tax shield*" effect where the value of companies that use borrowed capital (*leveraged companies*) becomes higher than the value of companies that are financed entirely by equity (*non-leveraged companies*).

The use of debt in the company's capital structure, on the other hand, also incurs costs that can reduce the company's value, so *the trade-off theory* reveals the optimal

capital structure, which is to balance the benefits and sacrifices that arise as a result of the use of debt. Debt is still allowed to increase as long as the benefits generated are greater. Research conducted by (Brigham & Daves, 2019; Hirdinis, 2019; Huda, Zuhroh, & Firdiansjah, 2020; Saona & San Martín, 2018; Sari & Sedana, 2020) found that capital structure has a positive effect on the market value of companies. However, research From (Damayanti & Darmayanti, 2022; Dang, Vu, Ngo, & Hoang, 2019; Febriani, 2020) found that capital structure is a factor that negatively affects the value of the company. The debate between the results of the research on the influence of capital structure on the value of the company becomes a gap *research gap*) to add profitability as a mediating variable (Situmeang & Wiagustini, 2018).

The use of debt in the capital structure is certainly expected to increase the profitability or profits obtained by the company. (Modigliani & Miller, 1963) Revealing that the payment of interest from the use of debt will reduce the taxes paid by the company, it can protect the company's pre-tax income thereby increasing the company's profitability. However, debt also incurs costs that can reduce a company's profitability, as explained in (Brigham & Daves, 2019) *the trade-off theory* that companies must implement an optimal capital structure, i.e. balancing the benefits and sacrifices that arise as a result of the use of debt.

The company's ability to manage capital so as to generate profits or profits is measured by the profitability ratio. In a study conducted by Ethiopia, it was found that the capital structure measured by (Brigham & Daves, 2019; Fekadu Agmas, 2020) *debt to equity* (DER) and *long-term debt to total assets* (DAR) had a significant positive correlation with *return on equity* (ROE) and *return on assets* (ROA). A potential investor needs to look at the ROE of a company before deciding to invest in order to know how much will be generated from the investment made. A high ROE reflects the company's ability to generate high profits for shareholders (Rehulina Sitepu, 2015).

Research from (Fajaria & Isnalita, 2018; Putra & Yasa, 2021; Saraswathi, Wiksuana, & Rahyuda, 2016) found that profitability has a positive and significant effect on the value of the company. High profitability in a company gives an indication of good prospects so that it will attract investors to invest their capital in the company. An increase in demand for shares by investors will increase the company's share price. The results of this study show that in an empirical context, profitability can be used as an indicator to determine or predict stock prices and company values. The researcher views the need for further research and it is hoped that there will be a direct influence between the capital structure and the company's value, as well as through profitability as a mediating variable.

The debate between the results of the study on the influence of capital structure on the value of companies is also a gap in the research to add dividend policy as a mediating variable. *Trade-off theory* in capital structure balances the benefits and sacrifices that arise as a result of the use of debt. Companies that have implemented an optimal capital structure, then the interest payment reduces the taxes paid by the company. If the company pays less tax, then more cash flow is available to investors, which is subsequently distributed in the form of dividends (Brigham & Daves, 2019).

Research conducted by found that dividend policy is influenced by the capital structure of companies. The company will be better off if it uses larger debt because it will lead to tax reductions, but debt with high interest if not offset by an increase in profits can result in the dividends paid by the company to its shareholders will decrease. So that the dividend payment ratio also decreases (Christianto & Hakim, 2023).

Dividend policy needs to be considered by the management because it can affect the company's stock price, where *the bird in the hand theory* says investors who prefer dividends have the view that dividends have less risk and a more certain rate of return compared to *capital gains*. The higher the dividends distributed, the higher the investor interest in the stock. The high investor demand for these stocks results in the stock price will also increase, determined by the amount of dividends distributed. The higher the dividend given, the higher the value of the company, and vice versa (Gordon, 1962).

Research (Putra & Yasa, 2021; Santoso, Aprilia, & Tambunan, 2020; Saona & San Martín, 2018; Sintyana & Artini, 2019) found that dividend policies have a positive effect on the value of companies. Based on the description of the theory above which is supported by empirical studies by previous researchers, it is considered necessary to conduct further research and it is expected that there will be a direct influence between the capital structure and the company's value, as well as through dividend policy as a mediating variable.

RESEARCH METHOD

Population and Sample

This research is a quantitative research. This research is sourced from secondary data in the form of annual financial statements of pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange from 2008 to 2022. The population of the study is 11 companies. The sample determination technique uses the *purposive sampling method* so that 6 pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange from 2008 to 2022 were obtained, so that the number of observations became 90.

No.	Sample selection criteria	Sum
1	Total pharmaceutical sub-sector companies on the Indonesia Stock Exchange	11
2	Pharmaceutical sub-sector companies that have not been listed on the Indonesia Stock Exchange since 2008	3
3	Companies that experience stock trading suspension	1
4	Companies with <i>outlier data</i>	1
Number of samples		6

Data Collection Techniques

The data collection method used in this study is non-participant observation, namely by accessing the official website of the Indonesia Stock Exchange, namely www.idx.co.id and the website of the company concerned. The data can be obtained in the form of financial statements for analysis purposes.

Data Analysis Techniques

The data analysis technique in this study is by the dynamic panel data regression method with the *system generalized method of moments (system GMM)* approach where previously the model specification test was carried out with the Arellano-Bond test and the Sargan test.

RESULT AND DISCUSSION

Test results of model specifications and parameter significance

The dynamic panel data regression model is characterized by the addition of the dependent variable lag as a regressor. The addition of lag causes endogeneity problems, where the lag of the dependent variable is correlated with the error. The endogenous problem in the dynamic panel data regression model is overcome by first differencing and adding instrument variables before model estimation. There is a test of the specification of the dynamic panel data regression model, namely the Arellano-Bond test and the Sargan test. The Arellano-Bond test was used to determine the autocorrelation between one residual component and another residual component in the first difference model. The Sargan test is used to determine the validity of the use of instrument variables whose number exceeds the estimated variable (overidentifying restriction condition). Negative decision when $H_0 p_{value} < 0,05$

The effect of capital structure on the value of the Company

**Table 1. Results of Structural Model Estimation
The Effect of Capital Structure on Company Value**

Variable	Structural Model 1	
	Coefficient	<i>p</i> value
<i>L.PBV</i>	0,315	0,000
<i>DER</i>	1,309	0,000
Wald Test		0,000
m_1		0,003
m_2		0,266
Sargan Test		0,120

The coefficient values in Table 1 show the structural model estimates that can be expressed in the equation as follows:

$$PBV_{it} = 0,315PBV_{it-1} + 1,309DER_{it} + u_{it}; i = 1,2, \dots, 6; t = 2008, 2009, \dots, 2022$$

The effect of capital structure on profitability

**Table 2. Results of Structural Model Estimation
The Effect of Capital Structure on Profitability**

Variable	Structural Model 2	
	Coefficient	<i>p</i> value
<i>L.ROE</i>	-0,300	0,000
<i>DER</i>	21,776	0,000
Wald Test		0,000
m_1		0,000
m_2		0,471
Sargan Test		0,321

The coefficient values in Table 2 show the structural model estimates that can be expressed in the equation as follows:

$$ROE_{it} = -0,3ROE_{it-1} + 21,776DER_{it} + u_{it}; i = 1,2, \dots, 6; t = 2008, 2009, \dots, 2022$$

The effect of capital structure on company value through profitability as a mediating variable

Table 3. Results of Structural Model Estimation
The Influence of Capital Structure and Profitability on Company Value

Variable	Structural Model 3	
	Coefficient	<i>p</i> value
<i>L. PBV</i>	0,824	0,000
<i>DER</i>	-0,614	0,038
ROE	0,050	0,001
Wald Test		0,000
m_1		0,032
m_2		0,990
Sargan Test		0,294

The coefficient values in Table 3 show the structural model estimates that can be expressed in the equation as follows:

$$PBV_{it} = 0,824PBV_{it-1} - 0,614DER_{it} + 0,05ROE_{it} + u_{it}$$

$$i = 1,2, \dots, 6; \quad t = 2008, 2009, \dots, 2022$$

The effect of capital structure on dividend policy

Table 4. Results of Structural Model Estimation
The Effect of Capital Structure on Dividend Policy

Variable	Structural Model 4	
	Coefficient	<i>p</i> value
<i>L. DPR</i>	0,215	0,000
DER	3,103	0,000
Wald Test		0,000
m_1		0,028
m_2		0,580
Sargan Test		0,199

The coefficient values in Table 4 show the estimation of the structural model that can be expressed in the equation as follows:

$$DPR_{it} = 0,215DPR_{it-1} + 3,103DER_{it} + u_{it} ; \quad i = 1,2, \dots, 6; \quad t = 2008, 2009, \dots, 2022$$

The effect of capital structure on the value of the company through dividend policy

Table 5. Results of Structural Model Estimation

The Effect of Capital Structure and Dividend Policy on Company Value

Variable	Structural Model 5	
	Coefficient	<i>p</i> _{value}
<i>L. PBV</i>	0,391	0,000
<i>DER</i>	0,574	0,000
HOUSE	0,039	0,000
Wald Test		0,000
<i>m</i> ₁		0,015
<i>m</i> ₂		0,573
Sargan Test		0,199

The coefficient values in Table 5 show the structural model estimates that can be expressed in the equation as follows:

$$PBV_{it} = 0,391PBV_{it-1} + 0,574DER_{it} + 0,039DPR_{it} + u_{it}$$

i = 1,2, ...,6; *t* = 2008,2009, ...,2022

In Table 1, Table 2, Table 3, Table 4 and Table 5 above, it can be seen that the Arellano-Bond test shows that the structural model shows *m*₂ with a value which means that the structural model can be said to have no autocorrelation. The results of the Sargan test on *p*_{value} > 0,05 all structural models *p*_{value} > 0,05, this shows that the *overidentifying restriction* condition in the model estimate is valid. Based on the results of the dynamic panel data regression model specification test, it was obtained that all models met the model specification test, then it will be continued to the parameter significance test stage.

The parameter significance test on the model was carried out in two stages, namely simultaneous tests and partial tests. Simultaneous tests are used to determine the influence of all independent variables on dependent variables simultaneously. The partial test is used to determine whether there is an influence of each independent variable on the dependent variable. The test results are said to be significant (minus *H*₀) *p*_{value} < 0,05

The results of the simultaneous test of the structural model 1 in Table 1 show the value, thus the decision taken is rejection, which means that there is at least one independent variable in the model that affects PBV. The results of the partial test on structural model 1 show that *p*_{value} = 0,000 < $\alpha = 0,05H_0$ the lag of the dependent variable and the DER variable has a coefficient value of *p*_{value} < $\alpha = 0,050.315$ and 1.309 respectively so that the decision taken is reject. This shows that *H*₀ the lag of the dependent variable and DER has a significant positive influence on PBV.

The results of the simultaneous test of the structural model 2 in Table 2 show the value, thus the decision taken is reject, which means that there is at least one independent variable in the model that affects ROE. The results of the partial test in the structural model 2 show that *p*_{value} = 0,000 < $\alpha = 0,05H_0$ the lag of the dependent variable and the DER variable has a coefficient value of *p*_{value} < $\alpha = 0,050.300$ and 21.776, respectively, so the decision taken is reject. This shows that the *H*₀lag of the dependent variable has a significant negative influence on ROE, while DER has a significant positive influence on ROE.

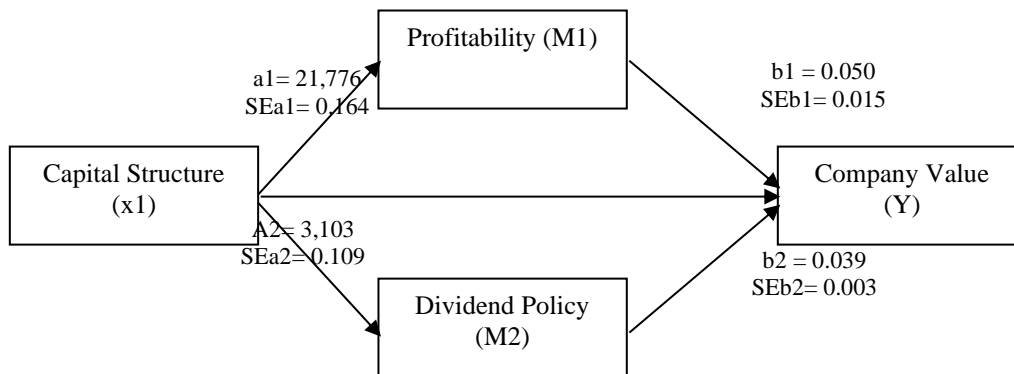
The results of the simultaneous test of the structural model 3 in Table 3 show the value, thus the decision taken is rejection, which means that there is at least one independent variable in the model that affects PBV. The results of the partial test on the

structural model 3 show that $p_{value} = 0,000 < \alpha = 0,05 H_0$ the lag of the dependent variables, DER and ROE has a coefficient value of $p_{value} < \alpha = 0,050.824$, respectively; -0.614 and 0.050 until the decision taken is minus . This shows that the H_0 lag of the dependent variable and ROE has a significant positive influence on PBV. Meanwhile, DER has a significant negative influence on PBV.

The results of the simultaneous test of the structural model 4 in Table 4 show the value, thus the decision taken is reject, which means that there is at least one independent variable in the model that affects the DPR. The results of the partial test on the structural model 4 show that $p_{value} = 0,000 < \alpha = 0,05 H_0$ the lag of the dependent and DER variables has with coefficient values of $p_{value} < \alpha = 0,050.215$ and 3.103, respectively , so the decision taken is reject. This shows that the H_0 lag of the dependent variables and DER has a significant positive influence on the DPR.

The results of the simultaneous test of the structural model 5 in Table 5 show the value, thus the decision taken is reject, which means that there is at least one independent variable in the model that affects PBV. The results of the partial test on the structural model 5 show that $p_{value} = 0,000 < \alpha = 0,05 H_0$ the lag of the dependent variables, DER and DPR has a coefficient value of $p_{value} < \alpha = 0,050.391$ each; 0.574 and 0.039 until the decision taken is negative. This shows that the H_0 lag of the dependent variables, DER and DPR has a significant positive influence on PBV.

Sobel Test



To test the significance of the indirect influence or mediation ability, it is necessary to calculate the t-value of the ab coefficient with the following formula:

$$t_{hitung} = \frac{ab}{\sqrt{a^2 Sb^2 + b^2 Sa^2}}$$

The effect of capital structure (DER) on company value (PBV) through profitability (ROE)

$$t_{hitung(ROE)} = \frac{21,776 \times 0,050}{\sqrt{(21,776^2 \times 0,015^2) + (0,050^2 \times 0,164^2)}}$$

$$t_{hitung(ROE)} = 3,332$$

The value of t-calculation (Sobel) = 3.332 > t-table = 1.96 so that it rejects H0 which means that the capital structure affects the value of the company through profitability as a mediating variable.

The effect of capital structure (DER) on company value (PBV) through dividend policy (DPR)

$$t_{hitung(DPR)} = \frac{3,103 \times 0,038}{\sqrt{(3,103^2 \times 0,003^2) + (0,038^2 \times 0,109^2)}} \\ t_{hitung(DPR)} = 11,573$$

The value of t-calculation (Sobel) = 11.573 > t-table = 1.96 so that it rejects H0 which means that the capital structure affects the value of the company through the dividend policy as a mediating variable.

The effect of capital structure on the value of a company

The first hypothesis test was obtained that the capital structure had a significant positive effect on the value of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period, which means that an increase in the capital structure will increase the value of the company, and vice versa, a decrease in the capital structure will decrease the value of the company. The results of this study support the hypothesis which means that pharmaceutical sub-sector companies with an optimal capital structure can increase the value of companies.

The results of this study support *the trade-off theory* on capital structure which states that the value of a company increases to a certain point along with the increase in total interest-bearing debt in the capital structure, hereinafter referred to as the optimal capital structure. *Trade-off theory* balances the benefits and sacrifices that arise as a result of the use of debt. Debt is still allowed to increase as long as the benefits generated are greater. This theory shows that debt is a useful thing because interest is a tax deduction, the more debt, the higher the value of the company.

Taxes on corporate profits always exist, while interest paid on debts is not included in the basis for taxation, this creates a "*tax shield*" effect where the value of a company that uses borrowed capital (*leveraged company*) becomes higher than the value of a company that is financed entirely by equity (*non-leveraged company*). The results of this study found that the use of debt in the capital structure of pharmaceutical sub-sector companies has not exceeded the optimal point because the increase in debt in the capital structure is able to increase the value of the company to a certain point which is in line with the *trade-off theory*.

The research conducted by explains that a high level of debt utilization will give a positive signal to investors because it shows that the company will make some investments that are considered profitable so that it requires considerable funding and will increase the value of the company. This research supports research conducted by (Akben Selçuk, 2015) which found that capital structure has a positive effect on the value of the company (Afinindy, Salim, & Ratnawati, 2021; Hirdinis, 2019; Huda et al., 2020; Saona & San Martín, 2018; Sari & Sedana, 2020).

The effect of capital structure on profitability

Testing the second hypothesis obtained that the capital structure has a significant positive effect on the profitability of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period, which means that the higher the capital structure, the higher the profitability, and vice versa. The results of this study can strengthen *the trade-off theory*, where debt is a useful thing because interest is a tax deduction. Interest payments reduce the taxes that the company pays, if the company pays less tax, it can protect the company's pre-tax income so that more cash flow is available to investors which increases the company's profitability (Brigham & Daves, 2019).

The results of this study support the research conducted by and in Ethiopia obtained that the capital structure proxied with (Ahmed et al., 2024) (Fekadu Agmas, 2020) *debt to equity* (DER) has a significant positive correlation with profitability proxied with *return on equity* (ROE).

The effect of capital structure on dividend policy

The results of the third hypothesis test were obtained that the capital structure had a significant positive effect on the dividend policy of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period. One of the factors that affects the dividend payment of a company is the need to pay debts. Companies that will acquire new debt to finance the expansion of the company, must first plan how to repay the debt.

Trade-off theory balances the benefits and sacrifices that arise as a result of the use of debt. Pharmaceutical sub-sector companies that have implemented an optimal capital structure by balancing the tax savings benefits from debt and interest costs incurred as a result of the use of debt, then the interest payment reduces the tax paid by the company. Companies that pay less tax, can protect the company's pre-tax income so that more cash flow is available to investors, which is subsequently distributed in the form of dividends. These profits encourage companies to use debt in their capital structure (Brigham & Daves, 2019).

The company will be better off if it uses larger debt because it will lead to a reduction in taxes, but debt with high interest if not offset by an increase in profits can result in the dividends paid by the company to its shareholders will decrease (Christianto & Hakim, 2023).

The effect of profitability on company value

The results of the fourth hypothesis test were obtained that profitability had a significant positive effect on the value of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period, which means that an increase in profitability will increase the company's value. The results of this study support *the trade-off theory* that balances the benefits and sacrifices that arise as a result of the use of debt in order to increase profitability which in turn increases the company's value. The value of profitability increases or increases, so does the value of the company. The higher the profitability value, the higher the revenue the company receives. This will increase investor confidence or attract investors to increase demand for shares. The increasing demand for shares will cause the stock price to increase, thereby increasing the value of the company (Rachmat, Hardika, Gumilar, & Saudi, 2019).

These results support the research; ; ; that profitability has a significant positive effect on the company's value (Akben Selçuk, 2015; Damayanti & Darmayanti, 2022; Dang et al., 2019; Febriani, 2020; Noviyanti & Ruslim, 2021; Santoso et al., 2020; Sari & Sedana, 2020).

The effect of dividend policy on the value of the company

The results of the fifth hypothesis test were obtained that the dividend policy had a significant positive effect on the value of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period. These results support *the bird-in-the-hand theory* that says investors who prefer dividends have the view that dividends have less risk and a more certain rate of return compared to *capital gains*. The higher level of dividend certainty compared to *capital gains* causes investors to tend to buy stocks that distribute dividends.

The higher the dividends distributed, the higher the investor interest in the stock. High investor demand for these stocks will cause an increase in the stock price, as a result of which the stock price will also rise, which is determined by the amount of dividends distributed. The higher the dividend given, the higher the value of the company, and vice versa. The results of this study support the research; and who found that dividend policy is a significant driver of the company's market value. Dividend policy has a positive effect on the company's value, where the higher the dividends distributed, the higher the value of the company (Gordon, 1962; Santoso et al., 2020; Saona & San Martín, 2018; Sintyana & Artini, 2019).

The effect of capital structure on the value of the company with profitability as a mediating variable

The results of the sixth hypothesis test were obtained that the capital structure affects the value of the company through profitability as a mediating variable. The mediation effect of profitability is classified as *complementary mediation* because indirect influence and direct influence are significant and lead in the same direction, in other words, the results of direct influence and indirect influence are significantly positive.

The results of this study can strengthen *the trade-off theory* that reveals the optimal capital structure, namely balancing the benefits and sacrifices that arise as a result of the use of debt. Debt can provide benefits because interest is a tax deduction. Taxes on corporate profits are always present, while interest paid on debts is not included in the basis for taxation. Interest payments reduce the taxes a company pays, so it can protect the company's pre-tax income so that more net profit is available to investors (Brigham & Daves, 2019).

Companies that are able to increase the company's profitability or profits, the value of the company will also increase. The declining value of a company's profitability will reduce the company's ability to generate profits, this will reduce investor confidence thereby reducing the demand for shares. Declining demand for shares will cause the stock price to decrease, thus lowering the value of the company (Fajaria & Isnalita, 2018; Rachmat et al., 2019).

The results of this study support the research conducted by and in Ethiopia to find that the capital structure measured by (Ahmed et al., 2024; Fekadu Agmas, 2020) *debt to equity* (DER) has a significant positive correlation with *return on equity* (ROE). Profitability has a significant positive effect on the value of the company as evidenced by the research (Afinindy et al., 2021; Akben Selçuk, 2015; Damayanti & Darmayanti, 2022; Dang et al., 2019; Febriani, 2020; Huda et al., 2020; Malik, Pratiwi, & Umdiana, 2022; Santoso et al., 2020; Sari & Sedana, 2020; Sintyana & Artini, 2019)

The effect of capital structure on company value with dividend policy as a mediating variable

The results of the seventh hypothesis test were obtained that the capital structure affects the value of the company through dividend policy as a mediating variable. The mediation effect of the dividend policy is classified as *complementary mediation* because indirect influence and direct influence are significant and lead in the same direction, in other words, the result of direct influence and indirect influence is significantly positive.

The results of this study support *the trade-off theory* that balances the benefits and sacrifices that arise as a result of the use of debt in the company's capital structure. Interest paid on debt is not included in the basis for taxation, this creates a "*tax shield*" effect. Pharmaceutical sub-sector companies that have implemented an optimal capital structure

by balancing the benefits of tax savings and interest costs incurred due to the use of debt. Interest payments reduce the taxes that companies pay thereby protecting the company's pre-tax income so that more cash flow is available to investors, which are subsequently distributed in the form of dividends.

The dividends distributed by the company will attract investors to buy the company's shares. The results of this study support the *bird-in-the-hand theory* that says investors who prefer dividends have the view that dividends have less risk and a more certain rate of return compared to *capital gains*. The higher level of dividend certainty compared to *capital gains* causes investors to tend to buy stocks that distribute dividends. The higher the dividends distributed, the higher the investor interest in the stock. High investor demand for these stocks will cause an increase in the stock price, as a result of which the stock price will also rise, which is determined by the amount of dividends distributed. The higher the dividend given, the higher the value of the company, and vice versa.

The results of this study support the research; and who found that dividend policy is a significant driver of the company's market value. Dividend policy has a positive effect on the company's value, where the higher the dividends distributed, the higher the value of the company.

CONCLUSION

The conclusions drawn based on the results of this study are the capital structure has a positive effect on the value of the company, which means that the increase in debt in the capital structure can increase the value of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period. The results of this study are proven to support the trade-off theory on the capital structure, where the increase in debt in the capital structure of pharmaceutical sub-sector companies has not exceeded the optimal point so that it is able to increase the value of the company.

The capital structure has a positive effect on profitability, which means that an increase in debt in the capital structure can increase the profitability of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period. The results of this study are in line with the trade-off theory, interest payments reduce the taxes paid by the company, so it can increase the company's profitability.

The capital structure has a positive effect on the dividend policy, which means that an increase in the capital structure will increase the distribution of dividends to shareholders of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period. The results of this study are in line with the trade-off theory where pharmaceutical sub-sector companies have implemented an optimal capital structure, thereby increasing the company's profits which in turn increases dividends to shareholders.

Profitability has a positive effect on the value of companies, which means that an increase in profitability will increase the value of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period. Increased profitability will attract investors to increase the demand for shares, causing the stock price to increase and increase the value of the company.

The dividend policy has a positive effect on the company's value, which means that the higher the dividends given to shareholders, the higher the value of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period, which is proven to support the bird in the hand theory.

Capital structure affects the value of companies through the profitability of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period. The results of this study are proven to support the trade-off theory on the capital structure, which states that debt will increase the value of the company at a certain point with an optimal capital structure, where the use of debt in the capital structure of the pharmaceutical sub-sector company has not exceeded the optimal point so that it is able to increase profitability which can further increase the company's value.

The capital structure affects the value of the company through the dividend policy of pharmaceutical sub-sector companies on the Indonesia Stock Exchange (IDX) for the 2008-2022 period. The results of this study are proven to support the trade-off theory on the capital structure, where the use of debt in the capital structure of pharmaceutical sub-sector companies has not exceeded the optimal point so that it is able to increase profitability which further increases the amount of dividends. The increase in dividends given can increase the company's share price which is in line with the bird in the hand theory.

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