

THE ROLE OF THE BOARD OF COMMISSIONERS IN MODERATING THE RELATIONSHIPS OF PROFITABILITY, CAPITAL STRUCTURE, AND INVESTMENT DECISIONS WITH FIRM VALUE

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Abstract

This study aims to analyze the effects of profitability, capital structure, and investment decisions on firm value and to examine the role of the board of commissioners in moderating these relationships. The study employs a quantitative approach using secondary data in the form of financial statements and company data of firms included in the LQ-45 Index of the Indonesia Stock Exchange during 2020–2024. The sample was determined using purposive sampling, resulting in 125 observations from 25 companies. Data were analyzed using Moderated Regression Analysis (MRA) to examine the direct effects and the moderating effects of the board of commissioners on firm value. The results show that profitability has a negative and significant effect on firm value, whereas capital structure has a positive and significant effect on firm value. Investment decisions have no significant effect on firm value. The board of commissioners has a positive effect on firm value. Furthermore, the board of commissioners negatively moderates the relationship between profitability and firm value and positively moderates the relationship between capital structure and firm value. However, the board of commissioners does not significantly moderate the relationship between investment decisions and firm value. These findings indicate that the role of the board of commissioners in enhancing firm value is not uniform across different financial decisions. The findings imply that the effectiveness of the oversight mechanism needs to be considered in relation to the characteristics of corporate financial decisions.

Keywords: Profitability; Capital Structure; Investment Decisions; Firm Value; Board of Commissioners

1. INTRODUCTION

Firm value is an important indicator that reflects market perceptions of a company's condition and prospects. High firm value indicates investors' confidence in the company's ability to generate future economic benefits. In this study, firm value is measured using Price to Book Value (PBV), which represents the ratio between the market price of shares and the book value of the company. The higher the PBV, the higher the market valuation of the company.

Firm value cannot be separated from the financial decisions made by management. Profitability is one factor that reflects a company's ability to generate earnings from its resources. High profitability is generally perceived as information that can provide a positive signal to investors regarding company performance. However, high profitability is not always followed by an increase in firm value because the market also considers earnings sustainability, profit allocation policies, and the company's resource management decisions.

In addition to profitability, capital structure is a factor associated with firm value. Capital structure describes the proportion of corporate financing derived from debt and

equity. The use of debt can provide benefits when managed optimally, but increasing debt usage can also increase financial risk. Therefore, capital structure decisions may become information considered by investors when assessing the company's prospects.

Investment decisions are also an important component of corporate financial decisions. Investment decisions indicate how a company allocates its resources to obtain future economic benefits. Appropriate investment decisions are expected to enhance corporate growth and provide positive signals to the market. However, the impact of investment decisions on firm value may vary depending on the company's ability to generate benefits from the investments undertaken.

In addition to financial factors, corporate governance mechanisms also play a role in determining firm value. The board of commissioners is one of the corporate bodies responsible for supervising management policies and actions. The presence of the board of commissioners is expected to reduce conflicts of interest between management and shareholders and improve the effectiveness of corporate oversight. Thus, the board of commissioners may not only affect firm value directly but may also influence the relationships between financial decisions and firm value.

This study employs Signaling Theory and Agency Theory as its theoretical foundations. Signaling Theory explains that information disclosed by a company to external parties may serve as a signal for investors in assessing the company's condition and prospects. Information regarding profitability, capital structure, and investment decisions can influence investor perceptions and subsequently be reflected in firm value. Meanwhile, Agency Theory explains the agency relationship between shareholders as principals and management as agents, which may give rise to conflicts of interest and information asymmetry. Oversight mechanisms through corporate governance, including the board of commissioners, are required to mitigate these problems.

Previous studies have produced inconsistent findings regarding the relationships among profitability, capital structure, investment decisions, and firm value. These differences suggest that the effects of financial factors on firm value may be influenced by company conditions and characteristics as well as the corporate governance mechanisms implemented. Previous studies discussed in the thesis also indicate differences in findings concerning the effects of profitability, capital structure, and investment decisions on firm value.

Such inconsistencies provide an opportunity to examine corporate governance as a variable that may influence the strength of the relationships between financial decisions and firm value. In this context, the board of commissioners is positioned as a moderating variable to determine whether the oversight function performed by the board can strengthen or weaken the relationships of profitability, capital structure, and investment decisions with firm value.

Based on the foregoing discussion, this study aims to analyze the effects of profitability, capital structure, and investment decisions on firm value and to examine the role of the board of commissioners in moderating the relationships of these three variables with firm value among companies included in the LQ-45 Index of the Indonesia Stock Exchange during 2020–2024.

2. RESEARCH METHOD

Research Type and Approach

This study employs a quantitative approach using secondary data obtained from financial statements and company data of firms listed on the Indonesia Stock Exchange (IDX) and included in the LQ-45 Index during 2020–2024. The study population consists of companies included in the LQ-45 Index during the observation period. The sample was selected using purposive sampling based on predetermined criteria.

Population and Sample

Based on the sample selection process, 25 of the 45 companies in the population met the sample criteria. With a five-year observation period, 125 observations were obtained.

The dependent variable in this study is firm value, measured using Price to Book Value (PBV). The independent variables consist of profitability, measured using Return on Assets (ROA); capital structure, measured using Debt to Equity Ratio (DER); and investment decisions, measured using Price Earnings Ratio (PER). The board of commissioners is used as the moderating variable.

Data Type and Source

This study uses quantitative data in the form of secondary data. The data were obtained from the financial statements and company-related information of firms listed on the Indonesia Stock Exchange (IDX) and included in the LQ-45 Index during the 2020–2024 observation period. The data were collected based on the predetermined sample selection criteria using purposive sampling. The population consisted of 45 companies included in the LQ-45 Index, of which 25 companies met the sampling criteria. With a five-year observation period, the final sample comprised 125 firm-year observations.

Research Variables and Measurement

The research variables consist of firm value as the dependent variable, profitability, capital structure, and investment decisions as independent variables, and the board of commissioners as the moderating variable. The measurement of each variable is presented as follows.

Variable	Type	Measurement	Proxy
Firm Value	Dependent Variable	Market price per share divided by book value per share	Price to Book Value (PBV)
Profitability	Independent Variable	Net income after tax divided by total assets	Return on Assets (ROA)
Capital Structure	Independent Variable	Total debt divided by total equity	Debt to Equity Ratio (DER)
Investment Decision	Independent Variable	Market price per share divided by earnings per share	Price Earnings Ratio (PER)

Board of Commissioners	Moderating Variable	Proportion of independent commissioners	Board of Commissioners (DK)
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Source: *Proceed Data*, 2026

Firm value is measured using Price to Book Value (PBV), which reflects the comparison between the market value and the book value of the company. Profitability is measured using Return on Assets (ROA), calculated as net income after tax divided by total assets. Capital structure is measured using the Debt to Equity Ratio (DER), which represents the proportion of debt relative to equity. Investment decisions are measured using the Price Earnings Ratio (PER), which reflects the relationship between the market price per share and earnings per share. The board of commissioners is measured based on the proportion of independent commissioners in accordance with the measurement applied in the study.

Data Analysis Technique

Data analysis was conducted using Moderated Regression Analysis (MRA) to examine the effects of profitability, capital structure, and investment decisions on firm value and to test the role of the board of commissioners in moderating each relationship. The moderation regression model used in this study is:

$$PBV = \alpha + \beta_1 ROA + \beta_2 DER + \beta_3 PER + \beta_4 DK + \beta_5 (ROA \times DK) + \beta_6 (DER \times DK) + \beta_7 (PER \times DK) + \varepsilon$$

Hypothesis testing was conducted by examining the direction of the regression coefficients and the significance level at 5% ($\alpha = 0.05$). A hypothesis is accepted when the significance level is below 0.05 and the direction of the effect is consistent with the proposed hypothesis.

3. RESULTS AND DISCUSSION

RESULTS

Descriptive Statistics

Descriptive statistics are used to provide an overview of the characteristics of the research data, consisting of profitability (ROA), capital structure (DER), investment decisions (PER), firm value (PBV), and the board of commissioners (DK). The study uses 125 observations from 25 companies included in the LQ-45 Index during 2020–2024.

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	125	0.00	0.39	0.313	0.072
DER	125	-2.06	2.78	0.099	1.193
PER	125	0.00	5.33	5.117	0.505
PBV	125	-4.51	4.04	0.002	1.360
DK	125	-1.39	0.00	-0.811	0.301

Source: *Proceed Data*, 2026

Based on the descriptive statistics, profitability (ROA) has a minimum value of 0.00 and a maximum value of 0.39, with a mean of 0.313. Capital structure (DER) has a minimum value of -2.06 and a maximum value of 2.78, with a mean of 0.099. Investment decisions (PER) have a minimum value of 0.00 and a maximum value of 5.33, with a mean of 5.117. Firm value (PBV) has a minimum value of -4.51 and a maximum value of 4.04, with a mean of 0.002. Meanwhile, the board of commissioners (DK) has a minimum value of -1.39 and a maximum value of 0.00, with a mean of -0.811.

Moderated Regression Analysis (MRA)

Moderated Regression Analysis (MRA) is used to examine the effects of profitability, capital structure, and investment decisions on firm value and to identify whether the board of commissioners moderates each relationship.

Variable	B	t	Sig.
Constant	9.204	0.817	0.000
ROA	-13.517	-5.322	0.000
DER	0.291	1.269	0.020
PER	-0.881	-0.406	0.460
DK	7.184	0.596	0.000
ROA × DK	-11.821	-3.433	0.001
DER × DK	0.911	3.290	0.001
PER × DK	-0.556	-0.241	0.810

Note: Dependent Variable = PBV

Source: Proceed Data, 2026

Based on the MRA results, the moderation regression equation can be formulated as follows:

$$PBV = 9.204 - 13.517ROA + 0.291DER - 0.881PER + 7.184DK - 11.821(ROA \times DK) + 0.911(DER \times DK) - 0.556(PER \times DK) + \varepsilon$$

The results show that ROA has a negative coefficient of -13.517 with a significance level of 0.000. DER has a positive coefficient of 0.291 with a significance level of 0.020.

Meanwhile, PER has a negative coefficient of -0.881, but the effect is not significant, with a significance level of 0.460.

For the moderating variables, the ROA×DK interaction has a coefficient of -11.821 and is significant at 0.001. The DER×DK interaction has a positive coefficient of 0.911 and is significant at 0.001. Meanwhile, the PER×DK interaction has a coefficient of -0.556 and is not significant, with a significance level of 0.810.

Hypothesis Testing (H1-H7)

Based on the Moderated Regression Analysis, the testing of the seven research hypotheses produces the following results.

Hypothesis	Relationship	Coefficient	Sig.	Decision
H1	ROA $\rightarrow$ PBV	-13.517	0.000	Rejected
H2	DER $\rightarrow$ PBV	0.291	0.020	Accepted
H3	PER $\rightarrow$ PBV	-0.881	0.460	Rejected
H4	DK $\rightarrow$ PBV	7.184	0.000	Accepted
H5	ROA $\times$ DK $\rightarrow$ PBV	-11.821	0.001	Rejected
H6	DER $\times$ DK $\rightarrow$ PBV	0.911	0.001	Accepted
H7	PER $\times$ DK $\rightarrow$ PBV	-0.556	0.810	Rejected

Source: *Proceed Data, 2026*

H1 states that profitability has a positive effect on firm value. The test results show an ROA coefficient of -13.517 with a significance level of 0.000. This indicates that profitability has a negative and significant effect on firm value. Because the direction of the effect is opposite to the hypothesis, H1 is rejected.

H2 states that capital structure has a positive effect on firm value. The DER coefficient of 0.291 with a significance level of 0.020 indicates that capital structure has a positive and significant effect on firm value. Therefore, H2 is accepted.

H3 states that investment decisions have a positive effect on firm value. The test results show a PER coefficient of -0.881 with a significance level of 0.460. Although the coefficient is negative, the effect is not statistically significant. Therefore, H3 is rejected.

H4 states that the board of commissioners has a positive effect on firm value. The test results show a coefficient of 7.184 with a significance level of 0.000; therefore, H4 is accepted.

H5 states that the board of commissioners strengthens the positive effect of profitability on firm value. The ROA $\times$ DK interaction has a coefficient of -11.821 with a significance level of 0.001. This indicates a negative and significant moderating effect, which is inconsistent with the hypothesized direction; therefore, H5 is rejected.

H6 states that the board of commissioners strengthens the positive effect of capital structure on firm value. The DER $\times$ DK interaction has a coefficient of 0.911 with a significance level of 0.001. This indicates a positive and significant moderating effect; therefore, H6 is accepted.

H7 states that the board of commissioners strengthens the positive effect of investment decisions on firm value. The PER $\times$ DK interaction has a coefficient of -0.556 with a significance level of 0.810. Thus, the interaction is not significant and H7 is rejected.

DISCUSSION

Profitability and Firm Value

The results show that profitability has a negative and significant effect on firm value. This finding indicates that an increase in profitability is not necessarily followed by an increase in firm value. From the perspective of Signaling Theory, high earnings may not necessarily be perceived as a positive signal when investors question earnings sustainability or how such earnings are managed. The finding is consistent with Fatehah (2023), as discussed in the thesis, but differs from Febbilia et al. (2024), which found a positive relationship between profitability and firm value. These differences indicate that market responses to profitability may vary depending on company characteristics and conditions.

Capital Structure and Firm Value

Capital structure is found to have a positive and significant effect on firm value. This result indicates that the use of debt in a company's financing structure may be associated with an increase in firm value when such debt is perceived as supporting corporate activities and prospects. From the perspective of Signaling Theory, financing decisions can provide information to investors regarding management's confidence in the company's ability to manage its obligations. This finding is consistent with Ningsih (2021), which is cited in the thesis.

Investment Decisions and Firm Value

Investment decisions do not have a significant effect on firm value. Although the PER coefficient is negative, the effect is not statistically strong enough. This condition indicates that investment decisions undertaken by companies are not necessarily immediately perceived by the market as information capable of increasing firm value. From the perspective of Signaling Theory, investment decisions should provide signals regarding growth prospects. However, such signals may not be sufficiently strong to influence investors' valuation of the company. This finding is consistent with Seripa (2025) and differs from Pamungkas (2013), as discussed in the thesis.

Board of Commissioners and Firm Value

The board of commissioners has a positive effect on firm value. This finding indicates that the oversight function performed by the board of commissioners may support the implementation of corporate governance and increase confidence in the company. From the perspective of Agency Theory, oversight mechanisms can help reduce potential conflicts between management and shareholders, thereby supporting an increase in firm value.

Moderating Role of the Board of Commissioners in the Relationship between Profitability and Firm Value

The interaction between profitability and the board of commissioners has a negative and significant effect on firm value. Thus, the board of commissioners is proven to moderate the relationship between profitability and firm value, but the direction of the moderation is negative. This finding indicates that the presence of the board of commissioners does not necessarily strengthen the positive impact of profitability on firm value. A stronger oversight

function may cause the market to assess more critically the quality of earnings or how earnings are utilized by the company. This result supports the empirical finding in the thesis that the board of commissioners weakens the relationship between profitability and firm value.

Moderating Role of the Board of Commissioners in the Relationship between Capital Structure and Firm Value

The interaction between capital structure and the board of commissioners has a positive and significant effect on firm value. This result indicates that the board of commissioners strengthens the positive relationship between capital structure and firm value. Oversight by the board of commissioners may help ensure that debt is used in a more controlled manner and in accordance with the company's interests. Thus, financing decisions supported by an effective oversight mechanism may provide a more positive signal to investors.

Moderating Role of the Board of Commissioners in the Relationship between Investment Decisions and Firm Value

The interaction between investment decisions and the board of commissioners has no significant effect on firm value. This means that the presence of the board of commissioners has not been shown to alter the relationship between investment decisions and firm value. This finding indicates that the oversight function of the board of commissioners does not necessarily affect market responses to corporate investment decisions. Therefore, the existing oversight mechanism has not produced a significant moderating effect on this relationship.

4. CONCLUSION

This study analyzes the effects of profitability, capital structure, and investment decisions on firm value and examines the role of the board of commissioners in moderating these relationships among companies included in the LQ-45 Index of the Indonesia Stock Exchange during 2020–2024.

The results show that profitability has a negative and significant effect on firm value, whereas capital structure has a positive and significant effect on firm value. Meanwhile, investment decisions do not have a significant effect on firm value. The board of commissioners also has a positive effect on firm value.

The moderation analysis shows that the board of commissioners negatively moderates the relationship between profitability and firm value. In contrast, the board of commissioners strengthens the relationship between capital structure and firm value. However, the board of commissioners does not significantly moderate the relationship between investment decisions and firm value.

These findings indicate that the role of the board of commissioners in relation to firm value is not uniform across all corporate financial decisions. The effectiveness of the oversight function may produce different consequences depending on the characteristics of the financial decisions undertaken by the company.

Implications

Theoretically, this study provides empirical evidence that Signaling Theory and Agency Theory can be used to explain the relationships among financial decisions, oversight mechanisms, and firm value, although market responses to individual decisions do not exhibit a uniform pattern.

Practically, the findings imply that management should consider the effectiveness of financial decisions not only in terms of their ability to generate profits but also in terms of how such decisions are perceived by investors and monitored through corporate governance mechanisms. For investors, information concerning capital structure, profitability, investment decisions, and the effectiveness of the board of commissioners' oversight may serve as considerations in evaluating a company.

Limitations And Suggestions

This study is limited by the explanatory capacity of the model in accounting for variations in firm value. The Adjusted R^2 of 0.338 indicates that the variables included in the model explain 33.8% of the variation in firm value, while the remainder is influenced by factors outside the research model. Future studies may consider additional variables that potentially affect firm value, extend the observation period or research objects, and employ other corporate governance mechanisms as moderating or mediating variables.

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