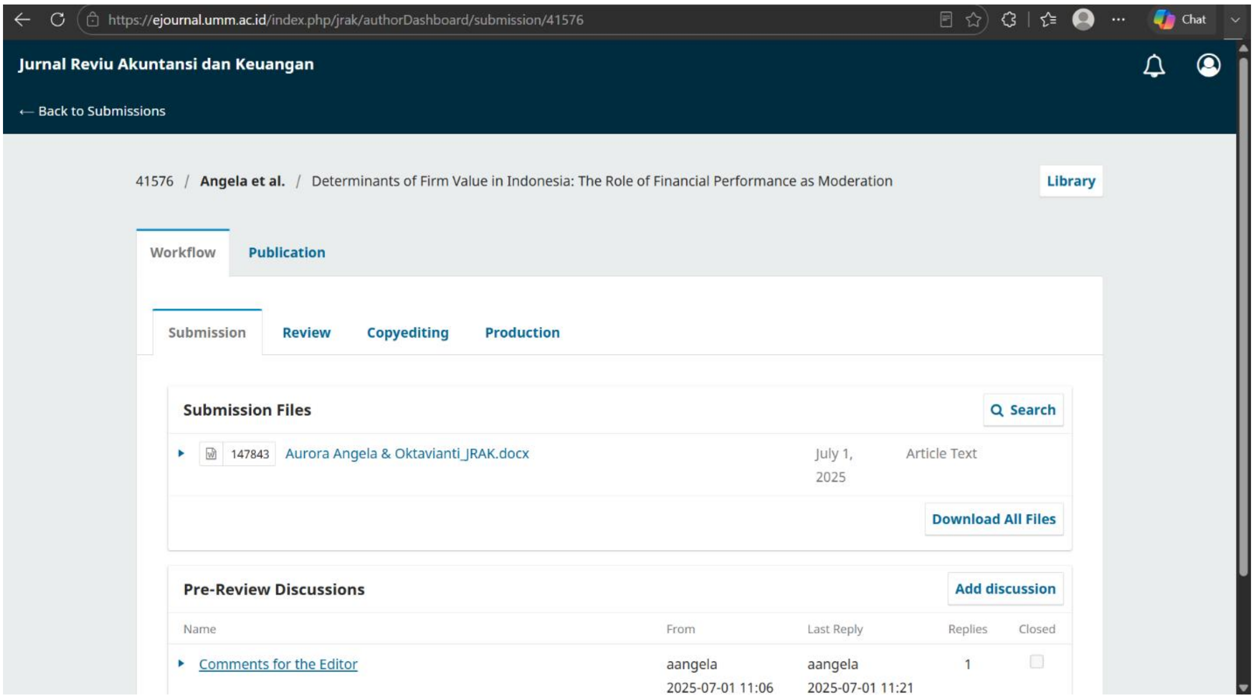
BUKTI KORESPONDENSI
ARTIKEL JURNAL TERAKREDITASI SINTA 2

Judul artikel: Determinants of Firm Value in Indonesia: The Role of Financial Performance as Moderation
Jurnal: Jurnal Reviu Akuntansi dan Keuangan
Penulis: Aurora Angela dan Oktavianti

No.	Perihal	Tanggal
1.	Bukti konfirmasi submit artikel dan artikel yang disubmit	01 Juli 2025
2.	Bukti konfirmasi review dan hasil review pertama	16 September 2025
3.	Bukti konfirmasi submit revisi pertama dan artikel yang diresubmit	19 September 2025
4.	Bukti konfirmasi review dan hasil review kedua (reviewer A)	10 Oktober 2025
5.	Bukti konfirmasi review dan hasil review kedua (reviewer B)	14 Oktober 2025
6.	Bukti konfirmasi submit revisi kedua, respon kepada reviewer, dan artikel yang diresubmit	31 Oktober 2025
7.	Bukti konfirmasi artikel accepted	21 November 2025
8.	Bukti artikel publikasi	21 November 2025

1. Bukti konfirmasi submit artikel dan artikel yang disubmit (01 Juli 2025)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*Correspondence:
aurora.ang3l@gmail.com

DOI:

Citation:

Article Process
Submitted:
Bulan tanggal, tahun

Reviewed:
Bulan tanggal, tahun

Revised:
Bulan tanggal, tahun

Accepted:
Bulan tanggal, tahun

Published:
Bulan tanggal, tahun

Office:
Department of Accounting
University of
Muhammadiyah Malang
GKB 2 Floor 3.
Jalan Raya Tlogomas 246,
Malang, East Java,
Indonesia

P-ISSN: 2615-2223
E-ISSN: 2088-0685

Article Type: Research Paper

DETERMINANTS OF FIRM VALUE IN INDONESIA: THE ROLE OF FINANCIAL PERFORMANCE AS MODERATION

Aurora Angela[1]*, Oktavianti[2]

Affiliation:

[1,2]Program Studi Akuntansi, Universitas Kristen Maranatha, Bandung, Indonesia

ABSTRACT

Purpose: This research has purpose to provide empirical evidence about how cost of capital, investment opportunity set, and capital structure impacting value of corporations and investigate whether financial performance can moderate that interaction.

Methodology/approach: Quantitative approach is the nature for this research. Moderated Regression Analysis utilized for analyzing research data. This research observes all of the listed corporations in Indonesia during 2019-2023. The research sample with purposive sampling obtained 1605 data.

Findings: The result exhibit that cost of capital and capital structure decrease firm value. On other hand, investment opportunity set increase firm value despite not significant. Moderation role by financial performance observed in interaction among cost of capital and capital structure on firm value. Despite that, the interaction of investment opportunity set on firm value do not moderate by financial performance.

Practical implications: This research offer practical implication for company managers when managing corporation finance, determine the decision, and choose the corporate strategy that will be increasing value of firm. In addition, this research is also useful for helping potential investors and investors decide the corporation that will be their investment choice.

Originality/value: This research utilizes the role of financial performance in moderating each relationship.

Keywords: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

ABSTRAK

Tujuan penelitian: untuk menguji dan membuktikan secara empiris bagaimana pengaruh cost of capital, investment opportunity set, capital structure terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel moderasi.

Metode/pendekatan: riset ini termasuk riset dengan pendekatan kuantitatif. Digunakan *Moderated Regression Analysis* untuk analisis data. Data riset menggunakan seluruh populasi perusahaan listing yang ada Indonesia dengan periode pengamatan tahun 2019-2023. Sampel riset dengan purposive sampling diperoleh 1605 data.

Hasil: *cost of capital* dan *capital structure* berpengaruh negatif terhadap *firm value*, *investment opportunity set* berpengaruh positif tidak signifikan terhadap *firm value*, *financial performance* berhasil memoderasi hubungan *cost of capital* dan *capital stucture* terhadap *firm value*, *financial performance* gagal memoderasi interaksi *investment opportunity set* terhadap *firm value.*

Implikasi praktik: penelitian ini bermanfaat bagi pengelola perusahaan sebagai bahan pertimbangan dalam mengelola keuangan dan pengambilan keputusan untuk menentukan strategi perusahaan dalam meningkatkan nilai perusahaan. Selain itu penelitian ini juga bermanfaat bagi masyarakat khususnya calon investor dan investor sehingga dapat membantu untuk pengambilan keputusan investasi yang tepat.

Orisinalitas/kebaharuan: riset ini menggunakan peran kinerja keuangan dalam memoderasi masing-masing hubungan.

Kata kunci: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

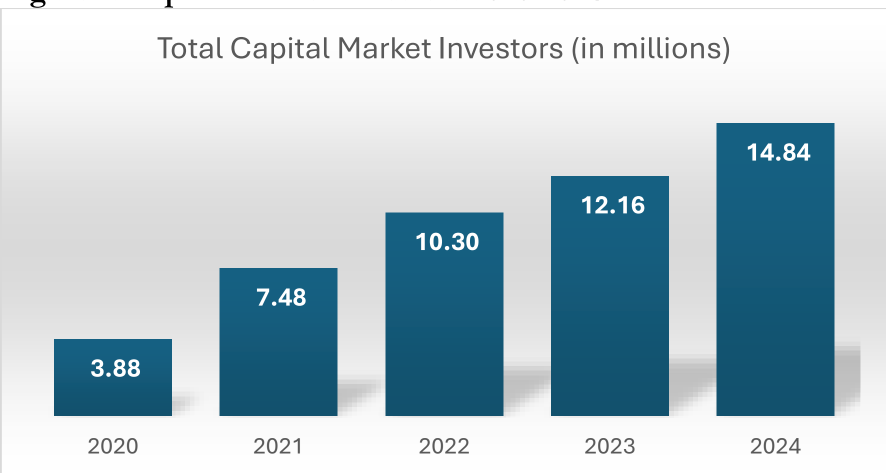
INTRODUCTION

Indonesia is an attractive country for investors. Since the last few years, Indonesia have seen the rise in their investment achievements. The attractiveness of Indonesia for investors is the potential for high economic growth. Investment in Indonesia is more easy to do since

Indonesia have a large and growing population which means a large market potential, has a variety of natural resources, and strong government support (Pangastuti, 2023). Report of the increase in total investor have been made by the Indonesia Stock Exchange over the last 5 years from 2020 to 2024 shown in figure 1. In 2020, 3.88 million investors are stated as the total number of investors in the Indonesian capital market, in 2021 it rose to 7.48 million investors, in 2022 it rose to 10.30 million investors, then in 2023 it rose again to 12.16 million investors, and in 2024 it rose again to 14.84 investors (KSEI, 2024), (marketnews.id, 2024), (Pratomo, 2024). IDX also reported that market capitalization over the past five years has also increased, meaning that there is optimism from market players and stakeholders in the Indonesian capital market. Prospective investors and investors consider a company to be of quality if the company's value is good (Budiharjo, 2019). Therefore, companies have an obligation to optimize company value through financial management and corporate governance (Meilyani & Angela, 2024).

Corporation usually have the goal to optimize the value of their corporations. Shareholder will be more prosperous if their company have higher value. Firm value is important to maintain by corporation since investor perception can be affected by firm value which reflects the performance of the corporations (Angela et al., 2023). Investors can perceive a positive signal to invest in corporation if there is an increase in value of company value which leads to the investor willingness to pay higher with high purchasing expectations (Ha & Minh, 2020); (Atmaja & Astika, 2018). Basically, investors treat company value as a very fundamental factor before deciding their investment decision in certain companies (Saona & Martín, 2018). In running its business, management needs to considering company value because company value have correlation with company's stock price that become the assessment that can describe the success of the company (Dzahabiyya et al., 2020); (Hamid & Elika, 2022). The company's value and their stock price is closely related, so the corporate value can be determined by the development of their stock price which can affect investors' investment decision making (Sudiyatno et al., 2020). Many factors can affect firm value and this study examined several factors including cost of capital, investment opportunity set, capital structure as independent variables, the role of financial performance as a moderating variable, including firm size as a control variable. The research was conducted in five years observation period (2019-2023) at all Indonesia corporation that indexed in Indonesia Stock Exchange.

Figure 1. Capital Market Investors 2020-2024



Source: Research Data, 2024

The cost of capital is an important factor affecting firm performance. The activity to raise fund from several sources, such as debt, equity, or other financing options can incur cost for corporations and this refer as cost of capital (Ochoki et al., 2023). Management must minimize the cost of capital to increase company value to make corporations appealing for investors (Titisari et al., 2019). Effective capital budgeting will be an important element of business strategy to generate value for shareholders and therefore increase profitability and firm value at the same time (Gomes I. et al., 2019). Minimizing cost and increasing firm value needs to be done by companies, so they must pay attention to the cost of capital in making investment and financing decisions (Putri & Husaini, 2024).

Future profits can be generated by investment opportunities. Stakeholders have an interest in seeing business development through investment opportunities. For investors, the potential to benefit from company growth will increase along with company growth. Company expansion is expected to generate substantial future profits and make this perceive as favorable potential for investors (Marjohan et al., 2023). Investors will be convinced by companies with growing business prospects since it can increase shareholder wealth. This will increase the corporation shares demand and thus will be increasing company's value due to expanding market share demand. Investment opportunities will be responded to as a positive signal by investors and have an effect on increasing company value (Tangngisalu et al., 2023), (Chabachib et al., 2020).

Managing companies operational activities always need a capital structure. Capital structure is very important to maintain and ensure the continuity of the company. The amount of capital needed is determined by all company activities and this make an optimal capital structure is imperative to support all operational activities. Raising internal and external funds can determine whether capital structure is balance Wardani or not. A balance among debt and capital can be optimized by using an ideal composition of internal and external funds (Wardani & Subowo, 2020). Financial risks can be avoided in companies with a good capital structure whose impact increases company value. In other side, company value can be decreased if companies using high debt (Luu, 2021).

This research has the purpose to examine how company value can be affected by the cost of capital, investment opportunity set, capital structure. This research presented its novelty with using financial performance to moderate the interaction between each variable in this research. Financial performance measured by ROA which explained the power for generate net income from corporation total asset and thus referred to as earnings power (Mukhtaruddin et al., 2019). Corporation good performance can be indicated by higher ROA because this indicating the efficiency of company to utilize its assets in operational activities. Interaction between each independent variable to the dependent variable in this research are expected to be moderated by financial performance. This research presents a data sample of all listed companies in Indonesia with the observation period 2019-2023 as a difference from previous research which only presents samples from certain industrial sectors. Firm size added as control variables in this research to avoid bias in determining effect from independent variables interaction with dependent variable. Importance of this research lies in its usefulness for company managers as a consideration in managing finances and making decisions to determine company strategies in increasing company value. In addition, this research is also useful for helping potential investors and investors to determine the right corporation choose as investment choice.

This research used signaling theory as grand theory. Signaling theory is clues provide to investors about how management views the company's prospects from an action taken by company management. Urgency to provide the external parties with financial statement information and suggestion on how corporation should signal the users of financial statement can be explained by signaling theory. Signaling theory, according to (Sutra & Mais, 2019) and (Evania & Angela, 2024), explain that providing positive signals (good news) and negative signals (bad news) to users are financial reports roles. Information about what management has done to realize the wishes of the owner is the form of this signal. Company (agent), principal (investor) and other parties can used signaling theory to reduce information asymmetry by producing quality financial reports. Financial reports are an analysis and assessment process that can help explain the goals a company has achieved. Financial reports can be used to determine the performance and financial condition of the company so that it can predict potential bankruptcy in the future and thus become very important for every company.

Based on signaling theory, there are company and investor perspectives on cost of capital (coc). For companies, coc is an expectation of profit on the potential of the project and its business prospects (Diantimala et al., 2022). Weighted average cost of capital (wacc) is the proxy of CoC, which is the cost of capital calculated by considering the proportion of equity and debt in the company's capital structure (Dobrowolski et al., 2022), (Pavel, 2018). Companies that are able to reduce their cost of capital tend to have a higher market value, as this reflects efficiency in resource management and stronger investor confidence. For investors coc is the rate of return on investments and loans provided by investors and lenders. Value of company from managing their resources is perceived as the success of a company by investors. Information about coc can minimize the differences in the objectives of the two parties (principal and agent). Higher coc or risk perceived positively by the market since it indicates that the corporation can give return that exceeding corporation coc value (Kurniasih et al., 2022). (Gomes I. et al., 2019) proves that increase in firm value happen when coc decreased. Studies conducted by (Titisari et al., 2019) revealed that listed corporations in IDX on 2010-2016 period experienced decrease in their firm value when coc value is high. (Sattar, 2015) concluded that firm value negatively correlated with the weighted average cost of capital.

H1: Cost of capital has an influence on firm value.

An important component for market value is investment opportunity set (ios) or investment opportunity since this component can affect the way managers, owners, investors, and creditors view the company. Future expenses set by the management can impact the amount of investment opportunities, which at this time are investment choices that are expected to generate greater returns (Ningsih, 2023). Investment opportunities can strongly influence firm value that formed through stock market value indicators. In accordance with signaling theory, company value can be increased if there is positive signal about corporation future growth that indicated by the existence of investment opportunities (Febrianty & Mertha, 2021), (Frederica, 2019). Price-based ios proxy, namely market to book value of equity ratio, used as ios proxy in this research. The premise is that the future return on corporation's investment will be greater than the expected return on its equity from market assessment (Sampurna & Romawati, 2020). In research (Sampurna & Romawati, 2020), (Afridi et al., 2022), (Tangngisalu et al., 2023), (Sudiyatno et al., 2023), (Wulandari & Trinawati, 2022) concluded that firm value can be significantly increased with the presence of ios. From the explanation given, the hypothesis developed as follows:

H2: Investment opportunity set has an influence on firm value.

Decision related to the funding composition in a company is called capital structure. This research used funding composition that calculated from the amount of debt compared to private capital in a company to measure capital structure, proxied by the debt to equity ratio (Sihombing & Angela, 2024), (Angela et al., 2024). A balanced capital structure can provide greater financial flexibility for the company and can allow it to take greater investment opportunities or better deal with unexpected financial pressures (Prasetya & Susilowati, 2024). (Agustin et al., 2022) concluded from their research that firm value can be influenced by capital structure. Since it immediately affects the corporation financial condition, capital structure, which describe the ration of external capital or long-term and short-term debt to personal capital, is essential for all corporations. Improvement in corporation performance and increase in firm value can be achieved with the optimal capital structure. Research by (Luu, 2021) conducted on chemical companies in Vietnam concluded that companies with high debt will have an impact on decreasing firm value. Based on this explanation, the hypothesis developed is as follows:

H3: Capital structure has an influence on firm value.

The importance to keep the company survive can be achieved by interrelated result from increasing both profits and firm value. Amount of profitability generated, which is the measurement of company financial performance, can also influenced firm value. One of the accounting tools to measure financial performance is to use profitability ratios. The ability of corporations to generate profit or the measurement on how effective corporation management is called profitability (Wirawan & Angela, 2024). Obtain a return for their investment is investor goal. Investors would have a high expectation to get high return if the corporation can generate higher profit (Evania & Angela, 2024). (Widiastari & Yasa, 2018) states that corporation value could increase if investor perceived positive signal in the corporation future prospect that indicate by high profitability. The findings of research conducted by (Rofifudin et al., 2023), (Husain et al., 2023), (Iswajuni et al., 2018), (Hafidh & Priono, 2022) found that increase in firm value happen in line with roa, indicating that roa has a significant positive effect on firm value. This research utilizing return on assets (roa) as financial performance measurement since measurement on how the companies utilize their asset to generate profits can be done with this ratio.

In this research, researchers examine financial performance role as a moderating variable in the interaction of firm value with the cost of capital, investment opportunities, and capital structure. High financial performance indicates that the company has high profits, which encourages managers to develop the company by investing. Managers become optimal in determining external funding in good consideration. Managers will consider using internal funds due to high share ownership in the company. This shows moderation role can be done by financial performance in the interaction between cost of capital, investment, and capital structure on firm value (Prayitno et al., 2020), (Umbarwati & Fachrurrozie, 2018). From the explanation earlier, this research proposed hypothesis as follows:

H4: Financial performance moderates the effect of coc on firm value.

H5: Financial performance moderates the effect of ios on firm value.

H6: Financial performance moderates the effect of cs on firm value.

Figure 2 exhibit this research model as follows:

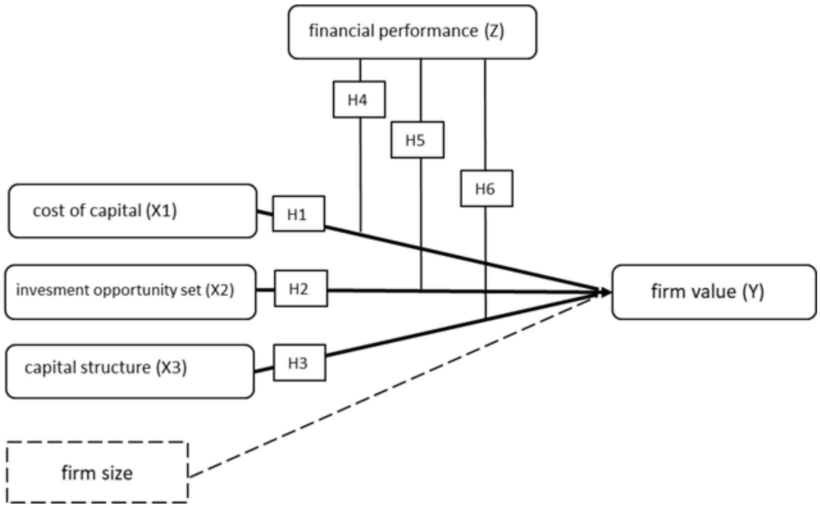


Figure 2. Research Model

METHODS

In this study, the entire population of listing companies in Indonesia 2019-2023 was used. The sample used in this study was selected using purposive sampling method (Ghozali, 2018) with the aim of obtaining a representative sample in accordance with the specified criteria, namely: listing companies in Indonesia for the period 2019-2023, publishing annual reports consecutively from 2019-2023, presenting complete data needed for research. Corporation financial statements for 2019-2023, which is a secondary data type, utilized in this research. Financial data obtained through a financial market data provider, namely Thomson Reuters Eikon (Refinitiv) can be accessed at https://www.refinitiv.com, industry data classification based on the Global Industry Classification Standard (GICS).

Cost of capital, investment opportunity set, and capital structure are utilized as this research independent variables (X). Firm value utilized as dependent variable (Y). Moderating variable (Z) is financial performance. The control variable is firm size. This research variable can be defined in more detailed as follows:
Firm value is proxied by Tobin's Q (Angela et al., 2023), (Titisari et al., 2019).
Weighted average cost of capital Cost of capital is chosen to proxy cost of capital (Yuliah et al., 2023), (Dobrowolski et al., 2022).
Market to book value of equity is utilized to proxy investment opportunity set (Anggraini & Nyale, 2022), (Dharmawan & Riza, 2019), (Tangngisalu et al., 2023).
Debt to equity ratio is chosen to proxy capital structure (Agustin et al., 2022), (Rachmadevi et al., 2023).
Return on assets is utilized as the proxy for financial performance is proxied by (Wirawan & Angela, 2024), (Meilyani & Angela, 2024).
Firm size is proxied using ln total assets (Rahmadhani et al., 2024), (Chakkravarthy et al., 2024).

Multiple linear regression is chosen to analyze research data with moderating variables so that moderated regression analysis (MRA) was carried out, the statistical application used was SPSS, the research formula was as follows:

$$FV = \alpha + \beta_1COC + \beta_2IOS + \beta_3CS + \beta_4FP + \beta_5MOD1 + \beta_6MOD2 + \beta_7MOD3 + \beta_8FSIZE + e$$

Where:
FV: firm value
COC: cost of capital
IOS: investment opportunity set
CS: capital structure
FP: financial performance
MOD1: interaction of coc with financial performance
MOD2: interaction of ios with financial performance
MOD3: interaction of cs with financial performance
FSIZE: firm size
e: residual value
Before conducting hypothesis testing with Moderated Regression Analysis, the data has been tested with classical assumptions such as normality, multicollinearity, heteroscedasticity, autocorrelation, and goodness of fit model.

RESULTS AND DISCUSSION

All listed companies in Indonesia become this research population with an observation period of 5 years (2019-2023). Table 1 exhibit the process and result for determining this research sample.

Table 1. Sample selection

Description	Total
Companies listing in Indonesia (refinitiv eikon data)	953
Companies that present incomplete data during the observation period (2019-2023)	(581)
Companies that present complete data and meet the sample criteria	372
Total research data (2019-2023)	1860
Total outlier research data	(255)
Total research data after outliers	1605

Source: researcher own data, 2024

Table 2 presented the descriptive statistics results from the sample data obtained.

Table 2. Results of descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FV	1605	0.11	95.95	1.4272	4.23001
COC	1605	-0.05	0.3	0.0739	0.04479
IOS	1605	0.03	101.26	1.5528	4.80553
CS	1605	0.06	837.49	78.5911	94.92772
FP	1605	-25.75	45.43	2.8304	7.33595
FSIZE	1605	10.78	19.92	15.2123	1.67004

Source: research data, 2024

The results of descriptive statistics show variations between companies for each variable. Firm value in sample companies has a minimum value of 0.11, a maximum value of 95.95,

an average value of 1.43 and a standard deviation of 4.23. Since the average value of firm value is above 1, this can indicate that the firm value in the sample is relatively good. Besides that, its high standard deviation indicates more diverse firm value in research samples. Cost of capital in sample companies has a minimum value of -0.05, a maximum value of 0.3, an average value of 0.07 and a standard deviation of 0.04. This result exhibit low value and small data variations for the cost of capital variable. The investment opportunity set in the sample companies has a minimum value of 0.03, a maximum value of 101.26, an average value of 1.55, and a standard deviation of 4.81. This result exhibit that firm in sample have varying level of investment opportunity set. Minimum value of the capital structure in the sample companies observe as 0.06 and the maximum value observe is 837.49 with an average value of 78.59 and a standard deviation of 94.92. This result gives an indication of huge fluctuation in the capital structure among the sample companies. The financial performance in the sample companies has a minimum value of -25.75 and a maximum value of 45.43 with an average value of 2.83. Financial performance exhibit high variation among the research sample since the standard deviation value is 7.33. The firm size in the sample companies has a minimum value of 10.78, a maximum value of 19.92, an average value of 15.21. Firm size, which is proxied by natural logarithm of total assets, exhibit a standard deviation value of 1.67 that give the indication of high variation among the samples.

Classical assumption test also conducted to the research data, which consist of the normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. From table 3, it can be concluded that this research data are met the criteria to pass classical assumption test.

Table 3. Data testing results

Classical Assumption	**Result**			**Description**
Normality test (Kolmogorov-Smirnov)	Asymp. Sig. (2-tailed) 0.080			normal data
Multicollinearity test (VIF)		Tolerance	VIF	there is no multicollinearity
	COC	0.844	1.185	
	IOS	0.935	1.069	
	CS	0.827	1.208	
	ROA	0.419	2.385	
	MOD1	0.495	2.020	
	MOD2	0.814	1.228	
	MOD3	0.935	1.070	
	FSIZE	0.833	1.200	
Autocorrelation test (Runs test)	Asymp. Sig. (2-tailed) 0.128			No autocorrelation problem observed
Heterocedasticity test (Glejser)	COC	0.160		there is no heterocedasticity
	IOS	0.071		
	CS	0.201		
	ROA	0.109		
	MOD1	0.058		
	MOD2	0.870		
	MOD3	0.113		
	FSIZE	0.066		

Goodness of fit	sig.	0.000	The model is suitable for use as research

Source: research data, 2024

Table 4 represented the hypothesis testing in this research.

Table 4. Hypothesis testing results

Variable	coefficient	t	sig	result
COC	-0.454	-15.160	0.001	significant
IOS	0.001	0.660	0.509	not significant
CS	-0.004	-5.040	0.000	significant
FP	0.069	9.664	0.000	significant
MOD1	0.935	120.738	0.000	significant
MOD2	0.001	0.444	0.657	not significant
MOD3	0.011	2.472	0.014	significant
FSIZE	0.003	4.429	0.000	significant

Source: researcher own data, 2024

Results of the hypothesis testing in Table 4 can be interpreted as follow:
H1 is accepted: the cost of capital exhibit negative direction with significance value of 0.001 < 0.05. Indication can be made that cost of capital negatively impact firm value significantly.
H2 is not accepted: Significance value of investment opportunity set shown value of 0.509 > 0.05 with a positive direction. The result exhibit that firm value can be increased with investment opportunity set in corporation, but the impact is not significant.
H3 is accepted: capital structure has a negative direction with a significance value of 0.000 < 0.05. The result give insight that firm value will be decreased significantly with the present of high capital structure.
H4 accepted: the interaction of cost of capital with financial performance (mod1) has a significance value of 0.000 < 0.05. This means that financial performance can moderate the relationship between coc and firm value.
H5 is not accepted: the interaction of the investment opportunity set with financial performance (mod2) has a significance value of 0.657 > 0.05. This means that financial performance fails to moderate the relationship between IOS and firm value.
H6 is accepted: the interaction of capital structure with financial performance (mod3) has a significance value of 0.014 < 0.05. This means that financial performance can moderate capital structure and firm value interaction.

Table 5, which exhibit the result of coefficient determination test, shows the increasing value from 42.2% to 95.1% in the adjusted R-square value after including the moderating variable. This result shows that relationship between the independent and dependent variables get significant impact from the addition of moderating variable. This increase means that the model of regression becomes better at answering the variation in the dependent variable after taking into account the moderating variable.

Table 5. Coefficient Determination Test

	without moderation	with moderation
Adj. R-square	0.422	0.951

Source: research data, 2024

The effect of cost of capital on firm value

The hypothesis testing shows that firm value gets affected by cost of capital (H1 accepted). The result shows that coc, as measured by wacc, give adverse impact on firm value, meaning that the increase in firm value can be happened if the cost of capital is lower and vice versa. In order to construct a good corporate image for investor, management must minimise coc to increase firm value. Companies can pursue more investment projects with higher rate of return than the cost of capital if they can obtain capital at a cheaper budget and make them spend less money to pay interest or dividends so as to increase the efficiency of capital allocation and improve growth prospects that will be appreciated by the market, this can maximise firm value. In addition, a lower cost of capital directly affects the company's net profit. Reduced interest costs on debt will increase net profit after tax which will increase firm value because net profit is an important component in company valuation. This event will send positive signal to the market that the company has healthy financial condition and good prospects in the future, which is in line with signalling theory. The risk faced by firm can be reflected in company cost of capital. A higher level of cost of capital usually reflects higher risk. By reducing the cost of capital, companies show that they can manage risk well. Increase in firm value and investor confidence will become the outcome from this situation. This research results proving that firm value can increase when there is decrease in coc value which are in line with previous research conducted by (Ibrahim, 2020), (Titisari et al., 2019), and (Gomes I. et al., 2019).

The impact to firm value from investment opportunity set

The result from hypothesis testing imply that firm value can increase with the presence of investment opportunity set despite the effect is not significant (H2 is not accepted). The result shows the positive result from this variable interaction, indicating that firm value will increase if there is also an increase in investment opportunity set despite the increase to firm value is not significant. Conclusion can be derived that investment opportunity is not the main predictor in increasing firm value. Company market value will increase since short-term orientated investors will consider investment opportunities to take a long time to provide returns that make them pay more attention to the company's current performance and stock fluctuations. Investors do not have sufficient information about the investment opportunities taken by the company because it is private information, this uncertainty makes them reluctant to link investment opportunities with an increase in firm value. The results of this research are in line with research conducted by (Prayitno et al., 2020), (Kebon & Suryanawa, 2017), (Tarima et al., 2016).

The effect of capital structure on firm value

The results from this research show that firm value get affected by capital structure (H3 accepted). Negative direction observed in the capital structure interaction with firm value. This implied that firm value would decrease if the company's debt higher and vice versa. Debt to equity ratio used to measure capital structure. Positive signal from a company with a low debt ratio can be perceived by investors since the lower of this ratio exhibit that a company is healthy and suitable as a place to invest. Conversely, higher risk of company experiencing financial difficulties to pay off loan principal and interest costs is more prominent if the company have high debt ratio due to the insufficient amount of assets owned to guarantee its debts. The findings from this research are consistent with previous research by (Agustin et al., 2022), (Ibrahim, 2020), (Sudiyatno et al., 2023) dan (Luu, 2021).

The role of financial performance as a moderating variable

Result of this research exhibit that moderation role successfully done by financial performance in cost of capital and firm value interaction (H4 accepted). In this study, the role of financial performance as a moderating variable is to strengthen the positive effect of low coc on increasing firm value. Firm value decrease with the presence of high coc with means that higher firm value can be achieved with lowering the cost of capital. Efficiency and effectiveness in capital structure exhibit with lower wacc value since this indicate lower cost required to fund the company's project. Strengthens the positive effect of low capital costs on increasing firm value is the financial performance role, which measured by profitability as a moderating variable, may be due to the fact that good profits are generated from low costs. In line with signal theory, if investors see a low cost of capital, it is indicating efficiency and effectiveness in the capital structure and perceived as a good signal. When investors see good financial performance, firm value can increase since it will increase investor confidence to invest in the company. If the company has a high cost of capital but is offset by high corporate profits, then the high cost of capital does not decrease corporation's value because the company is still able to generate enough profit to satisfy investors.

Moderation role of financial performance is not observed in interaction of investment opportunity set and firm value (H5 is not accepted). Profitability cannot moderate the interaction between investment opportunities and firm value. Impact of investment opportunities on firm value does not depend on the level of corporate profitability observed in research result. Companies can still make investment decisions even though the company's performance is not generating high profits if a company has good financial flexibility, by using free cash flow, investment opportunities can still be carried out for company expansion. (Prayitno et al., 2020) also stated that the interaction of investment opportunities with firm value can be moderated by financial performance.

H6 in this research is accepted which means that financial performance moderates the interaction of capital structure and firm value. Moderating variable in this research, which is financial performance have a role to weaken the negative effect of high capital structure on the decline in firm value. Debt to equity ratio (der), which is a proxy for capital structure, influence firm value negatively, meaning that firm value will decrease if the company's debt is high. In line with signal theory, investors are reluctant to invest in companies with high debt ratios since it gives bad signals to investors. Moderating role from financial performance, which measured by profitability, to weakens the negative effect of high debt on the decline in firm value. This may be because high profitability indicates the company's ability to generate sufficient profits to cover interest and principal payments on debt, indicating that debt is being used productively to support business growth. Strong profitability which suggests that investors will see the corporation prospect favorably going forward and will be motivated to react to the encouraging signals provided. When investors see companies with high debt, but show good financial performance, investors can interpret that the company uses debt to develop its business so that it is considered a natural thing. Therefore, the role of financial performance weakens the negative relationship between capital structure and firm value. Other research that shows that financial performance can moderate the interaction of capital structure with firm value is (Sari et al., 2020), (Prayitno et al., 2020), (Bahriah et al., 2022).

CONCLUSION

Conclusion from this research can be stated as follows: firm value negatively affected by cost of capital and capital structure, firm value positively impacted by investment opportunity set despite the effect is not significant, financial performance successfully moderates the cost of capital and capital structure interaction on firm value, investment opportunity set and firm value interaction is not moderated by financial performance. Conducting this research cannot be separated from limitations such as not all companies in Indonesia provide complete data and there are also outlier data so that most of the companies that should have been sampled had to be excluded. Since some financial ratios, such as cost of capital ratio, investment opportunities, capital structure, and financial performance, have been shown to affect firm value, management are encouraged to focus on them. Based on signal theory, efficiency in capital costs, increasing investment opportunities, and reducing debt ratios can provide good signals to investors so that investors want to invest that affects to raise the value of the corporation. Suggestions for future researchers are to add variables outside of financial ratios such as Environmental, Social, and Governance (ESG) disclosures to develop factors in increasing firm value.

ACKNOWLEDGEMENTS

In order for this research to be performed successfully, the researcher would like to thank LPPM Maranatha Christian University, Accounting Study Program, Faculty of Law and Digital Business, Maranatha Christian University, for their material and moral contributions.

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Citation:

Article Process
Submitted:
Bulan tanggal, tahun

Reviewed:
Bulan tanggal, tahun

Revised:
Bulan tanggal, tahun

Accepted:
Bulan tanggal, tahun

Published:
Bulan tanggal, tahun

Office:
Department of Accounting
University of
Muhammadiyah Malang
GKB 2 Floor 3.
Jalan Raya Tlogomas 246,
Malang, East Java,
Indonesia

P-ISSN: 2615-2223
E-ISSN: 2088-0685

Article Type: Research Paper

DETERMINANTS OF FIRM VALUE IN INDONESIA: THE ROLE OF FINANCIAL PERFORMANCE AS MODERATION

Aurora Angela[1]*, Oktavianti[2]

Affiliation:

[1,2]Program Studi Akuntansi, Universitas Kristen Maranatha, Bandung, Indonesia

ABSTRACT

Purpose: This research has purpose to provide empirical evidence about how cost of capital, investment opportunity set, and capital structure impacting value of corporations and investigate whether financial performance can moderate that interaction.

Methodology/approach: Quantitative approach is the nature for this research. Moderated Regression Analysis utilized for analyzing research data. This research observes all of the listed corporations in Indonesia during 2019-2023. The research sample with purposive sampling obtained 1605 data.

Findings: The result exhibit that cost of capital and capital structure decrease firm value. On other hand, investment opportunity set increase firm value despite not significant. Moderation role by financial performance observed in interaction among cost of capital and capital structure on firm value. Despite that, the interaction of investment opportunity set on firm value do not moderate by financial performance.

Practical implications: This research offer practical implication for company managers when managing corporation finance, determine the decision, and choose the corporate strategy that will be increasing value of firm. In addition, this research is also useful for helping potential investors and investors decide the corporation that will be their investment choice.

Originality/value: This research utilizes the role of financial performance in moderating each relationship.

Keywords: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

ABSTRAK

Tujuan penelitian: untuk menguji dan membuktikan secara empiris bagaimana pengaruh cost of capital, investment opportunity set, capital structure terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel moderasi.

Metode/pendekatan: riset ini termasuk riset dengan pendekatan kuantitatif. Digunakan *Moderated Regression Analysis* untuk analisis data. Data riset menggunakan seluruh populasi perusahaan listing yang ada Indonesia dengan periode pengamatan tahun 2019-2023. Sampel riset dengan purposive sampling diperoleh 1605 data.

Hasil: *cost of capital* dan *capital structure* berpengaruh negatif terhadap *firm value*, *investment opportunity set* berpengaruh positif tidak signifikan terhadap *firm value*, *financial performance* berhasil memoderasi hubungan *cost of capital* dan *capital stucture* terhadap *firm value*, *financial performance* gagal memoderasi interaksi *investment opportunity set* terhadap *firm value.*

Implikasi praktik: penelitian ini bermanfaat bagi pengelola perusahaan sebagai bahan pertimbangan dalam mengelola keuangan dan pengambilan keputusan untuk menentukan strategi perusahaan dalam meningkatkan nilai perusahaan. Selain itu penelitian ini juga bermanfaat bagi masyarakat khususnya calon investor dan investor sehingga dapat membantu untuk pengambilan keputusan investasi yang tepat.

Orisinalitas/kebaharuan: riset ini menggunakan peran kinerja keuangan dalam memoderasi masing-masing hubungan.

Kata kunci: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

INTRODUCTION

Indonesia is an attractive country for investors. Since the last few years, Indonesia have seen the rise in their investment achievements. The attractiveness of Indonesia for investors is the potential for high economic growth. Investment in Indonesia is more easy to do since

Indonesia have a large and growing population which means a large market potential, has a variety of natural resources, and strong government support (Pangastuti, 2023). Report of the increase in total investor have been made by the Indonesia Stock Exchange over the last 5 years from 2020 to 2024 shown in figure 1. In 2020, 3.88 million investors are stated as the total number of investors in the Indonesian capital market, in 2021 it rose to 7.48 million investors, in 2022 it rose to 10.30 million investors, then in 2023 it rose again to 12.16 million investors, and in 2024 it rose again to 14.84 investors (KSEI, 2024), (marketnews.id, 2024), (Pratomo, 2024). IDX also reported that market capitalization over the past five years has also increased, meaning that there is optimism from market players and stakeholders in the Indonesian capital market. Prospective investors and investors consider a company to be of quality if the company's value is good (Budiharjo, 2019). Therefore, companies have an obligation to optimize company value through financial management and corporate governance (Meilyani & Angela, 2024).

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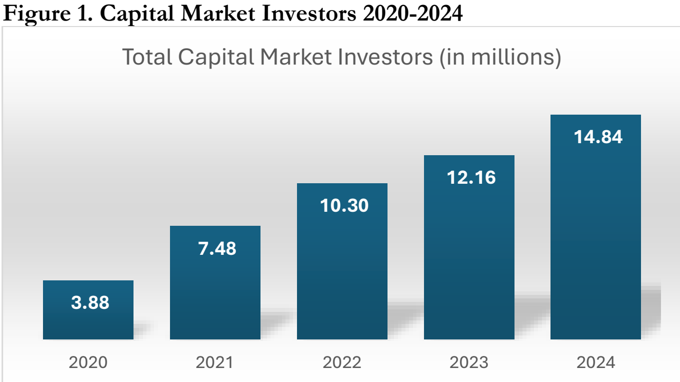
Corporation usually have the goal to optimize the value of their corporations. Shareholder will be more prosperous if their company have higher value. Firm value is important to maintain by corporation since investor perception can be affected by firm value which reflects the performance of the corporations (Angela et al., 2023). Investors can perceive a positive signal to invest in corporation if there is an increase in value of company value which leads to the investor willingness to pay higher with high purchasing expectations (Ha & Minh, 2020); (Atmaja & Astika, 2018). Basically, investors treat company value as a very fundamental factor before deciding their investment decision in certain companies (Saona & Martín, 2018). In running its business, management needs to considering company value because company value have correlation with company's stock price that become the assessment that can describe the success of the company (Dzahabiyya et al., 2020); (Hamid & Elika, 2022). The company's value and their stock price is closely related, so the corporate value can be determined by the development of their stock price which can affect investors' investment decision making (Sudiyatno et al., 2020). Many factors can affect firm value and this study examined several factors including cost of capital, investment opportunity set, capital structure as independent variables, the role of financial performance as a moderating variable, including firm size as a control variable. The research was conducted in five years observation period (2019-2023) at all Indonesia corporation that indexed in Indonesia Stock Exchange.

Figure 1. Capital Market Investors 2020-2024



Source: Research Data, 2024

The cost of capital is an important factor affecting firm performance. The activity to raise fund from several sources, such as debt, equity, or other financing options can incur cost for corporations and this refer as cost of capital (Ochoki et al., 2023). Management must minimize the cost of capital to increase company value to make corporations appealing for investors (Titisari et al., 2019). Effective capital budgeting will be an important element of business strategy to generate value for shareholders and therefore increase profitability and firm value at the same time (Gomes I. et al., 2019). Minimizing cost and increasing firm value needs to be done by companies, so they must pay attention to the cost of capital in making investment and financing decisions (Putri & Husaini, 2024).

Future profits can be generated by investment opportunities. Stakeholders have an interest in seeing business development through investment opportunities. For investors, the potential to benefit from company growth will increase along with company growth. Company expansion is expected to generate substantial future profits and make this perceive as favorable potential for investors (Marjohan et al., 2023). Investors will be convinced by companies with growing business prospects since it can increase shareholder wealth. This will increase the corporation shares demand and thus will be increasing company's value due to expanding market share demand. Investment opportunities will be responded to as a positive signal by investors and have an effect on increasing company value (Tangngisalu et al., 2023), (Chabachib et al., 2020).

Managing companies operational activities always need a capital structure. Capital structure is very important to maintain and ensure the continuity of the company. The amount of capital needed is determined by all company activities and this make an optimal capital structure is imperative to support all operational activities. Raising internal and external funds can determine whether capital structure is balance Wardani or not. A balance among debt and capital can be optimized by using an ideal composition of internal and external funds (Wardani & Subowo, 2020). Financial risks can be avoided in companies with a good capital structure whose impact increases company value. In other side, company value can be decreased if companies using high debt (Luu, 2021).

This research has the purpose to examine how company value can be affected by the cost of capital, investment opportunity set, capital structure. This research presented its novelty with using financial performance to moderate the interaction between each variable in this research. Financial performance measured by ROA which explained the power for generate net income from corporation total asset and thus referred to as earnings power (Mukhtaruddin et al., 2019). Corporation good performance can be indicated by higher ROA because this indicating the efficiency of company to utilize its assets in operational activities. Interaction between each independent variable to the dependent variable in this research are expected to be moderated by financial performance. This research presents a data sample of all listed companies in Indonesia with the observation period 2019-2023 as a difference from previous research which only presents samples from certain industrial sectors. Firm size added as control variables in this research to avoid bias in determining effect from independent variables interaction with dependent variable. Importance of this research lies in its usefulness for company managers as a consideration in managing finances and making decisions to determine company strategies in increasing company value. In addition, this research is also useful for helping potential investors and investors to determine the right corporation choose as investment choice.

This research used signaling theory as grand theory. Signaling theory is clues provide to investors about how management views the company's prospects from an action taken by company management. Urgency to provide the external parties with financial statement information and suggestion on how corporation should signal the users of financial statement can be explained by signaling theory. Signaling theory, according to (Sutra & Mais, 2019) and (Evania & Angela, 2024), explain that providing positive signals (good news) and negative signals (bad news) to users are financial reports roles. Information about what management has done to realize the wishes of the owner is the form of this signal. Company (agent), principal (investor) and other parties can used signaling theory to reduce information asymmetry by producing quality financial reports. Financial reports are an analysis and assessment process that can help explain the goals a company has achieved. Financial reports can be used to determine the performance and financial condition of the company so that it can predict potential bankruptcy in the future and thus become very important for every company.

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Disini harusnya Sutra & Mais (2019) serta Evania & Angela (2024)..

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Based on signaling theory, there are company and investor perspectives on cost of capital (coc). For companies, coc is an expectation of profit on the potential of the project and its business prospects (Diantimala et al., 2022). Weighted average cost of capital (wacc) is the proxy of CoC, which is the cost of capital calculated by considering the proportion of equity and debt in the company's capital structure (Dobrowolski et al., 2022), (Pavel, 2018). Companies that are able to reduce their cost of capital tend to have a higher market value, as this reflects efficiency in resource management and stronger investor confidence. For investors coc is the rate of return on investments and loans provided by investors and lenders. Value of company from managing their resources is perceived as the success of a company by investors. Information about coc can minimize the differences in the objectives of the two parties (principal and agent). Higher coc or risk perceived positively by the market since it indicates that the corporation can give return that exceeding corporation coc value (Kurniasih et al., 2022). (Gomes I. et al., 2019) proves that increase in firm value happen when coc decreased. Studies conducted by (Titisari et al., 2019) revealed that listed corporations in IDX on 2010-2016 period experienced decrease in their firm value when coc value is high. (Sattar, 2015) concluded that firm value negatively correlated with the weighted average cost of capital.

H1: Cost of capital has an influence on firm value.

An important component for market value is investment opportunity set (ios) or investment opportunity since this component can affect the way managers, owners, investors, and creditors view the company. Future expenses set by the management can impact the amount of investment opportunities, which at this time are investment choices that are expected to generate greater returns (Ningsih, 2023). Investment opportunities can strongly influence firm value that formed through stock market value indicators. In accordance with signaling theory, company value can be increased if there is positive signal about corporation future growth that indicated by the existence of investment opportunities (Febrianty & Mertha, 2021), (Frederica, 2019). Price-based ios proxy, namely market to book value of equity ratio, used as ios proxy in this research. The premise is that the future return on corporation's investment will be greater than the expected return on its equity from market assessment (Sampurna & Romawati, 2020). In research (Sampurna & Romawati, 2020), (Afridi et al., 2022), (Tangngisalu et al., 2023), (Sudiyatno et al., 2023), (Wulandari & Trinawati, 2022) concluded that firm value can be significantly increased with the presence of ios. From the explanation given, the hypothesis developed as follows:

H2: Investment opportunity set has an influence on firm value.

Decision related to the funding composition in a company is called capital structure. This research used funding composition that calculated from the amount of debt compared to private capital in a company to measure capital structure, proxied by the debt to equity ratio (Sihombing & Angela, 2024), (Angela et al., 2024). A balanced capital structure can provide greater financial flexibility for the company and can allow it to take greater investment opportunities or better deal with unexpected financial pressures (Prasetya & Susilowati, 2024). (Agustin et al., 2022) concluded from their research that firm value can be influenced by capital structure. Since it immediately affects the corporation financial condition, capital structure, which describe the ration of external capital or long-term and short-term debt to personal capital, is essential for all corporations. Improvement in corporation performance and increase in firm value can be achieved with the optimal capital structure. Research by (Luu, 2021) conducted on chemical companies in Vietnam concluded that companies with high debt will have an impact on decreasing firm value. Based on this explanation, the hypothesis developed is as follows:

H3: Capital structure has an influence on firm value.

The importance to keep the company survive can be achieved by interrelated result from increasing both profits and firm value. Amount of profitability generated, which is the measurement of company financial performance, can also influenced firm value. One of the accounting tools to measure financial performance is to use profitability ratios. The ability of corporations to generate profit or the measurement on how effective corporation management is called profitability (Wirawan & Angela, 2024). Obtain a return for their investment is investor goal. Investors would have a high expectation to get high return if the corporation can generate higher profit (Evania & Angela, 2024). (Widiastari & Yasa, 2018) states that corporation value could increase if investor perceived positive signal in the corporation future prospect that indicate by high profitability. The findings of research conducted by (Rofifudin et al., 2023), (Husain et al., 2023), (Iswajuni et al., 2018), (Hafidh & Priono, 2022) found that increase in firm value happen in line with roa, indicating that roa has a significant positive effect on firm value. This research utilizing return on assets (roa) as financial performance measurement since measurement on how the companies utilize their asset to generate profits can be done with this ratio.

In this research, researchers examine financial performance role as a moderating variable in the interaction of firm value with the cost of capital, investment opportunities, and capital structure. High financial performance indicates that the company has high profits, which encourages managers to develop the company by investing. Managers become optimal in determining external funding in good consideration. Managers will consider using internal funds due to high share ownership in the company. This shows moderation role can be done by financial performance in the interaction between cost of capital, investment, and capital structure on firm value (Prayitno et al., 2020), (Umbarwati & Fachrurrozie, 2018). From the explanation earlier, this research proposed hypothesis as follows:

H4: Financial performance moderates the effect of coc on firm value.

H5: Financial performance moderates the effect of ios on firm value.

H6: Financial performance moderates the effect of cs on firm value.

Figure 2 exhibit this research model as follows:

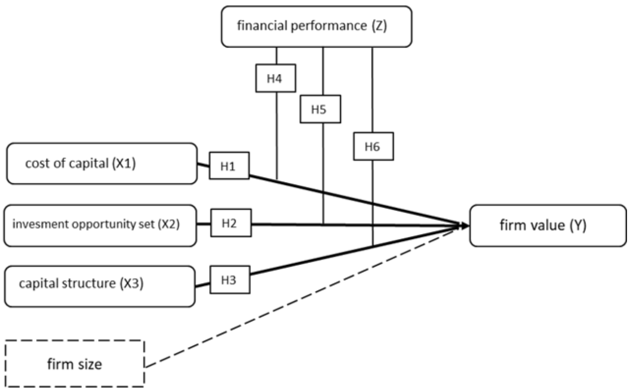

Figure 2. Research Model

METHODS

In this study, the entire population of listing companies in Indonesia 2019-2023 was used. The sample used in this study was selected using purposive sampling method (Ghozali, 2018) with the aim of obtaining a representative sample in accordance with the specified criteria, namely: listing companies in Indonesia for the period 2019-2023, publishing annual reports consecutively from 2019-2023, presenting complete data needed for research. Corporation financial statements for 2019-2023, which is a secondary data type, utilized in this research. Financial data obtained through a financial market data provider, namely Thomson Reuters Eikon (Refinitiv) can be accessed at https://www.refinitiv.com, industry data classification based on the Global Industry Classification Standard (GICS).

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Cost of capital, investment opportunity set, and capital structure are utilized as this research independent variables (X). Firm value utilized as dependent variable (Y). Moderating variable (Z) is financial performance. The control variable is firm size. This research variable can be defined in more detailed as follows:
Firm value is proxied by Tobin's Q (Angela et al., 2023), (Titisari et al., 2019).
Weighted average cost of capital Cost of capital is chosen to proxy cost of capital (Yuliah et al., 2023), (Dobrowolski et al., 2022).
Market to book value of equity is utilized to proxy investment opportunity set (Anggraini & Nyale, 2022), (Dharmawan & Riza, 2019), (Tangngisalu et al., 2023).
Debt to equity ratio is chosen to proxy capital structure (Agustin et al., 2022), (Rachmadevi et al., 2023).
Return on assets is utilized as the proxy for financial performance is proxied by (Wirawan & Angela, 2024), (Meilyani & Angela, 2024).
Firm size is proxied using ln total assets (Rahmadhani et al., 2024), (Chakkravarthy et al., 2024).

Multiple linear regression is chosen to analyze research data with moderating variables so that moderated regression analysis (MRA) was carried out, the statistical application used was SPSS, the research formula was as follows:

$$FV = \alpha + \beta_1 COC + \beta_2 IOS + \beta_3 CS + \beta_4 FP + \beta_5 MOD1 + \beta_6 MOD2 + \beta_7 MOD3 + \beta_8 FSIZE + e$$

Where:
FV: firm value
COC: cost of capital
IOS: investment opportunity set
CS: capital structure
FP: financial performance
MOD1: interaction of coc with financial performance
MOD2: interaction of ios with financial performance
MOD3: interaction of cs with financial performance
FSIZE: firm size
e: residual value
Before conducting hypothesis testing with Moderated Regression Analysis, the data has been tested with classical assumptions such as normality, multicollinearity, heteroscedasticity, autocorrelation, and goodness of fit model.

RESULTS AND DISCUSSION

All listed companies in Indonesia become this research population with an observation period of 5 years (2019-2023). Table 1 exhibit the process and result for determining this research sample.

Table 1. Sample selection

Description	Total
Companies listing in Indonesia (refinitiv eikon data)	953
Companies that present incomplete data during the observation period (2019-2023)	(581)
Companies that present complete data and meet the sample criteria	372
Total research data (2019-2023)	1860
Total outlier research data	(255)
Total research data after outliers	1605

Source: researcher own data, 2024

Table 2 presented the descriptive statistics results from the sample data obtained.

Table 2. Results of descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FV	1605	0.11	95.95	1.4272	4.23001
COC	1605	-0.05	0.3	0.0739	0.04479
IOS	1605	0.03	101.26	1.5528	4.80553
CS	1605	0.06	837.49	78.5911	94.92772
FP	1605	-25.75	45.43	2.8304	7.33595
FSIZE	1605	10.78	19.92	15.2123	1.67004

Source: research data, 2024

The results of descriptive statistics show variations between companies for each variable. Firm value in sample companies has a minimum value of 0.11, a maximum value of 95.95,

an average value of 1.43 and a standard deviation of 4.23. Since the average value of firm value is above 1, this can indicate that the firm value in the sample is relatively good. Besides that, its high standard deviation indicates more diverse firm value in research samples. Cost of capital in sample companies has a minimum value of -0.05, a maximum value of 0.3, an average value of 0.07 and a standard deviation of 0.04. This result exhibit low value and small data variations for the cost of capital variable. The investment opportunity set in the sample companies has a minimum value of 0.03, a maximum value of 101.26, an average value of 1.55, and a standard deviation of 4.81. This result exhibit that firm in sample have varying level of investment opportunity set. Minimum value of the capital structure in the sample companies observe as 0.06 and the maximum value observe is 837.49 with an average value of 78.59 and a standard deviation of 94.92. This result gives an indication of huge fluctuation in the capital structure among the sample companies. The financial performance in the sample companies has a minimum value of -25.75 and a maximum value of 45.43 with an average value of 2.83. Financial performance exhibit high variation among the research sample since the standard deviation value is 7.33. The firm size in the sample companies has a minimum value of 10.78, a maximum value of 19.92, an average value of 15.21. Firm size, which is proxied by natural logarithm of total assets, exhibit a standard deviation value of 1.67 that give the indication of high variation among the samples.

Classical assumption test also conducted to the research data, which consist of the normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. From table 3, it can be concluded that this research data are met the criteria to pass classical assumption test.

Table 3. Data testing results

Classical Assumption	**Result**			**Description**
Normality test (Kolmogorov-Smirnov)	Asymp. Sig. (2-tailed) 0.080			normal data
Multicollinearity test (VIF)		Tolerance	VIF	there is no multicollinearity
	COC	0.844	1.185	
	IOS	0.935	1.069	
	CS	0.827	1.208	
	ROA	0.419	2.385	
	MOD1	0.495	2.020	
	MOD2	0.814	1.228	
	MOD3	0.935	1.070	
	FSIZE	0.833	1.200	
Autocorrelation test (Runs test)	Asymp. Sig. (2-tailed) 0.128			No autocorrelation problem observed
Heterocedasticity test (Glejser)	COC	0.160		there is no heterocedasticity
	IOS	0.071		
	CS	0.201		
	ROA	0.109		
	MOD1	0.058		
	MOD2	0.870		
	MOD3	0.113		
	FSIZE	0.066		

Goodness of fit	sig.	0.000	The model is suitable for use as research

Source: research data, 2024

Table 4 represented the hypothesis testing in this research.

Table 4. Hypothesis testing results

Variable	coefficient	t	sig	result
COC	-0.454	-15.160	0.001	significant
IOS	0.001	0.660	0.509	not significant
CS	-0.004	-5.040	0.000	significant
FP	0.069	9.664	0.000	significant
MOD1	0.935	120.738	0.000	significant
MOD2	0.001	0.444	0.657	not significant
MOD3	0.011	2.472	0.014	significant
FSIZE	0.003	4.429	0.000	significant

Source: researcher own data, 2024

Results of the hypothesis testing in Table 4 can be interpreted as follow:
H1 is accepted: the cost of capital exhibit negative direction with significance value of 0.001 < 0.05. Indication can be made that cost of capital negatively impact firm value significantly.
H2 is not accepted: Significance value of investment opportunity set shown value of 0.509 > 0.05 with a positive direction. The result exhibit that firm value can be increased with investment opportunity set in corporation, but the impact is not significant.
H3 is accepted: capital structure has a negative direction with a significance value of 0.000 < 0.05. The result give insight that firm value will be decreased significantly with the present of high capital structure.
H4 accepted: the interaction of cost of capital with financial performance (mod1) has a significance value of 0.000 < 0.05. This means that financial performance can moderate the relationship between coc and firm value.
H5 is not accepted: the interaction of the investment opportunity set with financial performance (mod2) has a significance value of 0.657 > 0.05. This means that financial performance fails to moderate the relationship between IOS and firm value.
H6 is accepted: the interaction of capital structure with financial performance (mod3) has a significance value of 0.014 < 0.05. This means that financial performance can moderate capital structure and firm value interaction.

Table 5, which exhibit the result of coefficient determination test, shows the increasing value from 42.2% to 95.1% in the adjusted R-square value after including the moderating variable. This result shows that relationship between the independent and dependent variables get significant impact from the addition of moderating variable. This increase means that the model of regression becomes better at answering the variation in the dependent variable after taking into account the moderating variable.

Table 5. Coefficient Determination Test

	without moderation	with moderation
Adj. R-square	0.422	0.951

Source: research data, 2024

The effect of cost of capital on firm value

The hypothesis testing shows that firm value gets affected by cost of capital (H1 accepted). The result shows that coc, as measured by wacc, give adverse impact on firm value, meaning that the increase in firm value can be happened if the cost of capital is lower and vice versa. In order to construct a good corporate image for investor, management must minimise coc to increase firm value. Companies can pursue more investment projects with higher rate of return than the cost of capital if they can obtain capital at a cheaper budget and make them spend less money to pay interest or dividends so as to increase the efficiency of capital allocation and improve growth prospects that will be appreciated by the market, this can maximise firm value. In addition, a lower cost of capital directly affects the company's net profit. Reduced interest costs on debt will increase net profit after tax which will increase firm value because net profit is an important component in company valuation. This event will send positive signal to the market that the company has healthy financial condition and good prospects in the future, which is in line with signalling theory. The risk faced by firm can be reflected in company cost of capital. A higher level of cost of capital usually reflects higher risk. By reducing the cost of capital, companies show that they can manage risk well. Increase in firm value and investor confidence will become the outcome from this situation. This research results proving that firm value can increase when there is decrease in coc value which are in line with previous research conducted by (Ibrahim, 2020), (Titisari et al., 2019), and (Gomes I. et al., 2019).

The impact to firm value from investment opportunity set

The result from hypothesis testing imply that firm value can increase with the presence of investment opportunity set despite the effect is not significant (H2 is not accepted). The result shows the positive result from this variable interaction, indicating that firm value will increase if there is also an increase in investment opportunity set despite the increase to firm value is not significant. Conclusion can be derived that investment opportunity is not the main predictor in increasing firm value. Company market value will increase since short-term orientated investors will consider investment opportunities to take a long time to provide returns that make them pay more attention to the company's current performance and stock fluctuations. Investors do not have sufficient information about the investment opportunities taken by the company because it is private information, this uncertainty makes them reluctant to link investment opportunities with an increase in firm value. The results of this research are in line with research conducted by (Prayitno et al., 2020), (Kebon & Suryanawa, 2017), (Tarima et al., 2016).

The effect of capital structure on firm value

The results from this research show that firm value get affected by capital structure (H3 accepted). Negative direction observed in the capital structure interaction with firm value. This implied that firm value would decrease if the company's debt higher and vice versa. Debt to equity ratio used to measure capital structure. Positive signal from a company with a low debt ratio can be perceived by investors since the lower of this ratio exhibit that a company is healthy and suitable as a place to invest. Conversely, higher risk of company experiencing financial difficulties to pay off loan principal and interest costs is more prominent if the company have high debt ratio due to the insufficient amount of assets owned to guarantee its debts. The findings from this research are consistent with previous research by (Agustin et al., 2022), (Ibrahim, 2020), (Sudiyatno et al., 2023) dan (Luu, 2021).

The role of financial performance as a moderating variable

Result of this research exhibit that moderation role successfully done by financial performance in cost of capital and firm value interaction (H4 accepted). In this study, the role of financial performance as a moderating variable is to strengthen the positive effect of low coc on increasing firm value. Firm value decrease with the presence of high coc with means that higher firm value can be achieved with lowering the cost of capital. Efficiency and effectiveness in capital structure exhibit with lower wacc value since this indicate lower cost required to fund the company's project. Strengthens the positive effect of low capital costs on increasing firm value is the financial performance role, which measured by profitability as a moderating variable, may be due to the fact that good profits are generated from low costs. In line with signal theory, if investors see a low cost of capital, it is indicating efficiency and effectiveness in the capital structure and perceived as a good signal. When investors see good financial performance, firm value can increase since it will increase investor confidence to invest in the company. If the company has a high cost of capital but is offset by high corporate profits, then the high cost of capital does not decrease corporation's value because the company is still able to generate enough profit to satisfy investors.

Moderation role of financial performance is not observed in interaction of investment opportunity set and firm value (H5 is not accepted). Profitability cannot moderate the interaction between investment opportunities and firm value. Impact of investment opportunities on firm value does not depend on the level of corporate profitability observed in research result. Companies can still make investment decisions even though the company's performance is not generating high profits if a company has good financial flexibility, by using free cash flow, investment opportunities can still be carried out for company expansion. (Prayitno et al., 2020) also stated that the interaction of investment opportunities with firm value can be moderated by financial performance.

H6 in this research is accepted which means that financial performance moderates the interaction of capital structure and firm value. Moderating variable in this research, which is financial performance have a role to weaken the negative effect of high capital structure on the decline in firm value. Debt to equity ratio (der), which is a proxy for capital structure, influence firm value negatively, meaning that firm value will decrease if the company's debt is high. In line with signal theory, investors are reluctant to invest in companies with high debt ratios since it gives bad signals to investors. Moderating role from financial performance, which measured by profitability, to weakens the negative effect of high debt on the decline in firm value. This may be because high profitability indicates the company's ability to generate sufficient profits to cover interest and principal payments on debt, indicating that debt is being used productively to support business growth. Strong profitability which suggests that investors will see the corporation prospect favorably going forward and will be motivated to react to the encouraging signals provided. When investors see companies with high debt, but show good financial performance, investors can interpret that the company uses debt to develop its business so that it is considered a natural thing. Therefore, the role of financial performance weakens the negative relationship between capital structure and firm value. Other research that shows that financial performance can moderate the interaction of capital structure with firm value is (Sari et al., 2020), (Prayitno et al., 2020), (Bahriah et al., 2022).

CONCLUSION

Conclusion from this research can be stated as follows: firm value negatively affected by cost of capital and capital structure, firm value positively impacted by investment opportunity set despite the effect is not significant, financial performance successfully moderates the cost of capital and capital structure interaction on firm value, investment opportunity set and firm value interaction is not moderated by financial performance. Conducting this research cannot be separated from limitations such as not all companies in Indonesia provide complete data and there are also outlier data so that most of the companies that should have been sampled had to be excluded. Since some financial ratios, such as cost of capital ratio, investment opportunities, capital structure, and financial performance, have been shown to affect firm value, management are encouraged to focus on them. Based on signal theory, efficiency in capital costs, increasing investment opportunities, and reducing debt ratios can provide good signals to investors so that investors want to invest that affects to raise the value of the corporation. Suggestions for future researchers are to add variables outside of financial ratios such as Environmental, Social, and Governance (ESG) disclosures to develop factors in increasing firm value.

ACKNOWLEDGEMENTS

In order for this research to be performed successfully, the researcher would like to thank LPPM Maranatha Christian University, Accounting Study Program, Faculty of Law and Digital Business, Maranatha Christian University, for their material and moral contributions.

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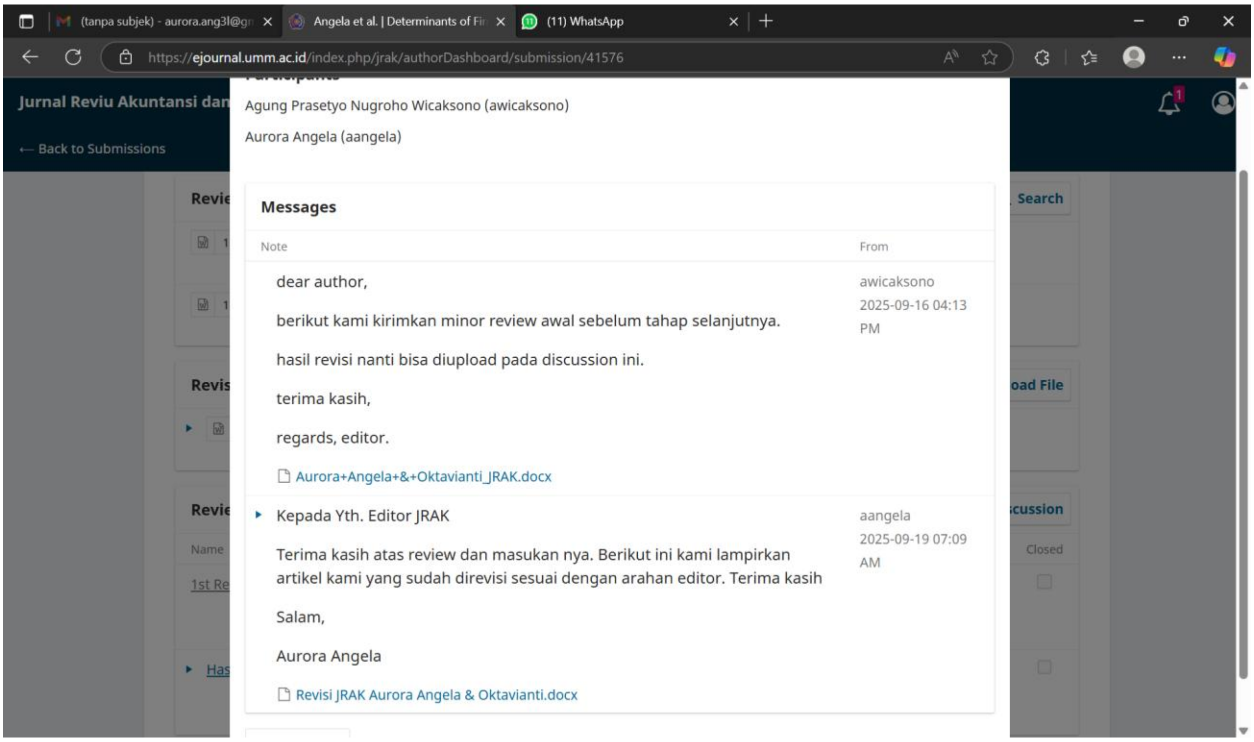
3. Bukti konfirmasi submit revisi pertama dan artikel yang diresubmit (19 September 2025)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No komen	Isi komentar	Sebelum revisi	Setelah revisi	Tanggapan
MOU1	Lakukan merge citation. Lakukan hal yang sama untuk semua citasi dengan jenis seperti ini.	In 2020, 3.88 million investors are stated as the total number of investors in the Indonesian capital market, in 2021 it rose to 7.48 million investors, in 2022 it rose to 10.30 million investors, then in 2023 it rose again to 12.16 million investors, and in 2024 it rose again to 14.84 investors (KSEI, 2024), (marketnews.id, 2024), (Pratomo, 2024). Investment opportunities will be responded to as a positive signal by investors and have an effect on increasing company value (Tangngisalu et al., 2023), (Chabachib et al., 2020).	In 2020, 3.88 million investors are stated as the total number of investors in the Indonesian capital market, in 2021 it rose to 7.48 million investors, in 2022 it rose to 10.30 million investors, then in 2023 it rose again to 12.16 million investors, and in 2024 it rose again to 14.84 investors (KSEI, 2024; marketnews.id, 2024; Pratomo, 2024) Investment opportunities will be responded to as a positive signal by investors and have an effect on increasing company value (Chabachib et al., 2020; Tangngisalu et al., 2023). Dan seterusnya untuk semua sitasi yang perlu di merge pada artikel ini.	Kami sudah lakukan merge citation untuk semua sitasi yang perlu di merge pada artikel ini.
MOU2	Bedakan antara kutipan langsung, dan tidak langsung, Disini harusnya Sutra & Mais (2019) serta Evania & Angela (2024) Gunakan “surpass author” jika Mendeley, atau “edit citasion” jika menggunakan endnote.	Signaling theory, according to (Sutra & Mais, 2019) and (Evania & Angela, 2024), explain that providing positive signals (good news) and negative signals (bad news) to users are financial reports roles. Research by (Luu, 2021) conducted on chemical companies in Vietnam concluded that companies with	Signaling theory, according to Sutra & Mais (2019) and Evania & Angela (2024), explain that providing positive signals (good news) and negative signals (bad news) to users are financial reports roles. Research by Luu (2021) conducted on chemical companies in Vietnam concluded that companies with high	Kami sudah memperbaiki semua kutipan langsung dan tidak langsung di keseluruhan artikel.

		high debt will have an impact on decreasing firm value.	debt will have an impact on decreasing firm value. Dan seterusnya untuk semua kutipan sudah dibedakan yang langsung dan tidak langsung.	
MOU3	Berikan justifikasi mengapa data penelitian ini menggunakan range waktu ini? Berikan reasoning secara akademik.	In this study, the entire population of listing companies in Indonesia 2019-2023 was used.	In this study, the entire population of listing companies in Indonesia during the five-year period from 2019-2023 was used. The five year time span is considered sufficiently representative to analyse trends and relevant to current conditions. The sample used in this study was selected using purposive sampling method with the aim of obtaining a representative sample in accordance with the specified criteria (Ghozali, 2018), namely: listing companies in Indonesia for the period 2019-2023, publishing annual reports consecutively from 2019-2023, presenting complete data needed for research.	Rentang waktu lima tahun tersebut dianggap cukup representatif untuk menganalisis tren dan relevan dengan kondisi saat ini.

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*Correspondence:
aurora.angela@maranatha.edu

DOI:

Citation:

Article Process
Submitted:
Bulan tanggal, tahun

Reviewed:
Bulan tanggal, tahun

Revised:
Bulan tanggal, tahun

Accepted:
Bulan tanggal, tahun

Published:
Bulan tanggal, tahun

Office:
Department of Accounting
University of
Muhammadiyah Malang
GKB 2 Floor 3.
Jalan Raya Tlogomas 246,
Malang, East Java,
Indonesia

P-ISSN: 2615-2223
E-ISSN: 2088-0685

Article Type: Research Paper

DETERMINANTS OF FIRM VALUE IN INDONESIA: THE ROLE OF FINANCIAL PERFORMANCE AS MODERATION

Aurora Angela[1]*, Oktavianti[2]

Affiliation:

[1,2]Program Studi Akuntansi, Universitas Kristen Maranatha, Bandung, Indonesia

ABSTRACT

Purpose: This research has purpose to provide empirical evidence about how cost of capital, investment opportunity set, and capital structure impacting value of corporations and investigate whether financial performance can moderate that interaction.

Methodology/approach: Quantitative approach is the nature for this research. Moderated Regression Analysis utilized for analyzing research data. This research observes all of the listed corporations in Indonesia during 2019-2023. The research sample with purposive sampling obtained 1605 data.

Findings: The result exhibit that cost of capital and capital structure decrease firm value. On other hand, investment opportunity set increase firm value despite not significant. Moderation role by financial performance observed in interaction among cost of capital and capital structure on firm value. Despite that, the interaction of investment opportunity set on firm value do not moderate by financial performance.

Practical implications: This research offer practical implication for company managers when managing corporation finance, determine the decision, and choose the corporate strategy that will be increasing value of firm. In addition, this research is also useful for helping potential investors and investors decide the corporation that will be their investment choice.
Originality/value: This research utilizes the role of financial performance in moderating each relationship.

Keywords: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

ABSTRAK

Tujuan penelitian: untuk menguji dan membuktikan secara empiris bagaimana pengaruh cost of capital, investment opportunity set, capital structure terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel moderasi.

Metode/pendekatan: riset ini termasuk riset dengan pendekatan kuantitatif. Digunakan *Moderated Regression Analysis* untuk analisis data. Data riset menggunakan seluruh populasi perusahaan listing yang ada Indonesia dengan periode pengamatan tahun 2019-2023. Sampel riset dengan purposive sampling diperoleh 1605 data.

Hasil: *cost of capital* dan *capital structure* berpengaruh negatif terhadap *firm value*, *investment opportunity set* berpengaruh positif tidak signifikan terhadap *firm value*, *financial performance* berhasil memoderasi hubungan *cost of capital* dan *capital stucture* terhadap *firm value*, *financial performance* gagal memoderasi interaksi *investment opportunity set* terhadap *firm value.*

Implikasi praktik: penelitian ini bermanfaat bagi pengelola perusahaan sebagai bahan pertimbangan dalam mengelola keuangan dan pengambilan keputusan untuk menentukan strategi perusahaan dalam meningkatkan nilai perusahaan. Selain itu penelitian ini juga bermanfaat bagi masyarakat khususnya calon investor dan investor sehingga dapat membantu untuk pengambilan keputusan investasi yang tepat.

Orisinalitas/kebaharuan: riset ini menggunakan peran kinerja keuangan dalam memoderasi masing-masing hubungan.

Kata kunci: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

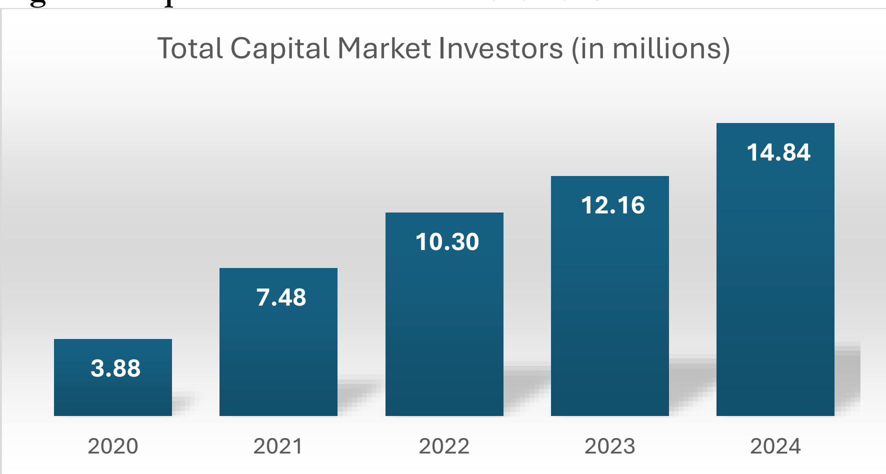
INTRODUCTION

Indonesia is an attractive country for investors. Since the last few years, Indonesia have seen the rise in their investment achievements. The attractiveness of Indonesia for investors is the potential for high economic growth. Investment in Indonesia is more easy to do since

Indonesia have a large and growing population which means a large market potential, has a variety of natural resources, and strong government support (Pangastuti, 2023). Report of the increase in total investor have been made by the Indonesia Stock Exchange over the last 5 years from 2020 to 2024 shown in figure 1. In 2020, 3.88 million investors are stated as the total number of investors in the Indonesian capital market, in 2021 it rose to 7.48 million investors, in 2022 it rose to 10.30 million investors, then in 2023 it rose again to 12.16 million investors, and in 2024 it rose again to 14.84 investors (KSEI, 2024; marketnews.id, 2024; Pratomo, 2024). IDX also reported that market capitalization over the past five years has also increased, meaning that there is optimism from market players and stakeholders in the Indonesian capital market. Prospective investors and investors consider a company to be of quality if the company's value is good (Budiharjo, 2019). Therefore, companies have an obligation to optimize company value through financial management and corporate governance (Meilyani & Angela, 2024).

Corporation usually have the goal to optimize the value of their corporations. Shareholder will be more prosperous if their company have higher value. Firm value is important to maintain by corporation since investor perception can be affected by firm value which reflects the performance of the corporations (Angela et al., 2023). Investors can perceive a positive signal to invest in corporation if there is an increase in value of company value which leads to the investor willingness to pay higher with high purchasing expectations (Atmaja & Astika, 2018; Ha & Minh, 2020). Basically, investors treat company value as a very fundamental factor before deciding their investment decision in certain companies (Saona & Martín, 2018). In running its business, management needs to considering company value because company value have correlation with company's stock price that become the assessment that can describe the success of the company (Dzahabiyya et al., 2020; Hamid & Elika, 2022). The company's value and their stock price is closely related, so the corporate value can be determined by the development of their stock price which can affect investors' investment decision making (Sudiyatno et al., 2020). Many factors can affect firm value and this study examined several factors including cost of capital, investment opportunity set, capital structure as independent variables, the role of financial performance as a moderating variable, including firm size as a control variable. The research was conducted in five years observation period (2019-2023) at all Indonesia corporation that indexed in Indonesia Stock Exchange.

Figure 1. Capital Market Investors 2020-2024



Source: Research Data, 2024

The cost of capital is an important factor affecting firm performance. The activity to raise fund from several sources, such as debt, equity, or other financing options can incur cost for corporations and this refer as cost of capital (Ochoki et al., 2023). Management must minimize the cost of capital to increase company value to make corporations appealing for investors (Titisari et al., 2019). Effective capital budgeting will be an important element of business strategy to generate value for shareholders and therefore increase profitability and firm value at the same time (Gomes et al., 2019). Minimizing cost and increasing firm value needs to be done by companies, so they must pay attention to the cost of capital in making investment and financing decisions (Putri & Husaini, 2024).

Future profits can be generated by investment opportunities. Stakeholders have an interest in seeing business development through investment opportunities. For investors, the potential to benefit from company growth will increase along with company growth. Company expansion is expected to generate substantial future profits and make this perceive as favorable potential for investors (Marjohan et al., 2023). Investors will be convinced by companies with growing business prospects since it can increase shareholder wealth. This will increase the corporation shares demand and thus will be increasing company's value due to expanding market share demand. Investment opportunities will be responded to as a positive signal by investors and have an effect on increasing company value (Chabachib et al., 2020; Tangngisalu et al., 2023).

Managing companies operational activities always need a capital structure. Capital structure is very important to maintain and ensure the continuity of the company. The amount of capital needed is determined by all company activities and this make an optimal capital structure is imperative to support all operational activities. Raising internal and external funds can determine whether capital structure is balance Wardani or not. A balance among debt and capital can be optimized by using an ideal composition of internal and external funds (Wardani & Subowo, 2020). Financial risks can be avoided in companies with a good capital structure whose impact increases company value. In other side, company value can be decreased if companies using high debt (Luu, 2021).

This research has the purpose to examine how company value can be affected by the cost of capital, investment opportunity set, capital structure. This research presented its novelty with using financial performance to moderate the interaction between each variable in this research. Financial performance measured by ROA which explained the power for generate net income from corporation total asset and thus referred to as earnings power (Mukhtaruddin et al., 2019). Corporation good performance can be indicated by higher ROA because this indicating the efficiency of company to utilize its assets in operational activities. Interaction between each independent variable to the dependent variable in this research are expected to be moderated by financial performance. This research presents a data sample of all listed companies in Indonesia with the observation period 2019-2023 as a difference from previous research which only presents samples from certain industrial sectors. Firm size added as control variables in this research to avoid bias in determining effect from independent variables interaction with dependent variable. Importance of this research lies in its usefulness for company managers as a consideration in managing finances and making decisions to determine company strategies in increasing company value. In addition, this research is also useful for helping potential investors and investors to determine the right corporation choose as investment choice.

This research used signaling theory as grand theory. Signaling theory is clues provide to investors about how management views the company's prospects from an action taken by company management. Urgency to provide the external parties with financial statement information and suggestion on how corporation should signal the users of financial statement can be explained by signaling theory. Signaling theory, according to Sutra & Mais (2019) and Evania & Angela (2024), explain that providing positive signals (good news) and negative signals (bad news) to users are financial reports roles. Information about what management has done to realize the wishes of the owner is the form of this signal. Company (agent), principal (investor) and other parties can used signaling theory to reduce information asymmetry by producing quality financial reports. Financial reports are an analysis and assessment process that can help explain the goals a company has achieved. Financial reports can be used to determine the performance and financial condition of the company so that it can predict potential bankruptcy in the future and thus become very important for every company.

Based on signaling theory, there are company and investor perspectives on cost of capital (coc). For companies, coc is an expectation of profit on the potential of the project and its business prospects (Diantimala et al., 2022). Weighted average cost of capital (wacc) is the proxy of CoC, which is the cost of capital calculated by considering the proportion of equity and debt in the company's capital structure (Dobrowolski et al., 2022; Pavel, 2018). Companies that are able to reduce their cost of capital tend to have a higher market value, as this reflects efficiency in resource management and stronger investor confidence. For investors coc is the rate of return on investments and loans provided by investors and lenders. Value of company from managing their resources is perceived as the success of a company by investors. Information about coc can minimize the differences in the objectives of the two parties (principal and agent). Higher coc or risk perceived positively by the market since it indicates that the corporation can give return that exceeding corporation coc value (Kurniasih et al., 2022). Gomes et al. (2019) proves that increase in firm value happen when coc decreased. Studies conducted by Titisari et al. (2019) revealed that listed corporations in IDX on 2010-2016 period experienced decrease in their firm value when coc value is high. Sattar (2015) concluded that firm value negatively correlated with the weighted average cost of capital.

H1: Cost of capital has an influence on firm value.

An important component for market value is investment opportunity set (ios) or investment opportunity since this component can affect the way managers, owners, investors, and creditors view the company. Future expenses set by the management can impact the amount of investment opportunities, which at this time are investment choices that are expected to generate greater returns (Ningsih, 2023). Investment opportunities can strongly influence firm value that formed through stock market value indicators. In accordance with signaling theory, company value can be increased if there is positive signal about corporation future growth that indicated by the existence of investment opportunities (Febrianty & Mertha, 2021; Frederica, 2019). Price-based ios proxy, namely market to book value of equity ratio, used as ios proxy in this research. The premise is that the future return on corporation's investment will be greater than the expected return on its equity from market assessment (Sampurna & Romawati, 2020). In research Sampurna & Romawati (2020), Afridi et al. (2022), Tangngisalu et al. (2023), Sudiyatno et al. (2023), Wulandari & Trinawati (2022) concluded that firm value can be significantly increased with the presence of ios. From the explanation given, the hypothesis developed as follows:

H2: Investment opportunity set has an influence on firm value.

Decision related to the funding composition in a company is called capital structure. This research used funding composition that calculated from the amount of debt compared to private capital in a company to measure capital structure, proxied by the debt to equity ratio (Angela et al., 2024; Sihombing & Angela, 2024). A balanced capital structure can provide greater financial flexibility for the company and can allow it to take greater investment opportunities or better deal with unexpected financial pressures (Prasetya & Susilowati, 2024). Agustin et al. (2022) concluded from their research that firm value can be influenced by capital structure. Since it immediately affects the corporation financial condition, capital structure, which describe the ration of external capital or long-term and short-term debt to personal capital, is essential for all corporations. Improvement in corporation performance and increase in firm value can be achieved with the optimal capital structure. Research by Luu (2021) conducted on chemical companies in Vietnam concluded that companies with high debt will have an impact on decreasing firm value. Based on this explanation, the hypothesis developed is as follows:

H3: Capital structure has an influence on firm value.

The importance to keep the company survive can be achieved by interrelated result from increasing both profits and firm value. Amount of profitability generated, which is the measurement of company financial performance, can also influenced firm value. One of the accounting tools to measure financial performance is to use profitability ratios. The ability of corporations to generate profit or the measurement on how effective corporation management is called profitability (Wirawan & Angela, 2024). Obtain a return for their investment is investor goal. Investors would have a high expectation to get high return if the corporation can generate higher profit (Evania & Angela, 2024). Widiastari & Yasa (2018) states that corporation value could increase if investor perceived positive signal in the corporation future prospect that indicate by high profitability. The findings of research conducted by Rofifudin et al. (2023), Husain et al. (2023), Iswajuni et al. (2018), Hafidh & Priono (2022) found that increase in firm value happen in line with roa, indicating that roa has a significant positive effect on firm value. This research utilizing return on assets (roa) as financial performance measurement since measurement on how the companies utilize their asset to generate profits can be done with this ratio.

In this research, researchers examine financial performance role as a moderating variable in the interaction of firm value with the cost of capital, investment opportunities, and capital structure. High financial performance indicates that the company has high profits, which encourages managers to develop the company by investing. Managers become optimal in determining external funding in good consideration. Managers will consider using internal funds due to high share ownership in the company. This shows moderation role can be done by financial performance in the interaction between cost of capital, investment, and capital structure on firm value (Prayitno et al., 2020; Umbarwati & Fachrurrozie, 2018). From the explanation earlier, this research proposed hypothesis as follows:

H4: Financial performance moderates the effect of coc on firm value.

H5: Financial performance moderates the effect of ios on firm value.

H6: Financial performance moderates the effect of cs on firm value.

Figure 2 exhibit this research model as follows:

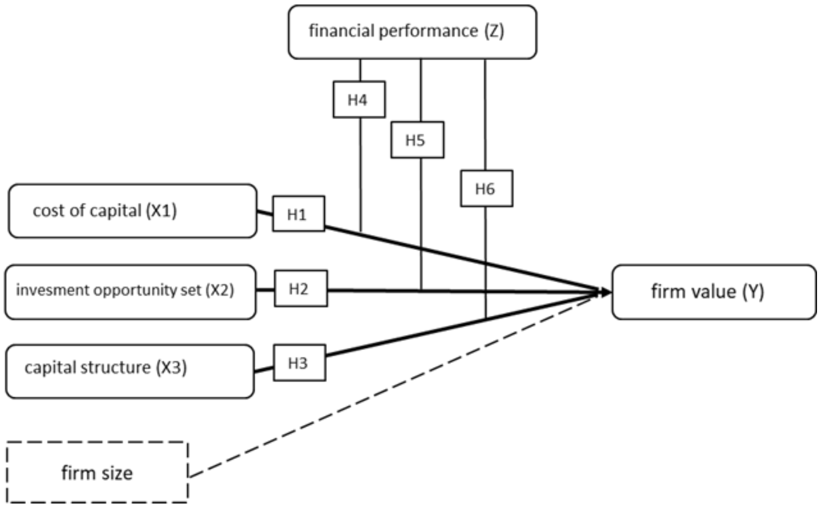


Figure 2. Research Model

METHODS

In this study, the entire population of listing companies in Indonesia during the five-year period from 2019-2023 was used. The five year time span is considered sufficiently representative to analyse trends and relevant to current conditions. The sample used in this study was selected using purposive sampling method with the aim of obtaining a representative sample in accordance with the specified criteria (Ghozali, 2018), namely: listing companies in Indonesia for the period 2019-2023, publishing annual reports consecutively from 2019-2023, presenting complete data needed for research. Corporation financial statements for 2019-2023, which is a secondary data type, utilized in this research. Financial data obtained through a financial market data provider, namely Thomson Reuters Eikon (Refinitiv) can be accessed at https://www.refinitiv.com, industry data classification based on the Global Industry Classification Standard (GICS).

Cost of capital, investment opportunity set, and capital structure are utilized as this research independent variables (X). Firm value utilized as dependent variable (Y). Moderating variable (Z) is financial performance. The control variable is firm size. This research variable can be defined in more detailed as follows:
Firm value is proxied by Tobin's Q (Angela et al., 2023; Titisari et al., 2019).
Weighted average cost of capital Cost of capital is chosen to proxy cost of capital (Dobrowolski et al., 2022; Yuliah et al., 2023)
Market to book value of equity is utilized to proxy investment opportunity set (Anggraini & Nyale, 2022)(Dharmawan & Riza, 2019)(Tangngisalu et al., 2023).
Debt to equity ratio is chosen to proxy capital structure (Agustin et al., 2022; Rachmadevi et al., 2023).
Return on assets is utilized as the proxy for financial performance (Meilyani & Angela, 2024; Wirawan & Angela, 2024).
Firm size is proxied using ln total assets (Chakkravarthy et al., 2024; Rahmadhani et al., 2024).

Multiple linear regression is chosen to analyze research data with moderating variables so that moderated regression analysis (MRA) was carried out, the statistical application used was SPSS, the research formula was as follows:

$$FV = \alpha + \beta_1 COC + \beta_2 IOS + \beta_3 CS + \beta_4 FP + \beta_5 MOD1 + \beta_6 MOD2 + \beta_7 MOD3 + \beta_8 FSIZE + e$$

Where:
FV: firm value
COC: cost of capital
IOS: investment opportunity set
CS: capital structure
FP: financial performance
MOD1: interaction of coc with financial performance
MOD2: interaction of ios with financial performance
MOD3: interaction of cs with financial performance
FSIZE: firm size
e: residual value
Before conducting hypothesis testing with Moderated Regression Analysis, the data has been tested with classical assumptions such as normality, multicollinearity, heteroscedasticity, autocorrelation, and goodness of fit model.

RESULTS AND DISCUSSION

All listed companies in Indonesia become this research population with an observation period of 5 years (2019-2023). Table 1 exhibit the process and result for determining this research sample.

Table 1. Sample selection

Description	Total
Companies listing in Indonesia (refinitiv eikon data)	953
Companies that present incomplete data during the observation period (2019-2023)	(581)
Companies that present complete data and meet the sample criteria	372
Total research data (2019-2023)	1860
Total outlier research data	(255)
Total research data after outliers	1605

Source: researcher own data, 2024

Table 2 presented the descriptive statistics results from the sample data obtained.

Table 2. Results of descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FV	1605	0.11	95.95	1.4272	4.23001
COC	1605	-0.05	0.3	0.0739	0.04479
IOS	1605	0.03	101.26	1.5528	4.80553
CS	1605	0.06	837.49	78.5911	94.92772
FP	1605	-25.75	45.43	2.8304	7.33595
FSIZE	1605	10.78	19.92	15.2123	1.67004

Source: research data, 2024

The results of descriptive statistics show variations between companies for each variable. Firm value in sample companies has a minimum value of 0.11, a maximum value of 95.95,

an average value of 1.43 and a standard deviation of 4.23. Since the average value of firm value is above 1, this can indicate that the firm value in the sample is relatively good. Besides that, its high standard deviation indicates more diverse firm value in research samples. Cost of capital in sample companies has a minimum value of -0.05, a maximum value of 0.3, an average value of 0.07 and a standard deviation of 0.04. This result exhibit low value and small data variations for the cost of capital variable. The investment opportunity set in the sample companies has a minimum value of 0.03, a maximum value of 101.26, an average value of 1.55, and a standard deviation of 4.81. This result exhibit that firm in sample have varying level of investment opportunity set. Minimum value of the capital structure in the sample companies observe as 0.06 and the maximum value observe is 837.49 with an average value of 78.59 and a standard deviation of 94.92. This result gives an indication of huge fluctuation in the capital structure among the sample companies. The financial performance in the sample companies has a minimum value of -25.75 and a maximum value of 45.43 with an average value of 2.83. Financial performance exhibit high variation among the research sample since the standard deviation value is 7.33. The firm size in the sample companies has a minimum value of 10.78, a maximum value of 19.92, an average value of 15.21. Firm size, which is proxied by natural logarithm of total assets, exhibit a standard deviation value of 1.67 that give the indication of high variation among the samples.

Classical assumption test also conducted to the research data, which consist of the normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. From table 3, it can be concluded that this research data are met the criteria to pass classical assumption test.

Table 3. Data testing results

Classical Assumption	**Result**			**Description**
Normality test (Kolmogorov-Smirnov)	Asymp. Sig. (2-tailed) 0.080			normal data
Multicollinearity test (VIF)		Tolerance	VIF	there is no multicollinearity
	COC	0.844	1.185	
	IOS	0.935	1.069	
	CS	0.827	1.208	
	ROA	0.419	2.385	
	MOD1	0.495	2.020	
	MOD2	0.814	1.228	
	MOD3	0.935	1.070	
	FSIZE	0.833	1.200	
Autocorrelation test (Runs test)	Asymp. Sig. (2-tailed) 0.128			No autocorrelation problem observed
Heterocedasticity test (Glejser)	COC	0.160		there is no heterocedasticity
	IOS	0.071		
	CS	0.201		
	ROA	0.109		
	MOD1	0.058		
	MOD2	0.870		
	MOD3	0.113		
	FSIZE	0.066		

Goodness of fit	sig.	0.000	The model is suitable for use as research

Source: research data, 2024

Table 4 represented the hypothesis testing in this research.

Table 4. Hypothesis testing results

Variable	coefficient	t	sig	result
COC	-0.454	-15.160	0.001	significant
IOS	0.001	0.660	0.509	not significant
CS	-0.004	-5.040	0.000	significant
FP	0.069	9.664	0.000	significant
MOD1	0.935	120.738	0.000	significant
MOD2	0.001	0.444	0.657	not significant
MOD3	0.011	2.472	0.014	significant
FSIZE	0.003	4.429	0.000	significant

Source: researcher own data, 2024

Results of the hypothesis testing in Table 4 can be interpreted as follow:
H1 is accepted: the cost of capital exhibit negative direction with significance value of 0.001 < 0.05. Indication can be made that cost of capital negatively impact firm value significantly.
H2 is not accepted: Significance value of investment opportunity set shown value of 0.509 > 0.05 with a positive direction. The result exhibit that firm value can be increased with investment opportunity set in corporation, but the impact is not significant.
H3 is accepted: capital structure has a negative direction with a significance value of 0.000 < 0.05. The result give insight that firm value will be decreased significantly with the present of high capital structure.
H4 accepted: the interaction of cost of capital with financial performance (mod1) has a significance value of 0.000 < 0.05. This means that financial performance can moderate the relationship between coc and firm value.
H5 is not accepted: the interaction of the investment opportunity set with financial performance (mod2) has a significance value of 0.657 > 0.05. This means that financial performance fails to moderate the relationship between IOS and firm value.
H6 is accepted: the interaction of capital structure with financial performance (mod3) has a significance value of 0.014 < 0.05 with a negative direction. This means that financial performance can moderate capital structure and firm value interaction.

Table 5, which exhibit the result of coefficient determination test, shows the increasing value from 42.2% to 95.1% in the adjusted R-square value after including the moderating variable. This result shows that relationship between the independent and dependent variables get significant impact from the addition of moderating variable. This increase means that the model of regression becomes better at answering the variation in the dependent variable after taking into account the moderating variable.

Table 5. Coefficient Determination Test

	without moderation	with moderation
Adj. R-square	0.422	0.951

Source: research data, 2024

The effect of cost of capital on firm value

The hypothesis testing shows that firm value gets affected by cost of capital (H1 accepted). The result shows that coc, as measured by wacc, give adverse impact on firm value, meaning that the increase in firm value can be happened if the cost of capital is lower and vice versa. In order to construct a good corporate image for investor, management must minimise coc to increase firm value. Companies can pursue more investment projects with higher rate of return than the cost of capital if they can obtain capital at a cheaper budget and make them spend less money to pay interest or dividends so as to increase the efficiency of capital allocation and improve growth prospects that will be appreciated by the market, this can maximise firm value. In addition, a lower cost of capital directly affects the company's net profit. Reduced interest costs on debt will increase net profit after tax which will increase firm value because net profit is an important component in company valuation. This event will send positive signal to the market that the company has healthy financial condition and good prospects in the future, which is in line with signalling theory. The risk faced by firm can be reflected in company cost of capital. A higher level of cost of capital usually reflects higher risk. By reducing the cost of capital, companies show that they can manage risk well. Increase in firm value and investor confidence will become the outcome from this situation. This research results proving that firm value can increase when there is decrease in coc value which are in line with previous research conducted by Ibrahim (2020), Titisari et al. (2019), and Gomes et al. (2019).

The impact to firm value from investment opportunity set

The result from hypothesis testing imply that firm value can increase with the presence of investment opportunity set despite the effect is not significant (H2 is not accepted). The result shows the positive result from this variable interaction, indicating that firm value will increase if there is also an increase in investment opportunity set despite the increase to firm value is not significant. Conclusion can be derived that investment opportunity is not the main predictor in increasing firm value. Company market value will increase since short-term orientated investors will consider investment opportunities to take a long time to provide returns that make them pay more attention to the company's current performance and stock fluctuations. Investors do not have sufficient information about the investment opportunities taken by the company because it is private information, this uncertainty makes them reluctant to link investment opportunities with an increase in firm value. The results of this research are in line with research conducted by Prayitno et al. (2020), Kebon & Suryanawa (2017), Tarima et al. (2016).

The effect of capital structure on firm value

The results from this research show that firm value get affected by capital structure (H3 accepted). Negative direction observed in the capital structure interaction with firm value. This implied that firm value would decrease if the company's debt higher and vice versa. Debt to equity ratio used to measure capital structure. Positive signal from a company with a low debt ratio can be perceived by investors since the lower of this ratio exhibit that a company is healthy and suitable as a place to invest. Conversely, higher risk of company experiencing financial difficulties to pay off loan principal and interest costs is more prominent if the company have high debt ratio due to the insufficient amount of assets owned to guarantee its debts. The findings from this research are consistent with previous research by Agustin et al. (2022), Ibrahim (2020), Sudiyatno et al. (2023) dan Luu (2021).

The role of financial performance as a moderating variable

Result of this research exhibit that moderation role successfully done by financial performance in cost of capital and firm value interaction (H4 accepted). In this study, the role of financial performance as a moderating variable is to strengthen the positive effect of low coc on increasing firm value. Firm value decrease with the presence of high coc with means that higher firm value can be achieved with lowering the cost of capital. Efficiency and effectiveness in capital structure exhibit with lower wacc value since this indicate lower cost required to fund the company's project. Strengthens the positive effect of low capital costs on increasing firm value is the financial performance role, which measured by profitability as a moderating variable, may be due to the fact that good profits are generated from low costs. In line with signal theory, if investors see a low cost of capital, it is indicating efficiency and effectiveness in the capital structure and perceived as a good signal. When investors see good financial performance, firm value can increase since it will increase investor confidence to invest in the company. If the company has a high cost of capital but is offset by high corporate profits, then the high cost of capital does not decrease corporation's value because the company is still able to generate enough profit to satisfy investors.

Moderation role of financial performance is not observed in interaction of investment opportunity set and firm value (H5 is not accepted). Profitability cannot moderate the interaction between investment opportunities and firm value. Impact of investment opportunities on firm value does not depend on the level of corporate profitability observed in research result. Companies can still make investment decisions even though the company's performance is not generating high profits if a company has good financial flexibility, by using free cash flow, investment opportunities can still be carried out for company expansion. Prayitno et al. (2020) also stated that the interaction of investment opportunities with firm value can be moderated by financial performance.

H6 in this research is accepted which means that financial performance moderates the interaction of capital structure and firm value. Moderating variable in this research, which is financial performance have a role to weaken the negative effect of high capital structure on the decline in firm value. Debt to equity ratio (der), which is a proxy for capital structure, influence firm value negatively, meaning that firm value will decrease if the company's debt is high. In line with signal theory, investors are reluctant to invest in companies with high debt ratios since it gives bad signals to investors. Moderating role from financial performance, which measured by profitability, to weakens the negative effect of high debt on the decline in firm value. This may be because high profitability indicates the company's ability to generate sufficient profits to cover interest and principal payments on debt, indicating that debt is being used productively to support business growth. Strong profitability which suggests that investors will see the corporation prospect favorably going forward and will be motivated to react to the encouraging signals provided. When investors see companies with high debt, but show good financial performance, investors can interpret that the company uses debt to develop its business so that it is considered a natural thing. Therefore, the role of financial performance weakens the negative relationship between capital structure and firm value. Other research that shows that financial performance can moderate the interaction of capital structure with firm value is Sari et al. (2020), Prayitno et al. (2020), Bahriah et al. (2022).

CONCLUSION

Conclusion from this research can be stated as follows: firm value negatively affected by cost of capital and capital structure, firm value positively impacted by investment opportunity set despite the effect is not significant, financial performance successfully moderates the cost of capital and capital structure interaction on firm value, investment opportunity set and firm value interaction is not moderated by financial performance. Conducting this research cannot be separated from limitations such as not all companies in Indonesia provide complete data and there are also outlier data so that most of the companies that should have been sampled had to be excluded. Since some financial ratios, such as cost of capital ratio, investment opportunities, capital structure, and financial performance, have been shown to affect firm value, management are encouraged to focus on them. Based on signal theory, efficiency in capital costs, increasing investment opportunities, and reducing debt ratios can provide good signals to investors so that investors want to invest that affects to raise the value of the corporation. Suggestions for future researchers are to add variables outside of financial ratios such as Environmental, Social, and Governance (ESG) disclosures to develop factors in increasing firm value.

ACKNOWLEDGEMENTS

In order for this research to be performed successfully, the researcher would like to thank LPPM Maranatha Christian University, Accounting Study Program, Faculty of Law and Digital Business, Maranatha Christian University, for their material and moral contributions.

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4. Bukti konfirmasi review dan hasil review kedua (reviewer A) (10 Oktober 2025)

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Citation:

Article Process
Submitted:
Bulan tanggal, tahun

Reviewed:
Bulan tanggal, tahun

Revised:
Bulan tanggal, tahun

Accepted:
Bulan tanggal, tahun

Published:
Bulan tanggal, tahun

Office:
Department of Accounting
University of Muhammadiyah Malang
GKB 2 Floor 3.
Jalan Raya Tlogomas 246,
Malang, East Java,
Indonesia

P-ISSN: 2615-2223
E-ISSN: 2088-0685

Article Type: Research Paper

DETERMINANTS OF FIRM VALUE IN INDONESIA: THE ROLE OF FINANCIAL PERFORMANCE AS MODERATION

Affiliation:

ABSTRACT

Purpose: This research has purpose to provide empirical evidence about how cost of capital, investment opportunity set, and capital structure impacting value of corporations and investigate whether financial performance can moderate that interaction.

Methodology/approach: Quantitative approach is the nature for this research. Moderated Regression Analysis utilized for analyzing research data. This research observes all of the listed corporations in Indonesia during 2019-2023. The research sample with purposive sampling obtained 1605 data.

Findings: The result exhibit that cost of capital and capital structure decrease firm value. On other hand, investment opportunity set increase firm value despite not significant. Moderation role by financial performance observed in interaction among cost of capital and capital structure on firm value. Despite that, the interaction of investment opportunity set on firm value do not moderate by financial performance.

Practical implications: This research offer practical implication for company managers when managing corporation finance, determine the decision, and choose the corporate strategy that will be increasing value of firm. In addition, this research is also useful for helping potential investors and investors decide the corporation that will be their investment choice.
Originality/value: This research utilizes the role of financial performance in moderating each relationship.

Keywords: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

ABSTRAK

Tujuan penelitian: untuk menguji dan membuktikan secara empiris bagaimana pengaruh cost of capital, investment opportunity set, capital structure terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel moderasi.

Metode/pendekatan: riset ini termasuk riset dengan pendekatan kuantitatif. Digunakan *Moderated Regression Analysis* untuk analisis data. Data riset menggunakan seluruh populasi perusahaan listing yang ada Indonesia dengan periode pengamatan tahun 2019-2023. Sampel riset dengan purposive sampling diperoleh 1605 data.

Hasil: *cost of capital* dan *capital structure* berpengaruh negatif terhadap *firm value*, *investment opportunity set* berpengaruh positif tidak signifikan terhadap *firm value*, *financial performance* berhasil memoderasi hubungan *cost of capital* dan *capital stucture* terhadap *firm value*, *financial performance* gagal memoderasi interaksi *investment opportunity set* terhadap *firm value.*

Implikasi praktik: penelitian ini bermanfaat bagi pengelola perusahaan sebagai bahan pertimbangan dalam mengelola keuangan dan pengambilan keputusan untuk menentukan strategi perusahaan dalam meningkatkan nilai perusahaan. Selain itu penelitian ini juga bermanfaat bagi masyarakat khususnya calon investor dan investor sehingga dapat membantu untuk pengambilan keputusan investasi yang tepat.

Orisinalitas/kebaharuan: riset ini menggunakan peran kinerja keuangan dalam memoderasi masing-masing hubungan.

Kata kunci: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

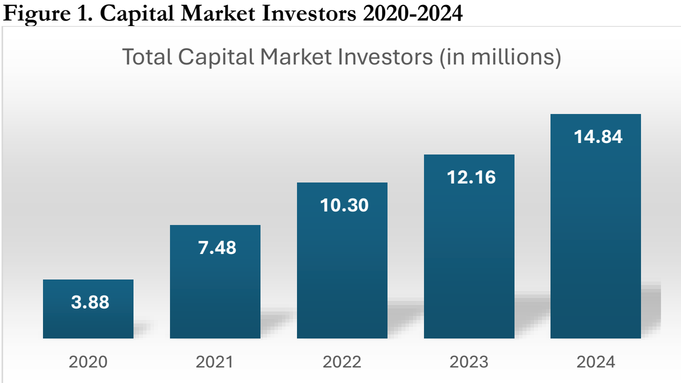
INTRODUCTION

Indonesia is an attractive country for investors. Since the last few years, Indonesia have seen the rise in their investment achievements. The attractiveness of Indonesia for investors is the potential for high economic growth. Investment in Indonesia is more easy to do since Indonesia have a large and growing population which means a large market potential, has a variety of natural resources, and strong government support (Pangastuti, 2023). Report of the increase in total investor have been made by the Indonesia Stock Exchange over the last

5 years from 2020 to 2024 shown in figure 1. In 2020, 3.88 million investors are stated as the total number of investors in the Indonesian capital market, in 2021 it rose to 7.48 million investors, in 2022 it rose to 10.30 million investors, then in 2023 it rose again to 12.16 million investors, and in 2024 it rose again to 14.84 investors (KSEI, 2024; marketnews.id, 2024; Pratomo, 2024). IDX also reported that market capitalization over the past five years has also increased, meaning that there is optimism from market players and stakeholders in the Indonesian capital market. Prospective investors and investors consider a company to be of quality if the company's value is good (Budiharjo, 2019). Therefore, companies have an obligation to optimize company value through financial management and corporate governance (Meilyani & Angela, 2024).

Corporation usually have the goal to optimize the value of their corporations. Shareholder will be more prosperous if their company have higher value. Firm value is important to maintain by corporation since investor perception can be affected by firm value which reflects the performance of the corporations (Angela et al., 2023). Investors can perceive a positive signal to invest in corporation if there is an increase in value of company value which leads to the investor willingness to pay higher with high purchasing expectations (Atmaja & Astika, 2018; Ha & Minh, 2020). Basically, investors treat company value as a very fundamental factor before deciding their investment decision in certain companies (Saona & Martín, 2018). In running its business, management needs to considering company value because company value have correlation with company's stock price that become the assessment that can describe the success of the company (Dzahabiyya et al., 2020; Hamid & Elika, 2022). The company's value and their stock price is closely related, so the corporate value can be determined by the development of their stock price which can affect investors' investment decision making (Sudiyatno et al., 2020). Many factors can affect firm value and this study examined several factors including cost of capital, investment opportunity set, capital structure as independent variables, the role of financial performance as a moderating variable, including firm size as a control variable. The research was conducted in five years observation period (2019-2023) at all Indonesia corporation that indexed in Indonesia Stock Exchange.

Figure 1. Capital Market Investors 2020-2024



Source: Research Data, 2024

The cost of capital is an important factor affecting firm performance. The activity to raise fund from several sources, such as debt, equity, or other financing options can incur cost for

corporations and this refer as cost of capital (Ochoki et al., 2023). Management must minimize the cost of capital to increase company value to make corporations appealing for investors (Titisari et al., 2019). Effective capital budgeting will be an important element of business strategy to generate value for shareholders and therefore increase profitability and firm value at the same time (Gomes et al., 2019). Minimizing cost and increasing firm value needs to be done by companies, so they must pay attention to the cost of capital in making investment and financing decisions (Putri & Husaini, 2024).

Future profits can be generated by investment opportunities. Stakeholders have an interest in seeing business development through investment opportunities. For investors, the potential to benefit from company growth will increase along with company growth. Company expansion is expected to generate substantial future profits and make this perceive as favorable potential for investors (Marjohan et al., 2023). Investors will be convinced by companies with growing business prospects since it can increase shareholder wealth. This will increase the corporation shares demand and thus will be increasing company's value due to expanding market share demand. Investment opportunities will be responded to as a positive signal by investors and have an effect on increasing company value (Chabachib et al., 2020; Tangngisalu et al., 2023).

Managing companies operational activities always need a capital structure. Capital structure is very important to maintain and ensure the continuity of the company. The amount of capital needed is determined by all company activities and this make an optimal capital structure is imperative to support all operational activities. Raising internal and external funds can determine whether capital structure is balance Wardani or not. A balance among debt and capital can be optimized by using an ideal composition of internal and external funds (Wardani & Subowo, 2020). Financial risks can be avoided in companies with a good capital structure whose impact increases company value. In other side, company value can be decreased if companies using high debt (Luu, 2021).

This research has the purpose to examine how company value can be affected by the cost of capital, investment opportunity set, capital structure. This research presented its novelty with using financial performance to moderate the interaction between each variable in this research. Financial performance measured by ROA which explained the power for generate net income from corporation total asset and thus referred to as earnings power (Mukhtaruddin et al., 2019). Corporation good performance can be indicated by higher ROA because this indicating the efficiency of company to utilize its assets in operational activities. Interaction between each independent variable to the dependent variable in this research are expected to be moderated by financial performance. This research presents a data sample of all listed companies in Indonesia with the observation period 2019-2023 as a difference from previous research which only presents samples from certain industrial sectors. Firm size added as control variables in this research to avoid bias in determining effect from independent variables interaction with dependent variable. Importance of this research lies in its usefulness for company managers as a consideration in managing finances and making decisions to determine company strategies in increasing company value. In addition, this research is also useful for helping potential investors and investors to determine the right corporation choose as investment choice.

This research used signaling theory as grand theory. Signaling theory is clues provide to investors about how management views the company's prospects from an action taken by company management. Urgency to provide the external parties with financial statement

Commented [w1]: Financial performance is novelty, but in the hypothesis section it says that there were previous researchers who made it a moderation?

Commented [AA2R1]: in file revision, novelty of the research has been revised to the role of financial performance as a moderating variable in the relationship between cost of capital and company value, which has rarely been studied in Indonesia.

information and suggestion on how corporation should signal the users of financial statement can be explained by signaling theory. Signaling theory, according to Sutra & Mais (2019) and Evania & Angela (2024), explain that providing positive signals (good news) and negative signals (bad news) to users are financial reports roles. Information about what management has done to realize the wishes of the owner is the form of this signal. Company (agent), principal (investor) and other parties can used signaling theory to reduce information asymmetry by producing quality financial reports. Financial reports are an analysis and assessment process that can help explain the goals a company has achieved. Financial reports can be used to determine the performance and financial condition of the company so that it can predict potential bankruptcy in the future and thus become very important for every company.

Based on signaling theory, there are company and investor perspectives on cost of capital (coc). For companies, coc is an expectation of profit on the potential of the project and its business prospects (Diantimala et al., 2022). Weighted average cost of capital (wacc) is the proxy of CoC, which is the cost of capital calculated by considering the proportion of equity and debt in the company's capital structure (Dobrowolski et al., 2022; Pavel, 2018). Companies that are able to reduce their cost of capital tend to have a higher market value, as this reflects efficiency in resource management and stronger investor confidence. For investors coc is the rate of return on investments and loans provided by investors and lenders. Value of company from managing their resources is perceived as the success of a company by investors. Information about coc can minimize the differences in the objectives of the two parties (principal and agent). Higher coc or risk perceived positively by the market since it indicates that the corporation can give return that exceeding corporation coc value (Kurniasih et al., 2022). Gomes et al. (2019) proves that increase in firm value happen when coc decreased. Studies conducted by Titisari et al. (2019) revealed that listed corporations in IDX on 2010-2016 period experienced decrease in their firm value when coc value is high. Sattar (2015) concluded that firm value negatively correlated with the weighted average cost of capital.

Commented [w3]: Variable measurement is simply conveyed in the methods section. (check in other hypothesis sections)

Commented [AA4R3]: in the revision file has been corrected

H1: Cost of capital has an influence on firm value.

An important component for market value is investment opportunity set (ios) or investment opportunity since this component can affect the way managers, owners, investors, and creditors view the company. Future expenses set by the management can impact the amount of investment opportunities, which at this time are investment choices that are expected to generate greater returns (Ningsih, 2023). Investment opportunities can strongly influence firm value that formed through stock market value indicators. In accordance with signaling theory, company value can be increased if there is positive signal about corporation future growth that indicated by the existence of investment opportunities (Febrianty & Mertha, 2021; Frederica, 2019). Price-based ios proxy, namely market to book value of equity ratio, used as ios proxy in this research. The premise is that the future return on corporation's investment will be greater than the expected return on its equity from market assessment (Sampurna & Romawati, 2020). In research Sampurna & Romawati (2020), Afridi et al. (2022), Tangngisalu et al. (2023), Sudiyatno et al. (2023), Wulandari & Trinawati (2022) concluded that firm value can be significantly increased with the presence of ios. From the explanation given, the hypothesis developed as follows:

H2: Investment opportunity set has an influence on firm value.

Decision related to the funding composition in a company is called capital structure. This research used funding composition that calculated from the amount of debt compared to private capital in a company to measure capital structure, proxied by the debt to equity ratio (Angela et al., 2024; Sihombing & Angela, 2024). A balanced capital structure can provide greater financial flexibility for the company and can allow it to take greater investment opportunities or better deal with unexpected financial pressures (Prasetya & Susilowati, 2024). Agustin et al. (2022) concluded from their research that firm value can be influenced by capital structure. Since it immediately affects the corporation financial condition, capital structure, which describe the ration of external capital or long-term and short-term debt to personal capital, is essential for all corporations. Improvement in corporation performance and increase in firm value can be achieved with the optimal capital structure. Research by Luu (2021) conducted on chemical companies in Vietnam concluded that companies with high debt will have an impact on decreasing firm value. Based on this explanation, the hypothesis developed is as follows:

H3: Capital structure has an influence on firm value.

The importance to keep the company survive can be achieved by interrelated result from increasing both profits and firm value. Amount of profitability generated, which is the measurement of company financial performance, can also influenced firm value. One of the accounting tools to measure financial performance is to use profitability ratios. The ability of corporations to generate profit or the measurement on how effective corporation management is called profitability (Wirawan & Angela, 2024). Obtain a return for their investment is investor goal. Investors would have a high expectation to get high return if the corporation can generate higher profit (Evania & Angela, 2024). Widiastari & Yasa (2018) states that corporation value could increase if investor perceived positive signal in the corporation future prospect that indicate by high profitability. The findings of research conducted by Rofifudin et al. (2023), Husain et al. (2023), Iswajuni et al. (2018), Hafidh & Priono (2022) found that increase in firm value happen in line with roa, indicating that roa has a significant positive effect on firm value. This research utilizing return on assets (roa) as financial performance measurement since measurement on how the companies utilize their asset to generate profits can be done with this ratio.

In this research, researchers examine financial performance role as a moderating variable in the interaction of firm value with the cost of capital, investment opportunities, and capital structure. High financial performance indicates that the company has high profits, which encourages managers to develop the company by investing. Managers become optimal in determining external funding in good consideration. Managers will consider using internal funds due to high share ownership in the company. This shows moderation role can be done by financial performance in the interaction between cost of capital, investment, and capital structure on firm value (Prayitno et al., 2020; Umbarwati & Fachrurrozie, 2018). From the explanation earlier, this research proposed hypothesis as follows:

H4: Financial performance moderates the effect of coc on firm value.

Commented [w5]: still weak in making FP moderate (not independent)

Commented [AA6R5]: in the revision file has been added

H5: Financial performance moderates the effect of ios on firm value.

H6: Financial performance moderates the effect of cs on firm value.
Figure 2 exhibit this research model as follows:

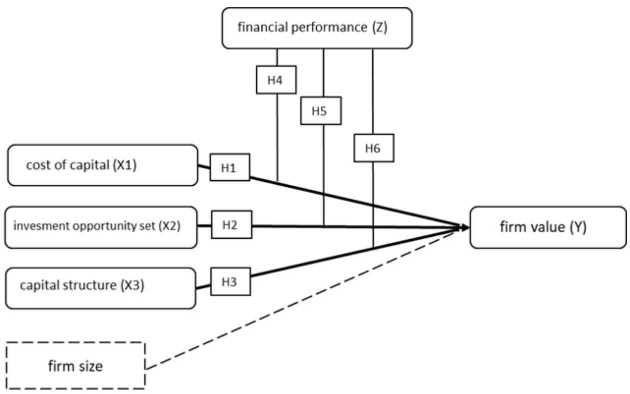


Figure 2. Research Model

METHODS

In this study, the entire population of listing companies in Indonesia during the five-year period from 2019-2023 was used. The five year time span is considered sufficiently representative to analyse trends and relevant to current conditions. The sample used in this study was selected using purposive sampling method with the aim of obtaining a representative sample in accordance with the specified criteria (Ghozali, 2018), namely: listing companies in Indonesia for the period 2019-2023, publishing annual reports consecutively from 2019-2023, presenting complete data needed for research. Corporation financial statements for 2019-2023, which is a secondary data type, utilized in this research. Financial data obtained through a financial market data provider, namely Thomson Reuters Eikon (Refinitiv) can be accessed at https://www.refinitiv.com, industry data classification based on the Global Industry Classification Standard (GICS).

Cost of capital, investment opportunity set, and capital structure are utilized as this research independent variables (X). Firm value utilized as dependent variable (Y). Moderating variable (Z) is financial performance. The control variable is firm size. This research variable can be defined in more detailed as follows:
Firm value is proxied by Tobin's Q (Angela et al., 2023; Titisari et al., 2019).
Weighted average cost of capital Cost of capital is chosen to proxy cost of capital (Dobrowolski et al., 2022; Yuliah et al., 2023)
Market to book value of equity is utilized to proxy investment opportunity set (Anggraini & Nyale, 2022)(Dharmawan & Riza, 2019)(Tangngisalu et al., 2023).
Debt to equity ratio is chosen to proxy capital structure (Agustin et al., 2022; Rachmadevi et al., 2023).
Return on assets is utilized as the proxy for financial performance (Meilyani & Angela, 2024; Wirawan & Angela, 2024).
Firm size is proxied using ln total assets (Chakkravarthy et al., 2024; Rahmadhani et al., 2024).

Multiple linear regression is chosen to analyze research data with moderating variables so that moderated regression analysis (MRA) was carried out, the statistical application used was SPSS, the research formula was as follows:

$$FV = \alpha + \beta_1 COC + \beta_2 IOS + \beta_3 CS + \beta_4 FP + \beta_5 MOD1 + \beta_6 MOD2 + \beta_7 MOD3 + \beta_8 FSIZE + e$$

Where:
FV: firm value
COC: cost of capital
IOS: investment opportunity set
CS: capital structure
FP: financial performance
MOD1: interaction of coc with financial performance
MOD2: interaction of ios with financial performance
MOD3: interaction of cs with financial performance
FSIZE: firm size
e: residual value

Before conducting hypothesis testing with Moderated Regression Analysis, the data has been tested with classical assumptions such as normality, multicollinearity, heteroscedasticity, autocorrelation, and goodness of fit model.

RESULTS AND DISCUSSION

All listed companies in Indonesia become this research population with an observation period of 5 years (2019-2023). Table 1 exhibit the process and result for determining this research sample.

Table 1. Sample selection

Description	Total
Companies listing in Indonesia (refinitiv eikon data)	953
Companies that present incomplete data during the observation period (2019-2023)	(581)
Companies that present complete data and meet the sample criteria	372
Total research data (2019-2023)	1860
Total outlier research data	(255)
Total research data after outliers	1605

Source: researcher own data, 2024

Commented [w7]: What data is not fulfilled, up to more than 50% of the number of companies?

Commented [AA8R7]: 162 financial companies were excluded from the sample because their characteristics differed from those of non-financial companies. Companies that did not have complete wacc data and other data in Refinitiv and companies that had not been listed for five consecutive years were also excluded from the sample.
In the revision, the table has been updated.

Table 2 presented the descriptive statistics results from the sample data obtained.

Table 2. Results of descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FV	1605	0.11	95.95	1.4272	4.23001
COC	1605	-0.05	0.3	0.0739	0.04479
IOS	1605	0.03	101.26	1.5528	4.80553
CS	1605	0.06	837.49	78.5911	94.92772
FP	1605	-25.75	45.43	2.8304	7.33595
FSIZE	1605	10.78	19.92	15.2123	1.67004

Source: research data, 2024

The results of descriptive statistics show variations between companies for each variable. Firm value in sample companies has a minimum value of 0.11, a maximum value of 95.95, an average value of 1.43 and a standard deviation of 4.23. Since the average value of firm value is above 1, this can indicate that the firm value in the sample is relatively good. Besides that, its high standard deviation indicates more diverse firm value in research samples. Cost of capital in sample companies has a minimum value of -0.05, a maximum value of 0.3, an average value of 0.07 and a standard deviation of 0.04. This result exhibit low value and small data variations for the cost of capital variable. The investment opportunity set in the sample companies has a minimum value of 0.03, a maximum value of 101.26, an average value of 1.55, and a standard deviation of 4.81. This result exhibit that firm in sample have varying level of investment opportunity set. Minimum value of the capital structure in the sample companies observe as 0.06 and the maximum value observe is 837.49 with an average value of 78.59 and a standard deviation of 94.92. This result gives an indication of huge fluctuation in the capital structure among the sample companies. The financial performance in the sample companies has a minimum value of -25.75 and a maximum value of 45.43 with an average value of 2.83. Financial performance exhibit high variation among the research sample since the standard deviation value is 7.33. The firm size in the sample companies has a minimum value of 10.78, a maximum value of 19.92, an average value of 15.21. Firm size, which is proxied by natural logarithm of total assets, exhibit a standard deviation value of 1.67 that give the indication of high variation among the samples.

Classical assumption test also conducted to the research data, which consist of the normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. From table 3, it can be concluded that this research data are met the criteria to pass classical assumption test.

Table 3. Data testing results

Classical Assumption	**Result**			**Description**
Normality test (Kolmogorov-Smirnov)	Asymp. Sig. (2-tailed) 0.080			normal data
Multicollinearity test (VIF)		Tolerance	VIF	there is no multicollinearity
	COC	0.844	1.185	
	IOS	0.935	1.069	
	CS	0.827	1.208	
	ROA	0.419	2.385	
	MOD1	0.495	2.020	
	MOD2	0.814	1.228	
	MOD3	0.935	1.070	
	FSIZE	0.833	1.200	
Autocorrelation test (Runs test)	Asymp. Sig. (2-tailed) 0.128			No autocorrelation problem observed
Heterocedasticity test (Glejser)	COC	0.160		there is no heterocedasticity
	IOS	0.071		
	CS	0.201		
	ROA	0.109		
	MOD1	0.058		
	MOD2	0.870		
	MOD3	0.113		
	FSIZE	0.066		
Goodness of fit	sig.	0.000		The model is suitable for use as research

Source: research data, 2024

Table 4 represented the hypothesis testing in this research.

Table 4. Hypothesis testing results

Variable	coefficient	t	sig	result
COC	-0.454	-15.160	0.001	significant
IOS	0.001	0.660	0.509	not significant
CS	-0.004	-5.040	0.000	significant
FP	0.069	9.664	0.000	significant
MOD1	0.935	120.738	0.000	significant
MOD2	0.001	0.444	0.657	not significant
MOD3	0.011	2.472	0.014	significant
FSIZE	0.003	4.429	0.000	significant

Source: researcher own data, 2024

Commented [w9]: What are the unanalyzed results for displaying FP and FSIZE?

Commented [AA10R9]: has been added and explained in the revision file

Results of the hypothesis testing in Table 4 can be interpreted as follow:
H1 is accepted: the cost of capital exhibit negative direction with significance value of 0.001 < 0.05. Indication can be made that cost of capital negatively impact firm value significantly.
H2 is not accepted: Significance value of investment opportunity set shown value of 0.509 > 0.05 with a positive direction. The result exhibit that firm value can be increased with investment opportunity set in corporation, but the impact is not significant.
H3 is accepted: capital structure has a negative direction with a significance value of 0.000 < 0.05. The result give insight that firm value will be decreased significantly with the present of high capital structure.
H4 accepted: the interaction of cost of capital with financial performance (mod1) has a significance value of 0.000 < 0.05. This means that financial performance can moderate the relationship between coc and firm value.
H5 is not accepted: the interaction of the investment opportunity set with financial performance (mod2) has a significance value of 0.657 > 0.05. This means that financial performance fails to moderate the relationship between IOS and firm value.
H6 is accepted: the interaction of capital structure with financial performance (mod3) has a significance value of 0.014 < 0.05. This means that financial performance can moderate capital structure and firm value interaction.

Table 5, which exhibit the result of coefficient determination test, shows the increasing value from 42.2% to 95.1% in the adjusted R-square value after including the moderating variable. This result shows that relationship between the independent and dependent variables get significant impact from the addition of moderating variable. This increase means that the model of regression becomes better at answering the variation in the dependent variable after taking into account the moderating variable.

Table 5. Coefficient Determination Test

	without moderation	with moderation
Adj. R-square	0.422	0.951

Source: research data, 2024

The effect of cost of capital on firm value

The hypothesis testing shows that firm value gets affected by cost of capital (H1 accepted). The result shows that coc, as measured by wacc, give adverse impact on firm value, meaning that the increase in firm value can be happened if the cost of capital is lower and vice versa. In order to construct a good corporate image for investor, management must minimise coc to increase firm value. Companies can pursue more investment projects with higher rate of return than the cost of capital if they can obtain capital at a cheaper budget and make them spend less money to pay interest or dividends so as to increase the efficiency of capital allocation and improve growth prospects that will be appreciated by the market, this can maximise firm value. In addition, a lower cost of capital directly affects the company's net profit. Reduced interest costs on debt will increase net profit after tax which will increase firm value because net profit is an important component in company valuation. This event will send positive signal to the market that the company has healthy financial condition and good prospects in the future, which is in line with signalling theory. The risk faced by firm can be reflected in company cost of capital. A higher level of cost of capital usually reflects higher risk. By reducing the cost of capital, companies show that they can manage risk well. Increase in firm value and investor confidence will become the outcome from this situation. This research results proving that firm value can increase when there is decrease in coc value which are in line with previous research conducted by Ibrahim (2020), Titisari et al. (2019), and Gomes et al. (2019).

The impact to firm value from investment opportunity set

The result from hypothesis testing imply that firm value can increase with the presence of investment opportunity set despite the effect is not significant (H2 is not accepted). The result shows the positive result from this variable interaction, indicating that firm value will increase if there is also an increase in investment opportunity set despite the increase to firm value is not significant. Conclusion can be derived that investment opportunity is not the main predictor in increasing firm value. Company market value will increase since short-term orientated investors will consider investment opportunities to take a long time to provide returns that make them pay more attention to the company's current performance and stock fluctuations. Investors do not have sufficient information about the investment opportunities taken by the company because it is private information, this uncertainty makes them reluctant to link investment opportunities with an increase in firm value. The results of this research are in line with research conducted by Prayitno et al. (2020), Kebon & Suryanawa (2017), Tarima et al. (2016).

Commented [w11]: What does not significant mean? Is it still necessary to convey the coefficient?

Commented [AA12R11]: the explanation of the coefficients has been removed in the revision file

The effect of capital structure on firm value

The results from this research show that firm value get affected by capital structure (H3 accepted). Negative direction observed in the capital structure interaction with firm value. This implied that firm value would decrease if the company's debt higher and vice versa. Debt to equity ratio used to measure capital structure. Positive signal from a company with a low debt ratio can be perceived by investors since the lower of this ratio exhibit that a company is healthy and suitable as a place to invest. Conversely, higher risk of company experiencing financial difficulties to pay off loan principal and interest costs is more prominent if the company have high debt ratio due to the insufficient amount of assets owned to guarantee its debts. The findings from this research are consistent with previous research by Agustin et al. (2022), Ibrahim (2020), Sudiyatno et al. (2023) dan Luu (2021).

The role of financial performance as a moderating variable

Result of this research exhibit that moderation role successfully done by financial performance in cost of capital and firm value interaction (H4 accepted). In this study, the role of financial performance as a moderating variable is to strengthen the positive effect of low coc on increasing firm value. Firm value decrease with the presence of high coc with means that higher firm value can be achieved with lowering the cost of capital. Efficiency and effectiveness in capital structure exhibit with lower wacc value since this indicate lower cost required to fund the company's project. Strengthens the positive effect of low capital costs on increasing firm value is the financial performance role, which measured by profitability as a moderating variable, may be due to the fact that good profits are generated from low costs. In line with signal theory, if investors see a low cost of capital, it is indicating efficiency and effectiveness in the capital structure and perceived as a good signal. When investors see good financial performance, firm value can increase since it will increase investor confidence to invest in the company. If the company has a high cost of capital but is offset by high corporate profits, then the high cost of capital does not decrease corporation's value because the company is still able to generate enough profit to satisfy investors.

Moderation role of financial performance is not observed in interaction of investment opportunity set and firm value (H5 is not accepted). Profitability cannot moderate the interaction between investment opportunities and firm value. Impact of investment opportunities on firm value does not depend on the level of corporate profitability observed in research result. Companies can still make investment decisions even though the company's performance is not generating high profits if a company has good financial flexibility, by using free cash flow, investment opportunities can still be carried out for company expansion. Prayitno et al. (2020) also stated that the interaction of investment opportunities with firm value can be moderated by financial performance.

H6 in this research is accepted which means that financial performance moderates the interaction of capital structure and firm value. Moderating variable in this research, which is financial performance have a role to weaken the negative effect of high capital structure on the decline in firm value. Debt to equity ratio (der), which is a proxy for capital structure, influence firm value negatively, meaning that firm value will decrease if the company's debt is high. In line with signal theory, investors are reluctant to invest in companies with high debt ratios since it gives bad signals to investors. Moderating role from financial performance, which measured by profitability, to weakens the negative effect of high debt on the decline in firm value. This may be because high profitability indicates the company's ability to generate sufficient profits to cover interest and principal payments on debt, indicating that debt is being used productively to support business growth. Strong profitability which suggests that investors will see the corporation prospect favorably going forward and will be motivated to react to the encouraging signals provided. When investors see companies with high debt, but show good financial performance, investors can interpret that the company uses debt to develop its business so that it is considered a natural thing. Therefore, the role of financial performance weakens the negative relationship between capital structure and firm value. Other research that shows that financial performance can moderate the interaction of capital structure with firm value is Sari et al. (2020), Prayitno et al. (2020), Bahriah et al. (2022).

CONCLUSION

Conclusion from this research can be stated as follows: firm value negatively affected by cost of capital and capital structure, firm value positively impacted by investment opportunity set despite the effect is not significant, financial performance successfully moderates the cost of capital and capital structure interaction on firm value, investment opportunity set and firm value interaction is not moderated by financial performance. Conducting this research cannot be separated from limitations such as not all companies in Indonesia provide complete data and there are also outlier data so that most of the companies that should have been sampled had to be excluded. Since some financial ratios, such as cost of capital ratio, investment opportunities, capital structure, and financial performance, have been shown to affect firm value, management are encouraged to focus on them. Based on signal theory, efficiency in capital costs, increasing investment opportunities, and reducing debt ratios can provide good signals to investors so that investors want to invest that affects to raise the value of the corporation. Suggestions for future researchers are to add variables outside of financial ratios such as Environmental, Social, and Governance (ESG) disclosures to develop factors in increasing firm value.

ACKNOWLEDGEMENTS

In order for this research to be performed successfully, the researcher would like to thank LPPM Maranatha Christian University, Accounting Study Program, Faculty of Law and Digital Business, Maranatha Christian University, for their material and moral contributions.

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5. Bukti konfirmasi review dan hasil review kedua (reviewer B) (14 Oktober 2025)

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[JRAK] Editor Decision	2025-10-14 12:47 PM
[JRAK] Editor Decision	2025-10-15 07:48 PM

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153935	jrak-review-assignment-41576-Article+Text-153049.docx	October 10, 2025
154223	16. jrak-review-assignment-41576-Article+Text-153049.docx	October 14, 2025

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*Correspondence:

DOI:

Citation:

Article Process
Submitted:
Bulan tanggal, tahun

Reviewed:
Bulan tanggal, tahun

Revised:
Bulan tanggal, tahun

Accepted:
Bulan tanggal, tahun

Published:
Bulan tanggal, tahun

Office:
Department of Accounting
University of Muhammadiyah Malang
GKB 2 Floor 3.
Jalan Raya Tlogomas 246,
Malang, East Java,
Indonesia

P-ISSN: 2615-2223
E-ISSN: 2088-0685

Article Type: Research Paper

DETERMINANTS OF FIRM VALUE IN INDONESIA: THE ROLE OF FINANCIAL PERFORMANCE AS MODERATION

Affiliation:

ABSTRACT

Purpose: This research has purpose to provide empirical evidence about how cost of capital, investment opportunity set, and capital structure impacting value of corporations and investigate whether financial performance can moderate that interaction.

Methodology/approach: Quantitative approach is the nature for this research. Moderated Regression Analysis utilized for analyzing research data. This research observes all of the listed corporations in Indonesia during 2019-2023. The research sample with purposive sampling obtained 1605 data.

Findings: The result exhibit that cost of capital and capital structure decrease firm value. On other hand, investment opportunity set increase firm value despite not significant. Moderation role by financial performance observed in interaction among cost of capital and capital structure on firm value. Despite that, the interaction of investment opportunity set on firm value do not moderate by financial performance.

Practical implications: This research offer practical implication for company managers when managing corporation finance, determine the decision, and choose the corporate strategy that will be increasing value of firm. In addition, this research is also useful for helping potential investors and investors decide the corporation that will be their investment choice.
Originality/value: This research utilizes the role of financial performance in moderating each relationship.

Keywords: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

ABSTRAK

Tujuan penelitian: untuk menguji dan membuktikan secara empiris bagaimana pengaruh cost of capital, investment opportunity set, capital structure terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel moderasi.

Metode/pendekatan: riset ini termasuk riset dengan pendekatan kuantitatif. Digunakan *Moderated Regression Analysis* untuk analisis data. Data riset menggunakan seluruh populasi perusahaan listing yang ada Indonesia dengan periode pengamatan tahun 2019-2023. Sampel riset dengan purposive sampling diperoleh 1605 data.

Hasil: *cost of capital* dan *capital structure* berpengaruh negatif terhadap *firm value*, *investment opportunity set* berpengaruh positif tidak signifikan terhadap *firm value*, *financial performance* berhasil memoderasi hubungan *cost of capital* dan *capital stucture* terhadap *firm value*, *financial performance* gagal memoderasi interaksi *investment opportunity set* terhadap *firm value.*

Implikasi praktik: penelitian ini bermanfaat bagi pengelola perusahaan sebagai bahan pertimbangan dalam mengelola keuangan dan pengambilan keputusan untuk menentukan strategi perusahaan dalam meningkatkan nilai perusahaan. Selain itu penelitian ini juga bermanfaat bagi masyarakat khususnya calon investor dan investor sehingga dapat membantu untuk pengambilan keputusan investasi yang tepat.

Orisinalitas/kebaharuan: riset ini menggunakan peran kinerja keuangan dalam memoderasi masing-masing hubungan.

Kata kunci: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

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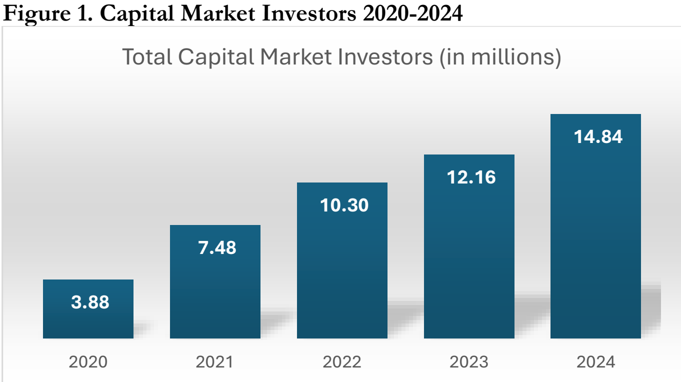
INTRODUCTION

Indonesia is an attractive country for investors. Since the last few years, Indonesia have seen the rise in their investment achievements. The attractiveness of Indonesia for investors is the potential for high economic growth. Investment in Indonesia is more easy to do since Indonesia have a large and growing population which means a large market potential, has a variety of natural resources, and strong government support (Pangastuti, 2023). Report of the increase in total investor have been made by the Indonesia Stock Exchange over the last

5 years from 2020 to 2024 shown in figure 1. In 2020, 3.88 million investors are stated as the total number of investors in the Indonesian capital market, in 2021 it rose to 7.48 million investors, in 2022 it rose to 10.30 million investors, then in 2023 it rose again to 12.16 million investors, and in 2024 it rose again to 14.84 investors (KSEI, 2024; marketnews.id, 2024; Pratomo, 2024). IDX also reported that market capitalization over the past five years has also increased, meaning that there is optimism from market players and stakeholders in the Indonesian capital market. Prospective investors and investors consider a company to be of quality if the company's value is good (Budiharjo, 2019). Therefore, companies have an obligation to optimize company value through financial management and corporate governance (Meilyani & Angela, 2024).

Corporation usually have the goal to optimize the value of their corporations. Shareholder will be more prosperous if their company have higher value. Firm value is important to maintain by corporation since investor perception can be affected by firm value which reflects the performance of the corporations (Angela et al., 2023). Investors can perceive a positive signal to invest in corporation if there is an increase in value of company value which leads to the investor willingness to pay higher with high purchasing expectations (Atmaja & Astika, 2018; Ha & Minh, 2020). Basically, investors treat company value as a very fundamental factor before deciding their investment decision in certain companies (Saona & Martín, 2018). In running its business, management needs to considering company value because company value have correlation with company's stock price that become the assessment that can describe the success of the company (Dzahabiyya et al., 2020; Hamid & Elika, 2022). The company's value and their stock price is closely related, so the corporate value can be determined by the development of their stock price which can affect investors' investment decision making (Sudiyatno et al., 2020). Many factors can affect firm value and this study examined several factors including cost of capital, investment opportunity set, capital structure as independent variables, the role of financial performance as a moderating variable, including firm size as a control variable. The research was conducted in five years observation period (2019-2023) at all Indonesia corporation that indexed in Indonesia Stock Exchange.

Figure 1. Capital Market Investors 2020-2024



Source: Research Data, 2024

The cost of capital is an important factor affecting firm performance. The activity to raise fund from several sources, such as debt, equity, or other financing options can incur cost for

corporations and this refer as cost of capital (Ochoki et al., 2023). Management must minimize the cost of capital to increase company value to make corporations appealing for investors (Titisari et al., 2019). Effective capital budgeting will be an important element of business strategy to generate value for shareholders and therefore increase profitability and firm value at the same time (Gomes et al., 2019). Minimizing cost and increasing firm value needs to be done by companies, so they must pay attention to the cost of capital in making investment and financing decisions (Putri & Husaini, 2024).

Future profits can be generated by investment opportunities. Stakeholders have an interest in seeing business development through investment opportunities. For investors, the potential to benefit from company growth will increase along with company growth. Company expansion is expected to generate substantial future profits and make this perceive as favorable potential for investors (Marjohan et al., 2023). Investors will be convinced by companies with growing business prospects since it can increase shareholder wealth. This will increase the corporation shares demand and thus will be increasing company's value due to expanding market share demand. Investment opportunities will be responded to as a positive signal by investors and have an effect on increasing company value (Chabachib et al., 2020; Tangngisalu et al., 2023).

Managing companies operational activities always need a capital structure. Capital structure is very important to maintain and ensure the continuity of the company. The amount of capital needed is determined by all company activities and this make an optimal capital structure is imperative to support all operational activities. Raising internal and external funds can determine whether capital structure is balance Wardani or not. A balance among debt and capital can be optimized by using an ideal composition of internal and external funds (Wardani & Subowo, 2020). Financial risks can be avoided in companies with a good capital structure whose impact increases company value. In other side, company value can be decreased if companies using high debt (Luu, 2021).

This research has the purpose to examine how company value can be affected by the cost of capital, investment opportunity set, capital structure. This research presented its novelty with using financial performance to moderate the interaction between each variable in this research. Financial performance measured by ROA which explained the power for generate net income from corporation total asset and thus referred to as earnings power (Mukhtaruddin et al., 2019). Corporation good performance can be indicated by higher ROA because this indicating the efficiency of company to utilize its assets in operational activities. Interaction between each independent variable to the dependent variable in this research are expected to be moderated by financial performance. This research presents a data sample of all listed companies in Indonesia with the observation period 2019-2023 as a difference from previous research which only presents samples from certain industrial sectors. Firm size added as control variables in this research to avoid bias in determining effect from independent variables interaction with dependent variable. Importance of this research lies in its usefulness for company managers as a consideration in managing finances and making decisions to determine company strategies in increasing company value. In addition, this research is also useful for helping potential investors and investors to determine the right corporation choose as investment choice.

This research used signaling theory as grand theory. Signaling theory is clues provide to investors about how management views the company's prospects from an action taken by company management. Urgency to provide the external parties with financial statement

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information and suggestion on how corporation should signal the users of financial statement can be explained by signaling theory. Signaling theory, according to Sutra & Mais (2019) and Evania & Angela (2024), explain that providing positive signals (good news) and negative signals (bad news) to users are financial reports roles. Information about what management has done to realize the wishes of the owner is the form of this signal. Company (agent), principal (investor) and other parties can used signaling theory to reduce information asymmetry by producing quality financial reports. Financial reports are an analysis and assessment process that can help explain the goals a company has achieved. Financial reports can be used to determine the performance and financial condition of the company so that it can predict potential bankruptcy in the future and thus become very important for every company.

Based on signaling theory, there are company and investor perspectives on cost of capital (coc). For companies, coc is an expectation of profit on the potential of the project and its business prospects (Diantimala et al., 2022). Weighted average cost of capital (wacc) is the proxy of CoC, which is the cost of capital calculated by considering the proportion of equity and debt in the company's capital structure (Dobrowolski et al., 2022; Pavel, 2018). Companies that are able to reduce their cost of capital tend to have a higher market value, as this reflects efficiency in resource management and stronger investor confidence. For investors coc is the rate of return on investments and loans provided by investors and lenders. Value of company from managing their resources is perceived as the success of a company by investors. Information about coc can minimize the differences in the objectives of the two parties (principal and agent). Higher coc or risk perceived positively by the market since it indicates that the corporation can give return that exceeding corporation coc value (Kurniasih et al., 2022). Gomes et al. (2019) proves that increase in firm value happen when coc decreased. Studies conducted by Titisari et al. (2019) revealed that listed corporations in IDX on 2010-2016 period experienced decrease in their firm value when coc value is high. Sattar (2015) concluded that firm value negatively correlated with the weighted average cost of capital.

H1: Cost of capital has an influence on firm value.

An important component for market value is investment opportunity set (ios) or investment opportunity since this component can affect the way managers, owners, investors, and creditors view the company. Future expenses set by the management can impact the amount of investment opportunities, which at this time are investment choices that are expected to generate greater returns (Ningsih, 2023). Investment opportunities can strongly influence firm value that formed through stock market value indicators. In accordance with signaling theory, company value can be increased if there is positive signal about corporation future growth that indicated by the existence of investment opportunities (Febrianty & Mertha, 2021; Frederica, 2019). Price-based ios proxy, namely market to book value of equity ratio, used as ios proxy in this research. The premise is that the future return on corporation's investment will be greater than the expected return on its equity from market assessment (Sampurna & Romawati, 2020). In research Sampurna & Romawati (2020), Afridi et al. (2022), Tangngisalu et al. (2023), Sudiyatno et al. (2023), Wulandari & Trinawati (2022) concluded that firm value can be significantly increased with the presence of ios. From the explanation given, the hypothesis developed as follows:

H2: Investment opportunity set has an influence on firm value.

Decision related to the funding composition in a company is called capital structure. This research used funding composition that calculated from the amount of debt compared to private capital in a company to measure capital structure, proxied by the debt to equity ratio (Angela et al., 2024; Sihombing & Angela, 2024). A balanced capital structure can provide greater financial flexibility for the company and can allow it to take greater investment opportunities or better deal with unexpected financial pressures (Prasetya & Susilowati, 2024). Agustin et al. (2022) concluded from their research that firm value can be influenced by capital structure. Since it immediately affects the corporation financial condition, capital structure, which describe the ration of external capital or long-term and short-term debt to personal capital, is essential for all corporations. Improvement in corporation performance and increase in firm value can be achieved with the optimal capital structure. Research by Luu (2021) conducted on chemical companies in Vietnam concluded that companies with high debt will have an impact on decreasing firm value. Based on this explanation, the hypothesis developed is as follows:

H3: Capital structure has an influence on firm value.

The importance to keep the company survive can be achieved by interrelated result from increasing both profits and firm value. Amount of profitability generated, which is the measurement of company financial performance, can also influenced firm value. One of the accounting tools to measure financial performance is to use profitability ratios. The ability of corporations to generate profit or the measurement on how effective corporation management is called profitability (Wirawan & Angela, 2024). Obtain a return for their investment is investor goal. Investors would have a high expectation to get high return if the corporation can generate higher profit (Evania & Angela, 2024). Widiastari & Yasa (2018) states that corporation value could increase if investor perceived positive signal in the corporation future prospect that indicate by high profitability. The findings of research conducted by Rofifudin et al. (2023), Husain et al. (2023), Iswajuni et al. (2018), Hafidh & Priono (2022) found that increase in firm value happen in line with roa, indicating that roa has a significant positive effect on firm value. This research utilizing return on assets (roa) as financial performance measurement since measurement on how the companies utilize their asset to generate profits can be done with this ratio.

In this research, researchers examine financial performance role as a moderating variable in the interaction of firm value with the cost of capital, investment opportunities, and capital structure. High financial performance indicates that the company has high profits, which encourages managers to develop the company by investing. Managers become optimal in determining external funding in good consideration. Managers will consider using internal funds due to high share ownership in the company. This shows moderation role can be done by financial performance in the interaction between cost of capital, investment, and capital structure on firm value (Prayitno et al., 2020; Umbarwati & Fachrurrozie, 2018). From the explanation earlier, this research proposed hypothesis as follows:

H4: Financial performance moderates the effect of coc on firm value.

H5: Financial performance moderates the effect of ios on firm value.

H6: Financial performance moderates the effect of cs on firm value.
Figure 2 exhibit this research model as follows:

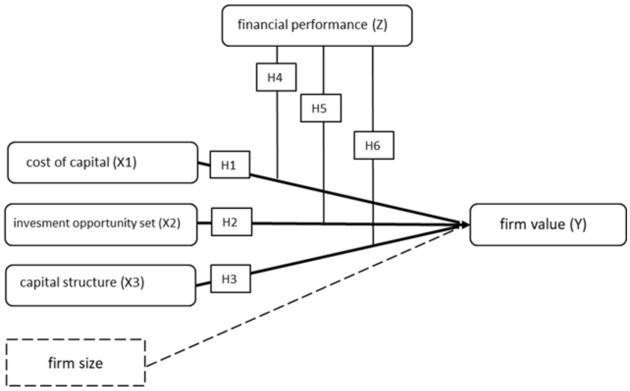

Figure 2. Research Model

METHODS

In this study, the entire population of listing companies in Indonesia during the five-year period from 2019-2023 was used. The five year time span is considered sufficiently representative to analyse trends and relevant to current conditions. The sample used in this study was selected using purposive sampling method with the aim of obtaining a representative sample in accordance with the specified criteria (Ghozali, 2018), namely: listing companies in Indonesia for the period 2019-2023, publishing annual reports consecutively from 2019-2023, presenting complete data needed for research. Corporation financial statements for 2019-2023, which is a secondary data type, utilized in this research. Financial data obtained through a financial market data provider, namely Thomson Reuters Eikon (Refinitiv) can be accessed at https://www.refinitiv.com, industry data classification based on the Global Industry Classification Standard (GICS).

Cost of capital, investment opportunity set, and capital structure are utilized as this research independent variables (X). Firm value utilized as dependent variable (Y). Moderating variable (Z) is financial performance. The control variable is firm size. This research variable can be defined in more detailed as follows:
Firm value is proxied by Tobin's Q (Angela et al., 2023; Titisari et al., 2019).
Weighted average cost of capital Cost of capital is chosen to proxy cost of capital (Dobrowolski et al., 2022; Yuliah et al., 2023)
Market to book value of equity is utilized to proxy investment opportunity set (Anggraini & Nyale, 2022)(Dharmawan & Riza, 2019)(Tangngisalu et al., 2023).
Debt to equity ratio is chosen to proxy capital structure (Agustin et al., 2022; Rachmadevi et al., 2023).
Return on assets is utilized as the proxy for financial performance (Meilyani & Angela, 2024; Wirawan & Angela, 2024).
Firm size is proxied using ln total assets (Chakkravarthy et al., 2024; Rahmadhani et al., 2024).

Multiple linear regression is chosen to analyze research data with moderating variables so that moderated regression analysis (MRA) was carried out, the statistical application used was SPSS, the research formula was as follows:

$$FV = \alpha + \beta_1 COC + \beta_2 IOS + \beta_3 CS + \beta_4 FP + \beta_5 MOD1 + \beta_6 MOD2 + \beta_7 MOD3 + \beta_8 FSIZE + e$$

500

Commented [A7]: How do researchers ensure that the 2019-2021 data can reflect data with the same conditions as 2022-2023, even though a pandemic occurred?

Commented [A8R7]: researchers ensure data consistency by using relative financial ratios that reflect the fundamental performance of companies, rather than single nominal values that are easily influenced by macroeconomic conditions. The use of the entire population of listed companies allows for natural distribution of inter-period variation, so that the effects of the pandemic do not cause structural bias.

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12.3

Where:
FV: firm value
COC: cost of capital
IOS: investment opportunity set
CS: capital structure
FP: financial performance
MOD1: interaction of coc with financial performance
MOD2: interaction of ios with financial performance
MOD3: interaction of cs with financial performance
FSIZE: firm size
e: residual value

Before conducting hypothesis testing with Moderated Regression Analysis, the data has been tested with classical assumptions such as normality, multicollinearity, heteroscedasticity, autocorrelation, and goodness of fit model.

RESULTS AND DISCUSSION

All listed companies in Indonesia become this research population with an observation period of 5 years (2019-2023). Table 1 exhibit the process and result for determining this research sample.

Table 1. Sample selection

Description	Total
Companies listing in Indonesia (refinitiv eikon data)	953
Companies that present incomplete data during the observation period (2019-2023)	(581)
Companies that present complete data and meet the sample criteria	372
Total research data (2019-2023)	1860
Total outlier research data	(255)
Total research data after outliers	1605

Source: researcher own data, 2024

Table 2 presented the descriptive statistics results from the sample data obtained.

Table 2. Results of descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FV	1605	0.11	95.95	1.4272	4.23001
COC	1605	-0.05	0.3	0.0739	0.04479
IOS	1605	0.03	101.26	1.5528	4.80553
CS	1605	0.06	837.49	78.5911	94.92772
FP	1605	-25.75	45.43	2.8304	7.33595
FSIZE	1605	10.78	19.92	15.2123	1.67004

Source: research data, 2024

The results of descriptive statistics show variations between companies for each variable. Firm value in sample companies has a minimum value of 0.11, a maximum value of 95.95, an average value of 1.43 and a standard deviation of 4.23. Since the average value of firm value is above 1, this can indicate that the firm value in the sample is relatively good. Besides that, its high standard deviation indicates more diverse firm value in research samples. Cost of capital in sample companies has a minimum value of -0.05, a maximum value of 0.3, an average value of 0.07 and a standard deviation of 0.04. This result exhibit low value and small data variations for the cost of capital variable. The investment opportunity set in the sample companies has a minimum value of 0.03, a maximum value of 101.26, an average value of 1.55, and a standard deviation of 4.81. This result exhibit that firm in sample have varying level of investment opportunity set. Minimum value of the capital structure in the sample companies observe as 0.06 and the maximum value observe is 837.49 with an average value of 78.59 and a standard deviation of 94.92. This result gives an indication of huge fluctuation in the capital structure among the sample companies. The financial performance in the sample companies has a minimum value of -25.75 and a maximum value of 45.43 with an average value of 2.83. Financial performance exhibit high variation among the research sample since the standard deviation value is 7.33. The firm size in the sample companies has a minimum value of 10.78, a maximum value of 19.92, an average value of 15.21. Firm size, which is proxied by natural logarithm of total assets, exhibit a standard deviation value of 1.67 that give the indication of high variation among the samples.

Classical assumption test also conducted to the research data, which consist of the normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. From table 3, it can be concluded that this research data are met the criteria to pass classical assumption test.

Table 3. Data testing results

Classical Assumption	**Result**			**Description**
Normality test (Kolmogorov-Smirnov)	Asymp. Sig. (2-tailed) 0.080			normal data
Multicollinearity test (VIF)		Tolerance	VIF	there is no multicollinearity
	COC	0.844	1.185	
	IOS	0.935	1.069	
	CS	0.827	1.208	
	ROA	0.419	2.385	
	MOD1	0.495	2.020	
	MOD2	0.814	1.228	
	MOD3	0.935	1.070	
	FSIZE	0.833	1.200	
Autocorrelation test (Runs test)	Asymp. Sig. (2-tailed) 0.128			No autocorrelation problem observed
Heterocedasticity test (Glejser)	COC	0.160		there is no heterocedasticity
	IOS	0.071		
	CS	0.201		
	ROA	0.109		
	MOD1	0.058		
	MOD2	0.870		
	MOD3	0.113		
	FSIZE	0.066		
Goodness of fit	sig.	0.000		The model is suitable for use as research

Source: research data, 2024

Table 4 represented the hypothesis testing in this research.

Table 4. Hypothesis testing results

Variable	coefficient	t	sig	result
COC	-0.454	-15.160	0.001	significant
IOS	0.001	0.660	0.509	not significant
CS	-0.004	-5.040	0.000	significant
FP	0.069	9.664	0.000	significant
MOD1	0.935	120.738	0.000	significant
MOD2	0.001	0.444	0.657	not significant
MOD3	0.011	2.472	0.014	significant
FSIZE	0.003	4.429	0.000	significant

Source: researcher own data, 2024

Results of the hypothesis testing in Table 4 can be interpreted as follow:
H1 is accepted: the cost of capital exhibit negative direction with significance value of 0.001 < 0.05. Indication can be made that cost of capital negatively impact firm value significantly.
H2 is not accepted: Significance value of investment opportunity set shown value of 0.509 > 0.05 with a positive direction. The result exhibit that firm value can be increased with investment opportunity set in corporation, but the impact is not significant.
H3 is accepted: capital structure has a negative direction with a significance value of 0.000 < 0.05. The result give insight that firm value will be decreased significantly with the present of high capital structure.
H4 accepted: the interaction of cost of capital with financial performance (mod1) has a significance value of 0.000 < 0.05. This means that financial performance can moderate the relationship between coc and firm value.
H5 is not accepted: the interaction of the investment opportunity set with financial performance (mod2) has a significance value of 0.657 > 0.05. This means that financial performance fails to moderate the relationship between IOS and firm value.
H6 is accepted: the interaction of capital structure with financial performance (mod3) has a significance value of 0.014 < 0.05. This means that financial performance can moderate capital structure and firm value interaction.

Table 5, which exhibit the result of coefficient determination test, shows the increasing value from 42.2% to 95.1% in the adjusted R-square value after including the moderating variable. This result shows that relationship between the independent and dependent variables get significant impact from the addition of moderating variable. This increase means that the model of regression becomes better at answering the variation in the dependent variable after taking into account the moderating variable.

Table 5. Coefficient Determination Test

	without moderation	with moderation
Adj. R-square	0.422	0.951

Source: research data, 2024

The effect of cost of capital on firm value

The hypothesis testing shows that firm value gets affected by cost of capital (H1 accepted). The result shows that coc, as measured by wacc, give adverse impact on firm value, meaning that the increase in firm value can be happened if the cost of capital is lower and vice versa. In order to construct a good corporate image for investor, management must minimise coc to increase firm value. Companies can pursue more investment projects with higher rate of return than the cost of capital if they can obtain capital at a cheaper budget and make them spend less money to pay interest or dividends so as to increase the efficiency of capital allocation and improve growth prospects that will be appreciated by the market, this can maximise firm value. In addition, a lower cost of capital directly affects the company's net profit. Reduced interest costs on debt will increase net profit after tax which will increase firm value because net profit is an important component in company valuation. This event will send positive signal to the market that the company has healthy financial condition and good prospects in the future, which is in line with signalling theory. The risk faced by firm can be reflected in company cost of capital. A higher level of cost of capital usually reflects higher risk. By reducing the cost of capital, companies show that they can manage risk well. Increase in firm value and investor confidence will become the outcome from this situation. This research results proving that firm value can increase when there is decrease in coc value which are in line with previous research conducted by Ibrahim (2020), Titisari et al. (2019), and Gomes et al. (2019).

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The impact to firm value from investment opportunity set

The result from hypothesis testing imply that firm value can increase with the presence of investment opportunity set despite the effect is not significant (H2 is not accepted). The result shows the positive result from this variable interaction, indicating that firm value will increase if there is also an increase in investment opportunity set despite the increase to firm value is not significant. Conclusion can be derived that investment opportunity is not the main predictor in increasing firm value. Company market value will increase since short-term orientated investors will consider investment opportunities to take a long time to provide returns that make them pay more attention to the company's current performance and stock fluctuations. Investors do not have sufficient information about the investment opportunities taken by the company because it is private information, this uncertainty makes them reluctant to link investment opportunities with an increase in firm value. The results of this research are in line with research conducted by Prayitno et al. (2020), Kebon & Suryanawa (2017), Tarima et al. (2016).

The effect of capital structure on firm value

The results from this research show that firm value get affected by capital structure (H3 accepted). Negative direction observed in the capital structure interaction with firm value. This implied that firm value would decrease if the company's debt higher and vice versa. Debt to equity ratio used to measure capital structure. Positive signal from a company with a low debt ratio can be perceived by investors since the lower of this ratio exhibit that a company is healthy and suitable as a place to invest. Conversely, higher risk of company experiencing financial difficulties to pay off loan principal and interest costs is more prominent if the company have high debt ratio due to the insufficient amount of assets owned to guarantee its debts. The findings from this research are consistent with previous research by Agustin et al. (2022), Ibrahim (2020), Sudiyatno et al. (2023) dan Luu (2021).

The role of financial performance as a moderating variable

Result of this research exhibit that moderation role successfully done by financial performance in cost of capital and firm value interaction (H4 accepted). In this study, the role of financial performance as a moderating variable is to strengthen the positive effect of low coc on increasing firm value. Firm value decrease with the presence of high coc with means that higher firm value can be achieved with lowering the cost of capital. Efficiency and effectiveness in capital structure exhibit with lower wacc value since this indicate lower cost required to fund the company's project. Strengthens the positive effect of low capital costs on increasing firm value is the financial performance role, which measured by profitability as a moderating variable, may be due to the fact that good profits are generated from low costs. In line with signal theory, if investors see a low cost of capital, it is indicating efficiency and effectiveness in the capital structure and perceived as a good signal. When investors see good financial performance, firm value can increase since it will increase investor confidence to invest in the company. If the company has a high cost of capital but is offset by high corporate profits, then the high cost of capital does not decrease corporation's value because the company is still able to generate enough profit to satisfy investors.

Moderation role of financial performance is not observed in interaction of investment opportunity set and firm value (H5 is not accepted). Profitability cannot moderate the interaction between investment opportunities and firm value. Impact of investment opportunities on firm value does not depend on the level of corporate profitability observed in research result. Companies can still make investment decisions even though the company's performance is not generating high profits if a company has good financial flexibility, by using free cash flow, investment opportunities can still be carried out for company expansion. Prayitno et al. (2020) also stated that the interaction of investment opportunities with firm value can be moderated by financial performance.

H6 in this research is accepted which means that financial performance moderates the interaction of capital structure and firm value. Moderating variable in this research, which is financial performance have a role to weaken the negative effect of high capital structure on the decline in firm value. Debt to equity ratio (der), which is a proxy for capital structure, influence firm value negatively, meaning that firm value will decrease if the company's debt is high. In line with signal theory, investors are reluctant to invest in companies with high debt ratios since it gives bad signals to investors. Moderating role from financial performance, which measured by profitability, to weakens the negative effect of high debt on the decline in firm value. This may be because high profitability indicates the company's ability to generate sufficient profits to cover interest and principal payments on debt, indicating that debt is being used productively to support business growth. Strong profitability which suggests that investors will see the corporation prospect favorably going forward and will be motivated to react to the encouraging signals provided. When investors see companies with high debt, but show good financial performance, investors can interpret that the company uses debt to develop its business so that it is considered a natural thing. Therefore, the role of financial performance weakens the negative relationship between capital structure and firm value. Other research that shows that financial performance can moderate the interaction of capital structure with firm value is Sari et al. (2020), Prayitno et al. (2020), Bahriah et al. (2022).

CONCLUSION

Conclusion from this research can be stated as follows: firm value negatively affected by cost of capital and capital structure, firm value positively impacted by investment opportunity set despite the effect is not significant, financial performance successfully moderates the cost of capital and capital structure interaction on firm value, investment opportunity set and firm value interaction is not moderated by financial performance. Conducting this research cannot be separated from limitations such as not all companies in Indonesia provide complete data and there are also outlier data so that most of the companies that should have been sampled had to be excluded. Since some financial ratios, such as cost of capital ratio, investment opportunities, capital structure, and financial performance, have been shown to affect firm value, management are encouraged to focus on them. Based on signal theory, efficiency in capital costs, increasing investment opportunities, and reducing debt ratios can provide good signals to investors so that investors want to invest that affects to raise the value of the corporation. Suggestions for future researchers are to add variables outside of financial ratios such as Environmental, Social, and Governance (ESG) disclosures to develop factors in increasing firm value.

ACKNOWLEDGEMENTS

In order for this research to be performed successfully, the researcher would like to thank LPPM Maranatha Christian University, Accounting Study Program, Faculty of Law and Digital Business, Maranatha Christian University, for their material and moral contributions.

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6. Bukti konfirmasi submit revisi kedua, respon kepada reviewer, dan artikel yang diresubmit (31 Oktober 2025)

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Kepada Yth. **Pengelola Jurnal JRAK** Di tempat Salam hormat, Terima kasih kami ucapkan atas review yang diberikan untuk penyempurnaan artikel kami menjadi lebih baik. Berikut ini kami lampirkan artikel kami yang sudah di revisi, kami juga melampirkan file tanggapan dan hasil Turnitin artikel kami (16%), semoga dapat diterima dengan baik. Terima kasih Salam, Aurora Angela Revisi reviewer JRAK Aurora Angela & Oktavianti.docx Turnitin JRAK Aurora Angela & Oktavianti Determinants Of Firm Value In Indonesia.pdf Tanggapan A-16. jrak-review-assignment-41576-Article+Text-153049.docx Tanggapan B-jrak-review-assignment-41576-Article+Text-153049.docx	aangela 2025-10-31 02:47 PM

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Reviewer's Attachments — Search

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Revisions — Search | Upload File

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Review Discussions — Add discussion

Tanggapan Hasil Review Kedua (Reviewer A dan Reviewer B)

No komen	Isi komentar	Sebelum revisi	Setelah revisi	Tanggapan
W1	Financial performance is novelty, but in the hypothesis section it says that there were previous researchers who made it a moderation?	This research utilizes the role of financial performance in moderating each relationship.	This research utilizes the role of financial performance as a moderating variable in the relationship between cost of capital and company value, which has rarely been studied in Indonesia.	in file revision, novelty of the research has been revised to the role of financial performance as a moderating variable in the relationship between cost of capital and company value, which has rarely been studied in Indonesia.
W3	Variable measurement is simply conveyed in the methods section. (check in other hypothesis sections)	Based on signaling theory, there are company and investor perspectives on cost of capital (coc). For companies, coc is an expectation of profit on the potential of the project and its business prospects (Diantimala et al., 2022). Weighted average cost of capital (wacc) is the proxy of CoC, which is the cost of capital calculated by considering the proportion of equity and debt in the company's capital structure (Dobrowolski et al., 2022; Pavel, 2018). In accordance with signaling theory, company value can be increased if there is positive signal about	Based on signaling theory, there are company and investor perspectives on cost of capital (coc). For companies, coc is an expectation of profit on the potential of the project and its business prospects (Diantimala et al., 2022). The cost of capital considering the proportion of equity and debt in the company's capital structure (Dobrowolski et al., 2022; Pavel, 2018). In accordance with signaling theory, company value can be increased if there is positive signal about	The explanation of the research proxy in the hypothesis has been removed. The proxy is explained in the research methods section.

		corporation future growth that indicated by the existence of investment opportunities (Febrianty & Mertha, 2021; Frederica, 2019). Price-based ios proxy, namely market to book value of equity ratio, used as ios proxy in this research. The premise is that the future return on corporation's investment will be greater than the expected return on its equity from market assessment (Sampurna & Romawati, 2020).	corporation future growth that indicated by the existence of investment opportunities (Febrianty & Mertha, 2021; Frederica, 2019).	
		Decision related to the funding composition in a company is called capital structure. This research used funding composition that calculated from the amount of debt compared to private capital in a company to measure capital structure, proxied by the debt to equity ratio (Angela et al., 2024; Sihombing & Angela, 2024).	Decision related to the funding composition in a company is called capital structure. This funding composition that calculated from the amount of debt compared to private capital in a company to measure capital structure (Angela et al., 2024; Sihombing & Angela, 2024).	
		The findings of research conducted by Rofifudin et al. (2023), Husain et al. (2023), Iswajuni et al. (2018), Hafidh & Priono (2022) found that increase in firm value happen in line with roa, indicating that roa has a significant positive effect on firm value. This research utilizing return on assets (roa) as financial performance measurement since measurement on how the companies utilize their asset to	The findings of research conducted by Rofifudin et al. (2023), Husain et al. (2023), Iswajuni et al. (2018), Hafidh & Priono (2022) found that increase in firm value happen in line with roa, indicating that roa has a significant positive effect on firm value.	

		generate profits can be done with this ratio.		
W5	Still weak in making FP moderate (not independent)	In this research, researchers examine financial performance role as a moderating variable in the interaction of firm value with the cost of capital, investment opportunities, and capital structure. High financial performance indicates that the company has high profits, which encourages managers to develop the company by investing. Managers become optimal in determining external funding in good consideration. Managers will consider using internal funds due to high share ownership in the company	In this research, researchers examine financial performance role as a moderating variable in the interaction of firm value with the cost of capital, investment opportunities, and capital structure. If a company has high capital costs but this is offset by strong financial performance, then the high capital costs do not have a particularly negative impact on the company's value because the company is still able to generate sufficient profits to satisfy investors. When a company has many investment opportunities, strong financial performance enables it to execute these opportunities well, thereby increasing the company's value. If a company's debt to equity ratio is high, but its profits are also high, the negative impact of debt on firm value is weakened, as the market believes the company is capable of managing its debt well. High financial performance indicates that the company has high profits, which encourages managers to develop the company by investing. Managers become optimal in determining external funding in good consideration. Managers will consider	in the revision file has been added.

			using internal funds due to high share ownership in the company.	
W7	What data is not fulfilled, up to more than 50% of the number of companies?	Companies listing in Indonesia (refinitiv eikon data): 953 Companies that present incomplete data during the observation period (2019-2023): (581) Companies that present complete data and meet the sample criteria: 372	Companies listing in Indonesia (refinitiv eikon data): 953 Financial Companies: (162) Companies that present incomplete data during the observation period (2019-2023): (419) Companies that present complete data and meet the sample criteria: 372	162 financial companies were excluded from the sample because their characteristics differed from those of non-financial companies. Companies that did not have complete wacc data and other data in Refinitiv and companies that had not been listed for five consecutive years were also excluded from the sample. In the revision, the table has been updated.
W9	What are the unanalyzed results for displaying FP and FSIZE?	In hypothesis testing, FP and Fsize are not explained.	Financial performance has a significance value of 0.000 < 0.05 with a positive direction. This means that financial performance has a	has been added and explained in the revision file

			significant positive effect on firm value. Firm size in this study, as a control variable, showed results 0.000 < 0.05 that had a significant effect on company value. By controlling firm size, the researchers ensured that the main effects of coc, ios, and cs on firm value were not distorted by differences in company scale.	
W11	What does not significant mean? Is it still necessary to convey the coefficient?	The result from hypothesis testing imply that firm value can increase with the presence of investment opportunity set despite the effect is not significant (H2 is not accepted). The result shows the positive result from this variable interaction, indicating that firm value will increase if there is also an increase in investment opportunity set despite the increase to firm value is not significant.	The result from hypothesis testing imply that firm value can increase with the presence of investment opportunity set despite the effect is not significant (H2 is not accepted). Conclusion can be derived that investment opportunity is not the main predictor in increasing firm value.	the explanation of the coefficients has been removed in the revision file.
A1	Pay attention to the writing of the sentence	Riset ini termasuk riset dengan pendekatan kuantitatif. Digunakan Moderated Regression Analysis untuk analisis data. Data riset menggunakan seluruh populasi perusahaan listing yang ada Indonesia dengan periode pengamatan tahun 2019-2023. Sampel riset dengan purposive sampling diperoleh 1605 data.	Riset ini termasuk riset dengan pendekatan kuantitatif. Moderated Regression Analysis digunakan untuk analisis data penelitian. Data riset menggunakan seluruh populasi perusahaan listing yang ada Indonesia dengan periode pengamatan tahun 2019-2023. Sampel riset dengan purposive sampling diperoleh 1605 data.	in revision file, the sentence has been corrected

A3	What explanation makes researchers believe that financial performance can be a moderating variable?	This research presented its novelty with using financial performance to moderate the interaction between each variable in this research.	Corporation good performance can be indicated by higher roa because this indicating the efficiency of company to utilize its assets in operational activities. Interaction between each independent variable to the dependent variable in this research are expected to be moderated by financial performance. If a company has high capital costs but this is offset by high profits, then the high capital costs do not have a particularly negative impact on the company's value because the company is still able to generate sufficient profits to satisfy investors. When a company has many investment opportunities with high roa, these investment opportunities can be executed well, thereby increasing the company's value. If a company's debt to equity ratio is high but its profits are also high, the negative impact of debt on firm value becomes weaker because the market believes that the company is capable of managing its debt well.	the explanation has been added in the revision file
A5	Why is only ROA an indicator for assessing financial performance?	Financial performance measured by ROA.	Financial performance measured by ROA because this ratio is the most common and comprehensive measure for assessing a company's efficiency in generating profits. It describes a company's ability to	the explanation has been added in the revision file

			generate net profits based on its total assets, known as earnings power, which is a key indicator of operational profitability.	
A7	How do researchers ensure that the 2019-2021 data can reflect data with the same conditions as 2022-2023, even though a pandemic occurred?	In this study, the entire population of listing companies in Indonesia during the five-year period from 2019-2023 was used.	In this study, the entire population of listing companies in Indonesia during the five-year period from 2019-2023 was used. The five year time span is considered sufficiently representative to analyse trends and relevant to current conditions.	researchers ensure data consistency by using relative financial ratios that reflect the fundamental performance of companies, rather than single nominal values that are easily influenced by macroeconomic conditions. The use of the entire population of listed companies allows for natural distribution of inter-period variation, so that the effects of the pandemic do not cause structural bias.

A9	Can be presented in table form to make it more informative	The operational definitions of the variables have been included in the descriptive section.	The operational definitions of the variables have been presented in tabular form.	table has been created in revision file
A11	Can use the latest research, maximum the last 5 years	This research results proving that firm value can increase when there is decrease in coc value which are in line with previous research conducted by Ibrahim (2020), Titisari et al. (2019), and Gomes et al. (2019).	This research results proving that firm value can increase when there is decrease in coc value which are in line with previous research conducted by Meilyani & Angela, (2024), Ibrahim (2020), Titisari et al. (2019), and Gomes et al. (2019). This research results inconsistent with Cahyadi & Angela, (2025), (Putri & Husaini, 2024).	we have read references from articles published in the last five years, but the results are not consistent with the results of this study. In the revision file, we have added these inconsistent articles to this section.

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Website:
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*Correspondence:
aurora.angela@maranatha.edu

DOI:

Citation:

Article Process
Submitted:
Bulan tanggal, tahun

Reviewed:
Bulan tanggal, tahun

Revised:
Bulan tanggal, tahun

Accepted:
Bulan tanggal, tahun

Published:
Bulan tanggal, tahun

Office:
Department of Accounting
University of
Muhammadiyah Malang
GKB 2 Floor 3.
Jalan Raya Tlogomas 246,
Malang, East Java,
Indonesia

P-ISSN: 2615-2223
E-ISSN: 2088-0685

Article Type: Research Paper

DETERMINANTS OF FIRM VALUE IN INDONESIA: THE ROLE OF FINANCIAL PERFORMANCE AS MODERATION

Aurora Angela[1]*, Oktavianti[2]

Affiliation:
[1,2]Accounting Department, Maranatha Christian University, Bandung, Indonesia

ABSTRACT

Purpose: This research has purpose to provide empirical evidence about how cost of capital, investment opportunity set, and capital structure impacting value of corporations and investigate whether financial performance can moderate that interaction.

Methodology/approach: Quantitative approach is the nature for this research. Moderated Regression Analysis utilized for analyzing research data. This research observes all of the listed corporations in Indonesia during 2019-2023. The research sample with purposive sampling obtained 1605 data.

Findings: The result exhibit that cost of capital and capital structure decrease firm value. On other hand, firm value is not impacted by investment opportunity set. Moderation role by financial performance observed in interaction among cost of capital and capital structure on firm value. Despite that, the interaction of investment opportunity set on firm value do not moderate by financial performance.

Practical implications: This research offer practical implication for company managers when managing corporation finance, determine the decision, and choose the corporate strategy that will be increasing value of firm. In addition, this research is also useful for helping potential investors and investors decide the corporation that will be their investment choice.

Originality/value: This research utilizes the role of financial performance as a moderating variable in the relationship between cost of capital and company value, which has rarely been studied in Indonesia.

Keywords: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

ABSTRAK

Tujuan penelitian: *Menguji dan membuktikan secara empiris bagaimana pengaruh cost of capital, investment opportunity set, capital structure terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel moderasi.*

Metode/pendekatan: *Riset ini termasuk riset dengan pendekatan kuantitatif. Moderated Regression Analysis digunakan untuk analisis data penelitian. Data riset menggunakan seluruh populasi perusahaan listing yang ada Indonesia dengan periode pengamatan tahun 2019-2023. Sampel riset dengan purposive sampling diperoleh 1605 data.*

Hasil: *Cost of capital dan capital structure berpengaruh negatif terhadap firm value, firm value tidak dipengaruhi oleh investment opportunity set, financial performance berhasil memoderasi hubungan cost of capital dan capital stucture terhadap firm value, financial performance gagal memoderasi interaksi investment opportunity set terhadap firm value.*

Implikasi praktik: *Penelitian ini bermanfaat bagi pengelola perusahaan sebagai bahan pertimbangan dalam mengelola keuangan dan pengambilan keputusan untuk menentukan strategi perusahaan dalam meningkatkan nilai perusahaan. Selain itu penelitian ini juga bermanfaat bagi masyarakat khususnya calon investor dan investor sehingga dapat membantu untuk pengambilan keputusan investasi yang tepat.*

Orisinalitas/kebaharuan: *Penelitian ini menyajikan peran kinerja perusahaan sebagai variabel moderasi dalam hubungan antara cost of capital dan nilai perusahaan, yang masih jarang diteliti di Indonesia.*

Kata kunci: *Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.*

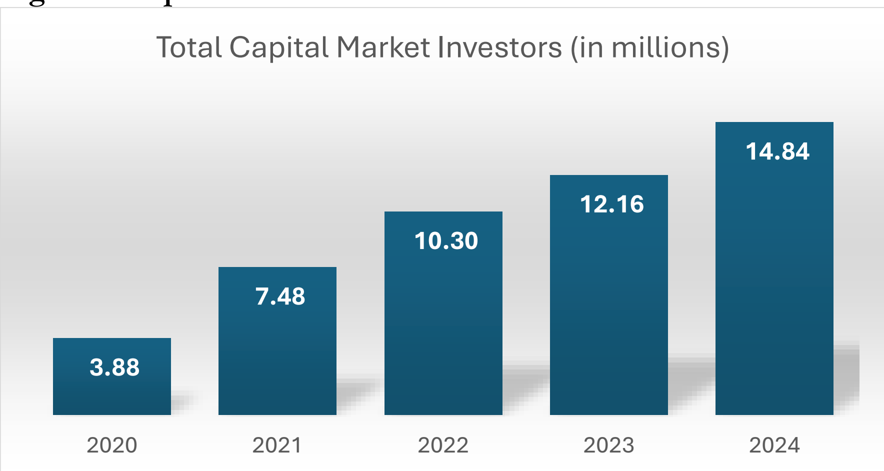
INTRODUCTION

Indonesia is an attractive country for investors. Since the last few years, Indonesia have seen the rise in their investment achievements. The attractiveness of Indonesia for investors is the potential for high economic growth. Investment in Indonesia is more easy to do since

Indonesia have a large and growing population which means a large market potential, has a variety of natural resources, and strong government support (Pangastuti, 2023). Report of the increase in total investor have been made by the Indonesia Stock Exchange over the last 5 years from 2020 to 2024 shown in figure 1. In 2020, 3.88 million investors are stated as the total number of investors in the Indonesian capital market, in 2021 it rose to 7.48 million investors, in 2022 it rose to 10.30 million investors, then in 2023 it rose again to 12.16 million investors, and in 2024 it rose again to 14.84 investors (KSEI, 2024; marketnews.id, 2024; Pratomo, 2024). IDX also reported that market capitalization over the past five years has also increased, meaning that there is optimism from market players and stakeholders in the Indonesian capital market. Prospective investors and investors consider a company to be of quality if the company's value is good (Budiharjo, 2019). Therefore, companies have an obligation to optimize company value through financial management and corporate governance (Meilyani & Angela, 2024).

Corporation usually have the goal to optimize the value of their corporations. Shareholder will be more prosperous if their company have higher value. Firm value is important to maintain by corporation since investor perception can be affected by firm value which reflects the performance of the corporations (Angela et al., 2023). Investors can perceive a positive signal to invest in corporation if there is an increase in value of company value which leads to the investor willingness to pay higher with high purchasing expectations (Atmaja & Astika, 2018; Ha & Minh, 2020). Basically, investors treat company value as a very fundamental factor before deciding their investment decision in certain companies (Saona & Martín, 2018). In running its business, management needs to considering company value because company value have correlation with company's stock price that become the assessment that can describe the success of the company (Dzahabiyya et al., 2020; Hamid & Elika, 2022). The company's value and their stock price is closely related, so the corporate value can be determined by the development of their stock price which can affect investors' investment decision making (Sudiyatno et al., 2020). Many factors can affect firm value and this study examined several factors including cost of capital, investment opportunity set, capital structure as independent variables, the role of financial performance as a moderating variable, including firm size as a control variable. The research was conducted in five years observation period (2019-2023) at all Indonesia corporation that indexed in Indonesia Stock Exchange.

Figure 1. Capital Market Investors 2020-2024



Source: Research Data, 2024

The cost of capital is an important factor affecting firm performance. The activity to raise fund from several sources, such as debt, equity, or other financing options can incur cost for corporations and this refer as cost of capital (Ochoki et al., 2023). Management must minimize the cost of capital to increase company value to make corporations appealing for investors (Titisari et al., 2019). Effective capital budgeting will be an important element of business strategy to generate value for shareholders and therefore increase profitability and firm value at the same time (Gomes et al., 2019). Minimizing cost and increasing firm value needs to be done by companies, so they must pay attention to the cost of capital in making investment and financing decisions (Putri & Husaini, 2024).

Future profits can be generated by investment opportunities. Stakeholders have an interest in seeing business development through investment opportunities. For investors, the potential to benefit from company growth will increase along with company growth. Company expansion is expected to generate substantial future profits and make this perceive as favorable potential for investors (Marjohan et al., 2023). Investors will be convinced by companies with growing business prospects since it can increase shareholder wealth. This will increase the corporation shares demand and thus will be increasing company's value due to expanding market share demand. Investment opportunities will be responded to as a positive signal by investors and have an effect on increasing company value (Chabachib et al., 2020; Tangngisalu et al., 2023).

Managing companies operational activities always need a capital structure. Capital structure is very important to maintain and ensure the continuity of the company. The amount of capital needed is determined by all company activities and this make an optimal capital structure is imperative to support all operational activities. Raising internal and external funds can determine whether capital structure is balance Wardani or not. A balance among debt and capital can be optimized by using an ideal composition of internal and external funds (Wardani & Subowo, 2020). Financial risks can be avoided in companies with a good capital structure whose impact increases company value. In other side, company value can be decreased if companies using high debt (Luu, 2021).

This research has the purpose to examine how company value can be affected by the cost of capital, investment opportunity set, capital structure. This research presented its novelty with using financial performance as a moderating variable, which is still rarely used in research in Indonesia, particularly the role of financial performance in moderating the relationship between cost of capital and firm value. Financial performance measured by return on assets because this ratio is the most common and comprehensive measure for assessing a company's efficiency in generating profits. It describes a company's ability to generate net profits based on its total assets, known as earnings power, which is a key indicator of operational profitability (Mukhtaruddin et al., 2019). Corporation good performance can be indicated by higher roa because this indicating the efficiency of company to utilize its assets in operational activities. Interaction between each independent variable to the dependent variable in this research are expected to be moderated by financial performance. If a company has high capital costs but this is offset by high profits, then the high capital costs do not have a particularly negative impact on the company's value because the company is still able to generate sufficient profits to satisfy investors. When a company has many investment opportunities with high roa, these investment opportunities can be executed well, thereby increasing the company's value. If a company's debt to equity ratio is high but its profits are also high, the negative impact of debt on firm value becomes weaker because the market believes that the company is capable of managing its debt well. This research presents a data sample of all listed companies in Indonesia with the observation period 2019-2023 as a difference from previous research which only presents samples from certain industrial sectors. Firm size added as control variables in this research to avoid bias in determining effect from independent variables interaction with dependent variable. Importance of this research lies in its usefulness for company managers as a consideration in managing finances and making decisions to determine company strategies in increasing company value. In addition, this research is also useful for helping potential investors and investors to determine the right corporation choose as investment choice.

This research used signaling theory as grand theory. Signaling theory is clues provide to investors about how management views the company's prospects from an action taken by company management. Urgency to provide the external parties with financial statement information and suggestion on how corporation should signal the users of financial statement can be explained by signaling theory. Signaling theory, according to Sutra & Mais (2019) and Evania & Angela (2024), explain that providing positive signals (good news) and negative signals (bad news) to users are financial reports roles. Information about what management has done to realize the wishes of the owner is the form of this signal. Company (agent), principal (investor) and other parties can used signaling theory to reduce information asymmetry by producing quality financial reports. Financial reports are an analysis and assessment process that can help explain the goals a company has achieved. Financial reports can be used to determine the performance and financial condition of the company so that it can predict potential bankruptcy in the future and thus become very important for every company.

Based on signaling theory, there are company and investor perspectives on cost of capital (coc). For companies, coc is an expectation of profit on the potential of the project and its business prospects (Diantimala et al., 2022). The cost of capital considering the proportion of equity and debt in the company's capital structure (Dobrowolski et al., 2022; Pavel, 2018). Companies that are able to reduce their cost of capital tend to have a higher market value, as this reflects efficiency in resource management and stronger investor confidence. For investors coc is the rate of return on investments and loans provided by investors and lenders. Value of company from managing their resources is perceived as the success of a company by investors. Information about coc can minimize the differences in the objectives of the two parties (principal and agent). Higher coc or risk perceived positively by the market since it indicates that the corporation can give return that exceeding corporation coc value (Kurniasih et al., 2022). Gomes et al. (2019) proves that increase in firm value happen when coc decreased. Studies conducted by Titisari et al. (2019) revealed that listed corporations in IDX on 2010-2016 period experienced decrease in their firm value when coc value is high. Sattar (2015) concluded that firm value negatively correlated with the weighted average cost of capital.

H1: Cost of capital has an influence on firm value.

An important component for market value is investment opportunity set (ios) or investment opportunity since this component can affect the way managers, owners, investors, and creditors view the company. Future expenses set by the management can impact the amount of investment opportunities, which at this time are investment choices that are expected to generate greater returns (Ningsih, 2023). Investment opportunities can strongly influence firm value that formed through stock market value indicators. In accordance with signaling theory, company value can be increased if there is positive signal about corporation future growth that indicated by the existence of investment opportunities (Febrianty & Mertha, 2021; Frederica, 2019). In research Sampurna & Romawati (2020), Afridi et al. (2022), Tangngisalu et al. (2023), Sudiyatno et al. (2023), Wulandari & Trinawati (2022) concluded that firm value can be significantly increased with the presence of ios. From the explanation given, the hypothesis developed as follows:

H2: Investment opportunity set has an influence on firm value.

Decision related to the funding composition in a company is called capital structure. This funding composition that calculated from the amount of debt compared to private capital in a company to measure capital structure (Angela et al., 2024; Sihombing & Angela, 2024). A balanced capital structure can provide greater financial flexibility for the company and can allow it to take greater investment opportunities or better deal with unexpected financial pressures (Prasetya & Susilowati, 2024). Agustin et al. (2022) concluded from their research that firm value can be influenced by capital structure. Since it immediately affects the corporation financial condition, capital structure, which describe the ration of external capital or long-term and short-term debt to personal capital, is essential for all corporations. Improvement in corporation performance and increase in firm value can be achieved with the optimal capital structure. Research by Luu (2021) conducted on chemical companies in Vietnam concluded that companies with high debt will have an impact on decreasing firm value. Based on this explanation, the hypothesis developed is as follows:

H3: Capital structure has an influence on firm value.

The importance to keep the company survive can be achieved by interrelated result from increasing both profits and firm value. Amount of profitability generated, which is the measurement of company financial performance, can also influenced firm value. One of the accounting tools to measure financial performance is to use profitability ratios. The ability of corporations to generate profit or the measurement on how effective corporation management is called profitability (Wirawan & Angela, 2024). Obtain a return for their investment is investor goal. Investors would have a high expectation to get high return if the corporation can generate higher profit (Evania & Angela, 2024). Widiastari & Yasa (2018) states that corporation value could increase if investor perceived positive signal in the corporation future prospect that indicate by high profitability. The findings of research conducted by Rofifudin et al. (2023), Husain et al. (2023), Iswajuni et al. (2018), Hafidh & Priono (2022) found that increase in firm value happen in line with roa, indicating that roa has a significant positive effect on firm value.

In this research, researchers examine financial performance role as a moderating variable in the interaction of firm value with the cost of capital, investment opportunities, and capital structure. If a company has high capital costs but this is offset by strong financial performance, then the high capital costs do not have a particularly negative impact on the company's value because the company is still able to generate sufficient profits to satisfy investors. When a company has many investment opportunities, strong financial performance enables it to execute these opportunities well, thereby increasing the company's value. If a company's debt to equity ratio is high, but its profits are also high, the negative impact of debt on firm value is weakened, as the market believes the company is capable of managing its debt well. High financial performance indicates that the company has high profits, which encourages managers to develop the company by investing. Managers become optimal in determining external funding in good consideration. Managers will consider using internal funds due to high share ownership in the company. This shows moderation role can be done by financial performance in the interaction between cost of capital, investment, and capital structure on firm value (Prayitno et al., 2020; Umbarwati & Fachrurrozie, 2018). From the explanation earlier, this research proposed hypothesis as follows:

H4: Financial performance moderates the effect of coc on firm value.

H5: Financial performance moderates the effect of ios on firm value.

H6: Financial performance moderates the effect of cs on firm value.

Figure 2 exhibit this research model as follows:

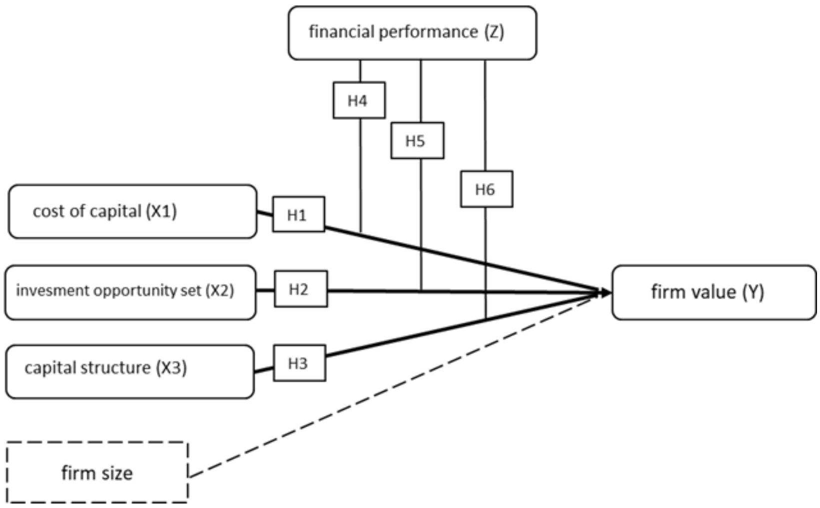


Figure 2. Research Model

METHODS

In this study, the entire population of listing companies in Indonesia during the five-year period from 2019-2023 was used. The five year time span is considered sufficiently representative to analyse trends and relevant to current conditions. The sample used in this study was selected using purposive sampling method with the aim of obtaining a representative sample in accordance with the specified criteria (Ghozali, 2018), namely: listing companies in Indonesia for the period 2019-2023, publishing annual reports consecutively from 2019-2023, presenting complete data needed for research. Corporation financial statements for 2019-2023, which is a secondary data type, utilized in this research. Financial data obtained through a financial market data provider, namely Thomson Reuters Eikon (Refinitiv) can be accessed at https://www.refinitiv.com, industry data classification based on the Global Industry Classification Standard (GICS).

Cost of capital, investment opportunity set, and capital structure are utilized as this research independent variables (X). Firm value utilized as dependent variable (Y). Moderating variable (Z) is financial performance. The control variable is firm size. This research variable can be defined in more detailed as follows:

Table 1. Measurement of variables

Variables	**Proxy**
Firm value (Y)	Tobin's Q = (Market Value Equity + Debt)/ Total asset, describes how much the market value of a company is compared to its book value. (Angela et al., 2023; Titisari et al., 2019)
Cost of capital (X1)	weighted average cost of capital (wacc), measures the average cost of capital from debt and equity used by the company. (Dobrowolski et al., 2022; Yuliah et al., 2023)
Investment opportunity set (X2)	market to book value of equity (mbve), which illustrates the company's growth opportunities. (Anggraini & Nyale, 2022; Dharmawan & Riza, 2019; Tangngisalu et al., 2023)
Capital structure (X3)	debt to equity ratio (der), which indicates the ratio between debt and capital. (Agustin et al., 2022; Rachmadevi et al., 2023)
Financial performance (Mod)	return on assets (roa), measures a company's profitability relative to its assets. (Meilyani & Angela, 2024; Wirawan & Angela, 2024)
Firm size (control)	ln total asset, describing the size of a company based on its total assets. (Chakkravarthy et al., 2024; Rahmadhani et al., 2024)

Multiple linear regression is chosen to analyze research data with moderating variables so that moderated regression analysis (MRA) was carried out, the statistical application used was SPSS, the research formula was as follows:

$$FV = \alpha + \beta_1 COC + \beta_2 IOS + \beta_3 CS + \beta_4 FP + \beta_5 MOD1 + \beta_6 MOD2 + \beta_7 MOD3 + \beta_8 FSIZE + e$$

Where:
FV: firm value
COC: cost of capital
IOS: investment opportunity set
CS: capital structure
FP: financial performance
MOD1: interaction of coc with financial performance
MOD2: interaction of ios with financial performance
MOD3: interaction of cs with financial performance
FSIZE: firm size
e: residual value

Before conducting hypothesis testing with Moderated Regression Analysis, the data has been tested with classical assumptions such as normality, multicollinearity, heteroscedasticity, autocorrelation, and goodness of fit model.

RESULTS AND DISCUSSION

All listed companies in Indonesia become this research population with an observation period of 5 years (2019-2023). Table 2 exhibit the process and result for determining this research sample.

Table 2. Sample selection

Description	Total
Companies listing in Indonesia (refinitiv eikon data)	953
Financial Companies	(162)
Companies that present incomplete data during the observation period (2019-2023)	(419)
Companies that present complete data and meet the sample criteria	372
Total research data (2019-2023)	1860
Total outlier research data	(255)
Total research data after outliers	1605

Source: researcher own data, 2024

Table 3 presented the descriptive statistics results from the sample data obtained.

Table 3. Results of descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FV	1605	0.11	95.95	1.4272	4.23001
COC	1605	-0.05	0.3	0.0739	0.04479
IOS	1605	0.03	101.26	1.5528	4.80553
CS	1605	0.06	837.49	78.5911	94.92772
FP	1605	-25.75	45.43	2.8304	7.33595
FSIZE	1605	10.78	19.92	15.2123	1.67004

Source: research data, 2024

The results of descriptive statistics show variations between companies for each variable. Firm value in sample companies has a minimum value of 0.11, a maximum value of 95.95, an average value of 1.43 and a standard deviation of 4.23. Since the average value of firm value is above 1, this can indicate that the firm value in the sample is relatively good. Besides that, its high standard deviation indicates more diverse firm value in research samples. Cost of capital in sample companies has a minimum value of -0.05, a maximum value of 0.3, an average value of 0.07 and a standard deviation of 0.04. This result exhibit low value and small data variations for the cost of capital variable. The investment opportunity set in the sample companies has a minimum value of 0.03, a maximum value of 101.26, an average value of 1.55, and a standard deviation of 4.81. This result exhibit that firm in sample have varying level of investment opportunity set. Minimum value of the capital structure in the sample companies observe as 0.06 and the maximum value observe is 837.49 with an average value of 78.59 and a standard deviation of 94.92. This result gives an indication of huge fluctuation in the capital structure among the sample companies. The financial performance in the sample companies has a minimum value of -25.75 and a maximum value of 45.43 with an average value of 2.83. Financial performance exhibit high variation among the research sample since the standard deviation value is 7.33. The firm size in the sample companies has a minimum value of 10.78, a maximum value of 19.92, an average value of 15.21. Firm size, which is proxied by natural logarithm of total assets, exhibit a standard deviation value of 1.67 that give the indication of high variation among the samples.

Classical assumption test also conducted to the research data, which consist of the normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. From table 4, it can be concluded that this research data are met the criteria to pass classical assumption test.

Table 4. Data testing results

Classical Assumption	Result			Description
Normality test (Kolmogorov-Smirnov)	Asymp. Sig. (2-tailed) 0.080			normal data
Multicollinearity test (VIF)		Tolerance	VIF	there is no multicollinearity
	COC	0.844	1.185	
	IOS	0.935	1.069	
	CS	0.827	1.208	
	ROA	0.419	2.385	
	MOD1	0.495	2.020	
	MOD2	0.814	1.228	
	MOD3	0.935	1.070	
	FSIZE	0.833	1.200	
Autocorrelation test (Runs test)	Asymp. Sig. (2-tailed) 0.128			No autocorrelation problem observed
Heterocedasticity test (Glejser)	COC	0.160		there is no heterocedasticity
	IOS	0.071		
	CS	0.201		
	ROA	0.109		
	MOD1	0.058		
	MOD2	0.870		
	MOD3	0.113		
	FSIZE	0.066		
Goodness of fit	sig.	0.000		The model is suitable for use as research

Source: research data, 2024

Table 5 represented the hypothesis testing in this research.

Table 5. Hypothesis testing results

Variable	coefficient	t	sig	result
COC	-0.454	-15.160	0.001	significant
IOS	0.001	0.660	0.509	not significant
CS	-0.004	-5.040	0.000	significant
FP	0.069	9.664	0.000	significant
MOD1	0.935	120.738	0.000	significant
MOD2	0.001	0.444	0.657	not significant
MOD3	0.011	2.472	0.014	significant
FSIZE	0.003	4.429	0.000	significant

Source: researcher own data, 2024

Results of the hypothesis testing in Table 5 can be interpreted as follow:
H1 is accepted: the cost of capital exhibit negative direction with significance value of 0.001 < 0.05. Indication can be made that cost of capital negatively impact firm value significantly.
H2 is not accepted: Significance value of investment opportunity set shown value of 0.509 > 0.05 with a positive direction. The result exhibit that firm value can be increased with investment opportunity set in corporation, but the impact is not significant.
H3 is accepted: capital structure has a negative direction with a significance value of 0.000 < 0.05. The result give insight that firm value will be decreased significantly with the present of high capital structure.
Financial performance has a significance value of 0.000 < 0.05 with a positive direction. This means that financial performance has a significant positive effect on firm value. Furthermore, financial performance as a moderating variable has the following test results:
H4 accepted: the interaction of cost of capital with financial performance (mod1) has a significance value of 0.000 < 0.05. This means that financial performance can moderate the relationship between coc and firm value.
H5 is not accepted: the interaction of the investment opportunity set with financial performance (mod2) has a significance value of 0.657 > 0.05. This means that financial performance fails to moderate the relationship between IOS and firm value.
H6 is accepted: the interaction of capital structure with financial performance (mod3) has a significance value of 0.014 < 0.05. This means that financial performance can moderate capital structure and firm value interaction.
Firm size in this study, as a control variable, showed results 0.000 < 0.05 that had a significant effect on company value. By controlling firm size, the researchers ensured that the main effects of coc, ios, and cs on firm value were not distorted by differences in company scale.

Table 6, which exhibit the result of coefficient determination test, shows the increasing value from 42.2% to 95.1% in the adjusted R-square value after including the moderating variable. This result shows that relationship between the independent and dependent variables get significant impact from the addition of moderating variable. This increase means that the model of regression becomes better at answering the variation in the dependent variable after taking into account the moderating variable.

Table 6. Coefficient Determination Test

	without moderation	**with moderation**
Adj. R-square	0.422	0.951

Source: research data, 2024

The effect of cost of capital on firm value

The hypothesis testing shows that firm value gets affected by cost of capital (H1 accepted). The result shows that coc, as measured by wacc, give adverse impact on firm value, meaning that the increase in firm value can be happened if the cost of capital is lower and vice versa. In order to construct a good corporate image for investor, management must minimise coc to increase firm value. Companies can pursue more investment projects with higher rate of return than the cost of capital if they can obtain capital at a cheaper budget and make them spend less money to pay interest or dividends so as to increase the efficiency of capital allocation and improve growth prospects that will be appreciated by the market, this can maximise firm value. In addition, a lower cost of capital directly affects the company's net profit. Reduced interest costs on debt will increase net profit after tax which will increase firm value because net profit is an important component in company valuation. This event will send positive signal to the market that the company has healthy financial condition and good prospects in the future, which is in line with signalling theory. The risk faced by firm can be reflected in company cost of capital. A higher level of cost of capital usually reflects higher risk. By reducing the cost of capital, companies show that they can manage risk well. Increase in firm value and investor confidence will become the outcome from this situation. This research results proving that firm value can increase when there is decrease in coc value which are in line with previous research conducted by Meilyani & Angela, (2024), Ibrahim (2020), Titisari et al. (2019), and Gomes et al. (2019). This research results inconsistent with Cahyadi & Angela, (2025), Putri & Husaini, (2024).

The impact to firm value from investment opportunity set

The result from hypothesis testing imply that firm value can increase with the presence of investment opportunity set despite the effect is not significant (H2 is not accepted). Conclusion can be derived that investment opportunity is not the main predictor in increasing firm value. Company market value will increase since short-term orientated investors will consider investment opportunities to take a long time to provide returns that make them pay more attention to the company's current performance and stock fluctuations. Investors do not have sufficient information about the investment opportunities taken by the company because it is private information, this uncertainty makes them reluctant to link investment opportunities with an increase in firm value. The results of this research are in line with research conducted by Prayitno et al. (2020), Kebon & Suryanawa (2017), Tarima et al. (2016). This research results inconsistent with Tangngisalu et al. (2023), Sudiyatno et al. (2023), Wulandari & Trinawati (2022).

The effect of capital structure on firm value

The results from this research show that firm value get affected by capital structure (H3 accepted). Negative direction observed in the capital structure interaction with firm value. This implied that firm value would decrease if the company's debt higher and vice versa. Debt to equity ratio used to measure capital structure. Positive signal from a company with a low debt ratio can be perceived by investors since the lower of this ratio exhibit that a company is healthy and suitable as a place to invest. Conversely, higher risk of company experiencing financial difficulties to pay off loan principal and interest costs is more prominent if the company have high debt ratio due to the insufficient amount of assets owned to guarantee its debts. The findings from this research are consistent with previous research by Agustin et al. (2022), Ibrahim (2020), Sudiyatno et al. (2023) dan Luu (2021).

The role of financial performance as a moderating variable

Result of this research exhibit that moderation role successfully done by financial performance in cost of capital and firm value interaction (H4 accepted). In this study, the role of financial performance as a moderating variable is to strengthen the positive effect of low coc on increasing firm value. Firm value decrease with the presence of high coc with means that higher firm value can be achieved with lowering the cost of capital. Efficiency and effectiveness in capital structure exhibit with lower wacc value since this indicate lower cost required to fund the company's project. Strengthens the positive effect of low capital costs on increasing firm value is the financial performance role, which measured by profitability as a moderating variable, may be due to the fact that good profits are generated from low costs. In line with signal theory, if investors see a low cost of capital, it is indicating efficiency and effectiveness in the capital structure and perceived as a good signal. When investors see good financial performance, firm value can increase since it will increase investor confidence to invest in the company. If the company has a high cost of capital but is offset by high corporate profits, then the high cost of capital does not decrease corporation's value because the company is still able to generate enough profit to satisfy investors.

Moderation role of financial performance is not observed in interaction of investment opportunity set and firm value (H5 is not accepted). Profitability cannot moderate the interaction between investment opportunities and firm value. Impact of investment opportunities on firm value does not depend on the level of corporate profitability observed in research result. Companies can still make investment decisions even though the company's performance is not generating high profits if a company has good financial flexibility, by using free cash flow, investment opportunities can still be carried out for company expansion. Prayitno et al. (2020) also stated that the interaction of investment opportunities with firm value can be moderated by financial performance.

H6 in this research is accepted which means that financial performance moderates the interaction of capital structure and firm value. Moderating variable in this research, which is financial performance have a role to weaken the negative effect of high capital structure on the decline in firm value. Debt to equity ratio (der), which is a proxy for capital structure, influence firm value negatively, meaning that firm value will decrease if the company's debt is high. In line with signal theory, investors are reluctant to invest in companies with high debt ratios since it gives bad signals to investors. Moderating role from financial performance, which measured by profitability, to weakens the negative effect of high debt on the decline in firm value. This may be because high profitability indicates the company's ability to generate sufficient profits to cover interest and principal payments on debt, indicating that debt is being used productively to support business growth. Strong profitability which suggests that investors will see the corporation prospect favorably going forward and will be motivated to react to the encouraging signals provided. When investors see companies with high debt, but show good financial performance, investors can interpret that the company uses debt to develop its business so that it is considered a natural thing. Therefore, the role of financial performance weakens the negative relationship between capital structure and firm value. Other research that shows that financial performance can moderate the interaction of capital structure with firm value is Sari et al. (2020), Prayitno et al. (2020), Bahriah et al. (2022).

CONCLUSION

Conclusion from this research can be stated as follows: firm value negatively affected by cost of capital and capital structure, firm value is not impacted by investment opportunity set, financial performance successfully moderates the cost of capital and capital structure interaction on firm value, investment opportunity set and firm value interaction is not moderated by financial performance. Conducting this research cannot be separated from limitations such as not all companies in Indonesia provide complete data and there are also outlier data so that most of the companies that should have been sampled had to be excluded. Since some financial ratios, such as cost of capital ratio, investment opportunities, capital structure, and financial performance, have been shown to affect firm value, management are encouraged to focus on them. Based on signal theory, efficiency in capital costs, increasing investment opportunities, and reducing debt ratios can provide good signals to investors so that investors want to invest that affects to raise the value of the corporation. Suggestions for future researchers are to add variables outside of financial ratios such as Environmental, Social, and Governance (ESG) disclosures to develop factors in increasing firm value.

ACKNOWLEDGEMENTS

In order for this research to be performed successfully, the researcher would like to thank LPPM Maranatha Christian University and Accounting Department, for their material and moral contributions.

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7. Bukti konfirmasi artikel accepted
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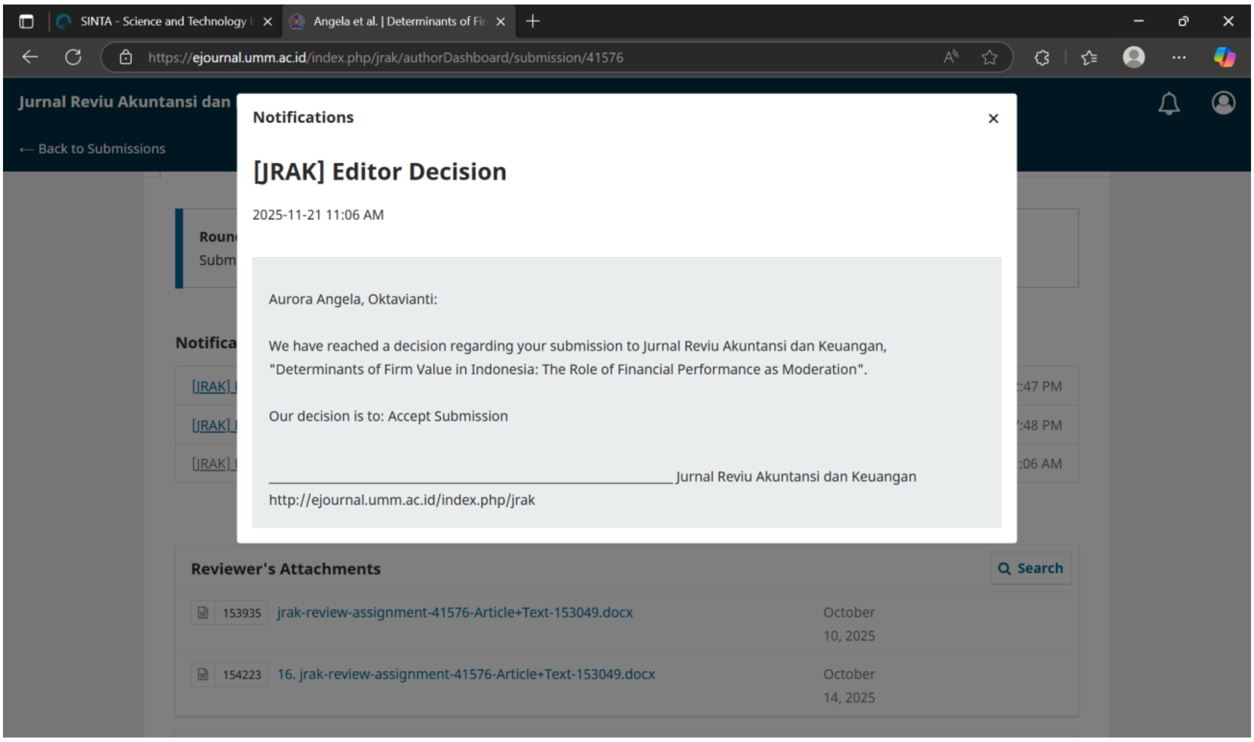
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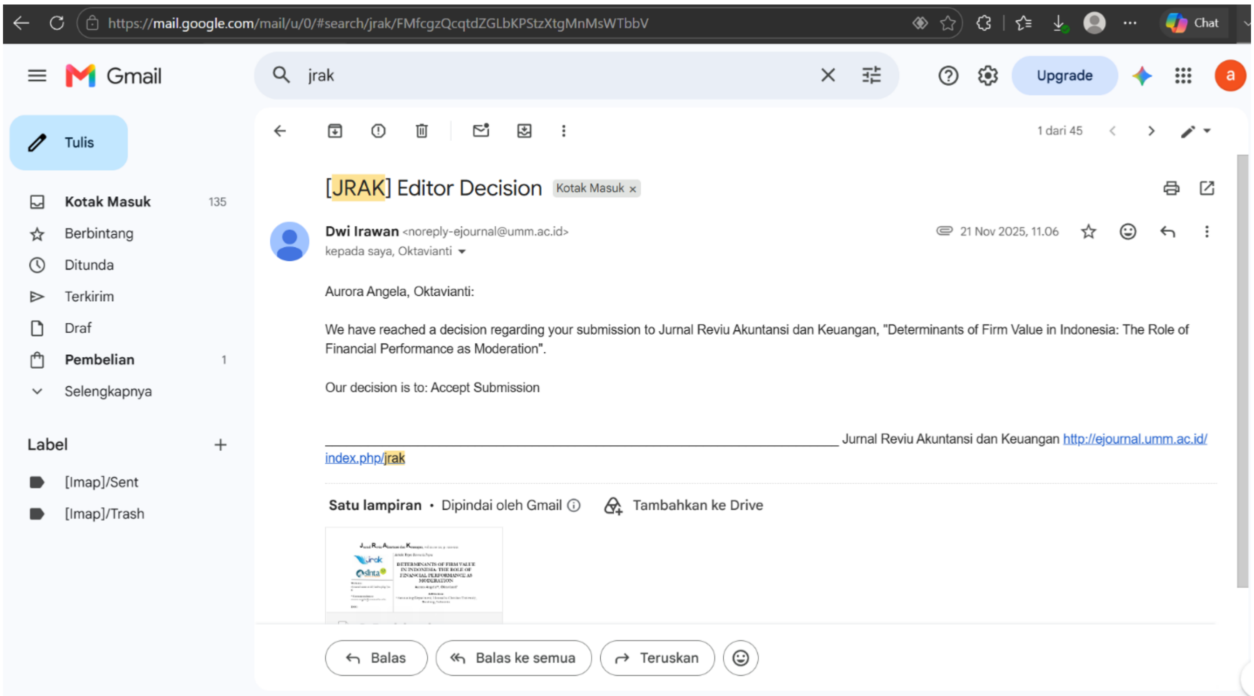
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P-ISSN: 2615-2223 E-ISSN: 2088-0685
Accredited grade 2 by Kemenristekdikti
Decree (SK) No. 10/E/KPT/2019
Published by:
UMM
IKATAN AKUNTAN INDONESIA

Nomor : E.5.b/177/JRAK/UMM/XI/2025
Perihal : **LETTER OF ACCEPTANCE (LOA)**
Lamp. : -

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Assalamu'alaikum War. Wab.

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Demikian, terima kasih atas konstribusi Bapak/Ibu. Kami tunggu manuskrip Bapak/Ibu selanjutnya.

Wassalamu'alaikum War. Wab.

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Dwi Irawan, SE., M.Ak.

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Jl. Raya Tlogomas 246 Malang, East Java, Indonesia 65145. Tel: +62341 464318 extension 217, Fax: +62341 460782
OJS: http://ejournal.umm.ac.id/index.php/jrak; email: jrak@umm.ac.id

8. Bukti artikel publikasi
(21 November 2025)

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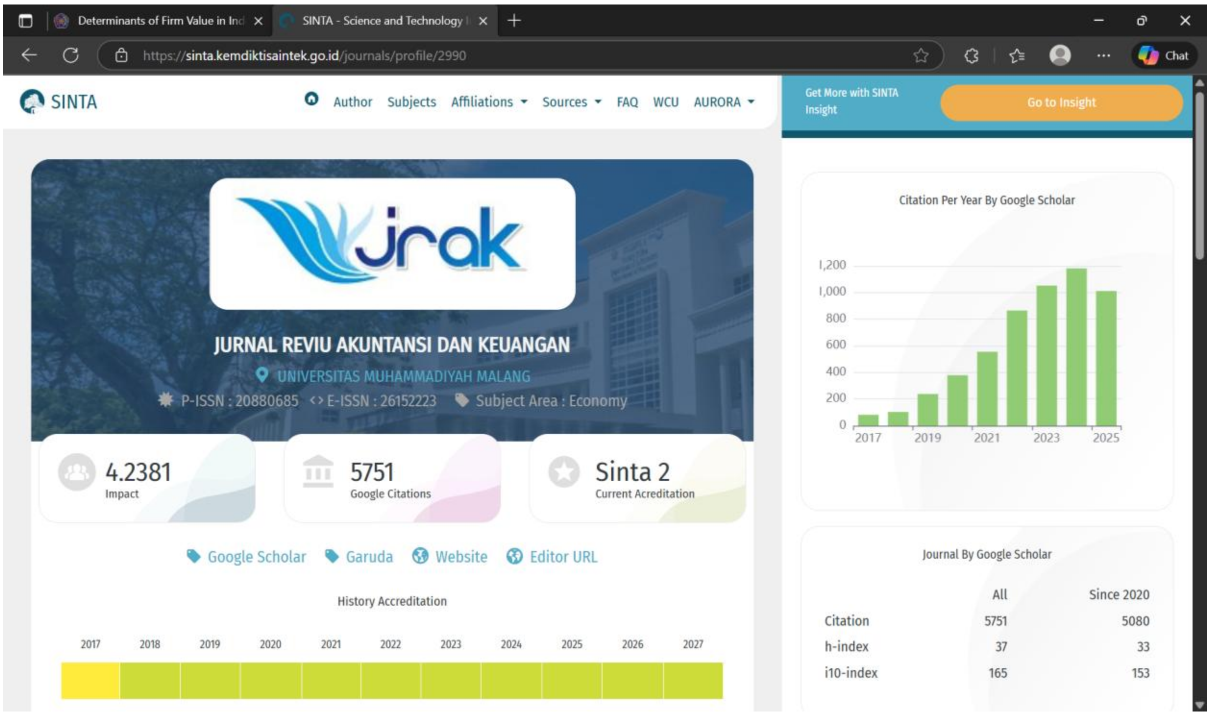

Jurnal Reviu Akuntansi dan Keuangan, Vol. 15 No. 04, p. 882-899

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*Correspondence:
aurora.angela@maranatha.edu

DOI: [10.22219/jrak.v15i4.41576](https://doi.org/10.22219/jrak.v15i4.41576)

Citation:
Angela, A., Oktavianti. (2025). Determinants of Firm Value in Indonesia: The Role of Financial Performance as Moderation. Jurnal Reviu Akuntansi Dan Keuangan, 15(4), 882-899.

Article Process
Submitted:
July 1, 2025

Reviewed:
August 4, 2025

Revised:
October 31, 2025

Accepted:
November 21, 2025

Published:
November 21, 2025

Office:
Department of Accounting
University of Muhammadiyah Malang
GKB 2 Floor 3.
Jalan Raya Tlogomas 246, Malang, East Java, Indonesia

P-ISSN: 2615-2223
E-ISSN: 2088-0685

Article Type: Research Paper

Determinants of Firm Value in Indonesia: The Role of Financial Performance as Moderation

Aurora Angela[1]*, Oktavianti[2]

Affiliation:
[1,2]Accounting Department, Maranatha Christian University, Bandung, Indonesia

ABSTRACT

Purpose: This research has purpose to provide empirical evidence about how cost of capital, investment opportunity set, and capital structure impacting value of corporations and investigate whether financial performance can moderate that interaction.

Methodology/approach: Quantitative approach is the nature for this research. Moderated Regression Analysis utilized for analyzing research data. This research observes all of the listed corporations in Indonesia during 2019-2023. The research sample with purposive sampling obtained 1605 data.

Findings: The result exhibit that cost of capital and capital structure decrease firm value. On other hand, firm value is not impacted by investment opportunity set. Moderation role by financial performance observed in interaction among cost of capital and capital structure on firm value. Despite that, the interaction of investment opportunity set on firm value do not moderate by financial performance.

Practical implications: This research offer practical implication for company managers when managing corporation finance, determine the decision, and choose the corporate strategy that will be increasing value of firm. In addition, this research is also useful for helping potential investors and investors decide the corporation that will be their investment choice.

Originality/value: This research utilizes the role of financial performance as a moderating variable in the relationship between cost of capital and company value, which has rarely been studied in Indonesia.

Keywords: Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.

ABSTRAK

Tujuan penelitian: *Menguji dan membuktikan secara empiris bagaimana pengaruh cost of capital, investment opportunity set, capital structure terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel moderasi.*

Metode/pendekatan: *Riset ini termasuk riset dengan pendekatan kuantitatif. Moderated Regression Analysis digunakan untuk analisis data penelitian. Data riset menggunakan seluruh populasi perusahaan listing yang ada Indonesia dengan periode pengamatan tahun 2019-2023. Sampel riset dengan purposive sampling diperoleh 1605 data.*

Hasil: *Cost of capital dan capital structure berpengaruh negatif terhadap firm value, firm value tidak dipengaruhi oleh investment opportunity set, financial performance berhasil memoderasi hubungan cost of capital dan capital stucture terhadap firm value, financial performance gagal memoderasi interaksi investment opportunity set terhadap firm value.*

Implikasi praktik: *Penelitian ini bermanfaat bagi pengelola perusahaan sebagai bahan pertimbangan dalam mengelola keuangan dan pengambilan keputusan untuk menentukan strategi perusahaan dalam meningkatkan nilai perusahaan. Selain itu penelitian ini juga bermanfaat bagi masyarakat khususnya calon investor dan investor sehingga dapat membantu untuk pengambilan keputusan investasi yang tepat.*

Orisinalitas/kebaharuan: *Penelitian ini menyajikan peran kinerja perusahaan sebagai variabel moderasi dalam hubungan antara cost of capital dan nilai perusahaan, yang masih jarang diteliti di Indonesia.*

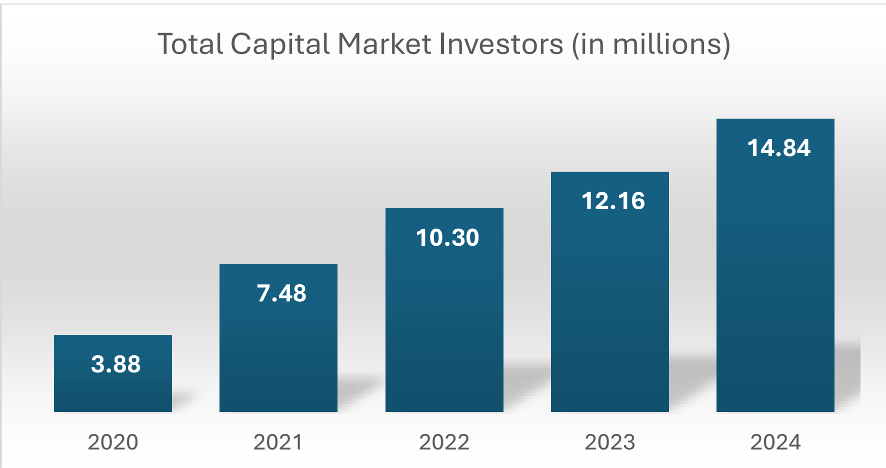
Kata kunci: *Cost of Capital; Capital Structure; Firm Value; Investment Opportunity Set; Return on Assets.*

INTRODUCTION

Indonesia is an attractive country for investors. Since the last few years, Indonesia have seen the rise in their investment achievements. The attractiveness of Indonesia for investors is the potential for high economic growth. Investment in Indonesia is more easy to do since Indonesia have a large and growing population which means a large market potential, has a variety of natural resources, and strong government support (Pangastuti, 2023). Report of the increase in total investor have been made by the Indonesia Stock Exchange over the last 5 years from 2020 to 2024 shown in figure 1. In 2020, 3.88 million investors are stated as the total number of investors in the Indonesian capital market, in 2021 it rose to 7.48 million investors, in 2022 it rose to 10.30 million investors, then in 2023 it rose again to 12.16 million investors, and in 2024 it rose again to 14.84 investors (KSEI, 2024; marketnews.id, 2024; Pratomo, 2024). IDX also reported that market capitalization over the past five years has also increased, meaning that there is optimism from market players and stakeholders in the Indonesian capital market. Prospective investors and investors consider a company to be of quality if the company's value is good (Budiharjo, 2019). Therefore, companies have an obligation to optimize company value through financial management and corporate governance (Meilyani & Angela, 2024).

Corporation usually have the goal to optimize the value of their corporations. Shareholder will be more prosperous if their company have higher value. Firm value is important to maintain by corporation since investor perception can be affected by firm value which reflects the performance of the corporations (Angela et al., 2023). Investors can perceive a positive signal to invest in corporation if there is an increase in value of company value which leads to the investor willingness to pay higher with high purchasing expectations (Atmaja & Astika, 2018; Ha & Minh, 2020). Basically, investors treat company value as a very fundamental factor before deciding their investment decision in certain companies (Saona & Martín, 2018). In running its business, management needs to considering company value because company value have correlation with company's stock price that become the assessment that can describe the success of the company (Dzahabiyya et al., 2020; Hamid & Elika, 2022). The company's value and their stock price is closely related, so the corporate value can be determined by the development of their stock price which can affect investors' investment decision making (Sudiyatno et al., 2020). Many factors can affect firm value and this study examined several factors including cost of capital, investment opportunity set, capital structure as independent variables, the role of financial performance as a moderating variable, including firm size as a control variable. The research was conducted in five years observation period (2019-2023) at all Indonesia corporation that indexed in Indonesia Stock Exchange.

Figure 1. Capital Market Investors 2020-2024



Source: Research Data, 2024

The cost of capital is an important factor affecting firm performance. The activity to raise fund from several sources, such as debt, equity, or other financing options can incur cost for

corporations and this refer as cost of capital (Ochoki et al., 2023). Management must minimize the cost of capital to increase company value to make corporations appealing for investors (Titisari et al., 2019). Effective capital budgeting will be an important element of business strategy to generate value for shareholders and therefore increase profitability and firm value at the same time (Gomes et al., 2019). Minimizing cost and increasing firm value needs to be done by companies, so they must pay attention to the cost of capital in making investment and financing decisions (Putri & Husaini, 2024).

Future profits can be generated by investment opportunities. Stakeholders have an interest in seeing business development through investment opportunities. For investors, the potential to benefit from company growth will increase along with company growth. Company expansion is expected to generate substantial future profits and make this perceive as favorable potential for investors (Marjohan et al., 2023). Investors will be convinced by companies with growing business prospects since it can increase shareholder wealth. This will increase the corporation shares demand and thus will be increasing company's value due to expanding market share demand. Investment opportunities will be responded to as a positive signal by investors and have an effect on increasing company value (Chabachib et al., 2020; Tangngisalu et al., 2023).

Managing companies operational activities always need a capital structure. Capital structure is very important to maintain and ensure the continuity of the company. The amount of capital needed is determined by all company activities and this make an optimal capital structure is imperative to support all operational activities. Raising internal and external funds can determine whether capital structure is balance Wardani or not. A balance among debt and capital can be optimized by using an ideal composition of internal and external funds (Wardani & Subowo, 2020). Financial risks can be avoided in companies with a good capital structure whose impact increases company value. In other side, company value can be decreased if companies using high debt (Luu, 2021).

This research has the purpose to examine how company value can be affected by the cost of capital, investment opportunity set, capital structure. This research presented its novelty with using financial performance as a moderating variable, which is still rarely used in research in Indonesia, particularly the role of financial performance in moderating the relationship between cost of capital and firm value. Financial performance measured by return on assets because this ratio is the most common and comprehensive measure for assessing a company's efficiency in generating profits. It describes a company's ability to generate net profits based on its total assets, known as earnings power, which is a key indicator of operational profitability (Mukhtaruddin et al., 2019). Corporation good performance can be indicated by higher ROA because this indicating the efficiency of company to utilize its assets in operational activities. Interaction between each independent variable to the dependent variable in this research are expected to be moderated by financial performance. If a company has high capital costs but this is offset by high profits, then the high capital costs do not have a particularly negative impact on the company's value because the company is still able to generate sufficient profits to satisfy investors. When a company has many investment opportunities with high ROA, these investment opportunities can be executed well, thereby increasing the company's value. If a company's debt to equity ratio is high but its profits are also high, the negative impact of debt on firm value becomes weaker because the market believes that the company is capable of managing its debt well. This research presents a data sample of all listed companies in Indonesia with the observation period 2019-2023 as a difference from previous research which only presents samples from certain industrial sectors. Firm size added as control variables in this research to avoid bias in determining effect from independent variables interaction with dependent variable. Importance of this research lies in its usefulness for company managers as a consideration in managing finances and making decisions to determine company strategies in increasing company value. In addition, this research is also useful for helping potential investors and investors to determine the right corporation choose as investment choice.

This research used signaling theory as grand theory. Signaling theory is clues provide to investors about how management views the company's prospects from an action taken by company management. Urgency to provide the external parties with financial statement information and suggestion on how corporation should signal the users of financial statement can be explained by signaling theory. Signaling theory, according to Sutra & Mais (2019) and Evania & Angela (2024), explain that providing positive signals (good news) and negative signals (bad news) to users are financial reports roles. Information about what management has done to realize the wishes of the owner is the form of this signal. Company (agent), principal (investor) and other parties can used signaling theory to reduce information asymmetry by producing quality financial reports. Financial reports are an analysis and assessment process that can help explain the goals a company has achieved. Financial reports can be used to determine the performance and financial condition of the company so that it can predict potential bankruptcy in the future and thus become very important for every company.

Based on signaling theory, there are company and investor perspectives on cost of capital (COC). For companies, COC is an expectation of profit on the potential of the project and its business prospects (Diantimala et al., 2022). The cost of capital considering the proportion of equity and debt in the company's capital structure (Dobrowolski et al., 2022; Pavel, 2018). Companies that are able to reduce their cost of capital tend to have a higher market value, as this reflects efficiency in resource management and stronger investor confidence. For investors COC is the rate of return on investments and loans provided by investors and lenders. Value of company from managing their resources is perceived as the success of a company by investors. Information about COC can minimize the differences in the objectives of the two parties (principal and agent). Higher COC or risk perceived positively by the market since it indicates that the corporation can give return that exceeding corporation COC value (Kurniasih et al., 2022). Gomes et al. (2019) proves that increase in firm value happen when COC decreased. Studies conducted by Titisari et al. (2019) revealed that listed corporations in IDX on 2010-2016 period experienced decrease in their firm value when COC value is high. Sattar (2015) concluded that firm value negatively correlated with the weighted average cost of capital.

H1: Cost of capital has an influence on firm value.

An important component for market value is investment opportunity set (IOS) or investment opportunity since this component can affect the way managers, owners, investors, and creditors view the company. Future expenses set by the management can impact the amount of investment opportunities, which at this time are investment choices that are expected to generate greater returns (Ningsih, 2023). Investment opportunities can strongly influence firm value that formed through stock market value indicators. In accordance with signaling theory, company value can be increased if there is positive signal about corporation future growth that indicated by the existence of investment opportunities (Febrianty & Mertha, 2021; Frederica, 2019). In research Sampurna & Romawati (2020), Afridi et al. (2022), Tangngisalu et al. (2023), Sudiyatno et al. (2023), Wulandari & Trinawati

(2022) concluded that firm value can be significantly increased with the presence of IOS. From the explanation given, the hypothesis developed as follows:

H2: Investment opportunity set has an influence on firm value.

Decision related to the funding composition in a company is called capital structure. This funding composition that calculated from the amount of debt compared to private capital in a company to measure capital structure (Angela et al., 2024; Sihombing & Angela, 2024). A balanced capital structure can provide greater financial flexibility for the company and can allow it to take greater investment opportunities or better deal with unexpected financial pressures (Prasetya & Susilowati, 2024). Agustin et al. (2022) concluded from their research that firm value can be influenced by capital structure. Since it immediately affects the corporation financial condition, capital structure, which describe the ration of external capital or long-term and short-term debt to personal capital, is essential for all corporations. Improvement in corporation performance and increase in firm value can be achieved with the optimal capital structure. Research by Luu (2021) conducted on chemical companies in Vietnam concluded that companies with high debt will have an impact on decreasing firm value. Based on this explanation, the hypothesis developed is as follows:

H3: Capital structure has an influence on firm value.

The importance to keep the company survive can be achieved by interrelated result from increasing both profits and firm value. Amount of profitability generated, which is the measurement of company financial performance, can also influenced firm value. One of the accounting tools to measure financial performance is to use profitability ratios. The ability of corporations to generate profit or the measurement on how effective corporation management is called profitability (Wirawan & Angela, 2024). Obtain a return for their investment is investor goal. Investors would have a high expectation to get high return if the corporation can generate higher profit (Evania & Angela, 2024). Widiastari & Yasa (2018) states that corporation value could increase if investor perceived positive signal in the corporation future prospect that indicate by high profitability. The findings of research conducted by Rofifudin et al. (2023), Husain et al. (2023), Iswajuni et al. (2018), Hafidh & Priono (2022) found that increase in firm value happen in line with roa, indicating that roa has a significant positive effect on firm value.

In this research, researchers examine financial performance role as a moderating variable in the interaction of firm value with the cost of capital, investment opportunities, and capital structure. If a company has high capital costs but this is offset by strong financial performance, then the high capital costs do not have a particularly negative impact on the company's value because the company is still able to generate sufficient profits to satisfy investors. When a company has many investment opportunities, strong financial performance enables it to execute these opportunities well, thereby increasing the company's value. If a company's debt to equity ratio is high, but its profits are also high, the negative impact of debt on firm value is weakened, as the market believes the company is capable of managing its debt well. High financial performance indicates that the company has high profits, which encourages managers to develop the company by investing. Managers become optimal in determining external funding in good consideration. Managers will consider using internal funds due to high share ownership in the company. This shows moderation role can be done by financial performance in the interaction between cost of capital, investment, and capital structure on firm value (Prayitno et al., 2020; Umbarwati & Fachrurrozie, 2018). From the explanation earlier, this research proposed hypothesis as follows:

H4: Financial performance moderates the effect of COC on firm value.

H5: Financial performance moderates the effect of IOS on firm value.

H6: Financial performance moderates the effect of CS on firm value.

Figure 2 exhibit this research model as follows:

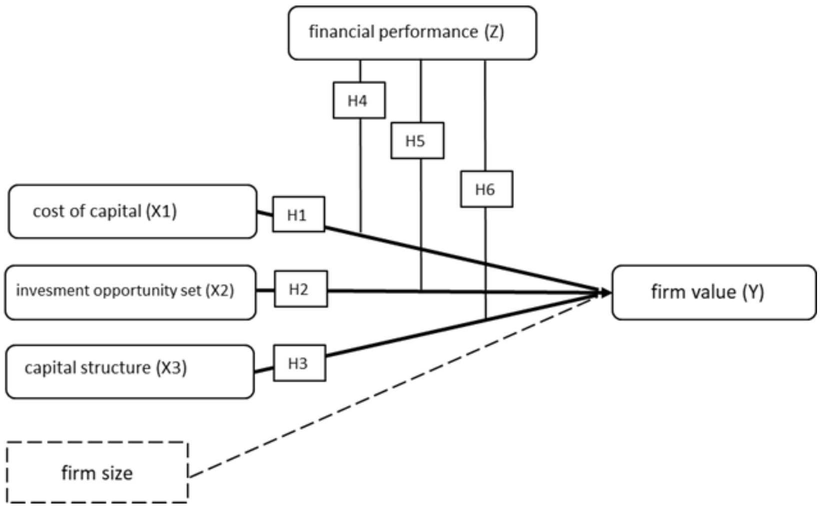


Figure 2. Research Model

METHODS

In this study, the entire population of listing companies in Indonesia during the five-year period from 2019-2023 was used. The five-year time span is considered sufficiently representative to analyse trends and relevant to current conditions. The sample used in this study was selected using purposive sampling method with the aim of obtaining a representative sample in accordance with the specified criteria (Ghozali, 2018), namely: listing companies in Indonesia for the period 2019-2023, publishing annual reports consecutively from 2019-2023, presenting complete data needed for research. Corporation financial statements for 2019-2023, which is a secondary data type, utilized in this research. Financial data obtained through a financial market data provider, namely Thomson Reuters Eikon (Refinitiv) can be accessed at https://www.refinitiv.com, industry data classification based on the Global Industry Classification Standard (GICS).

Cost of capital, investment opportunity set, and capital structure are utilized as this research independent variables (X). Firm value utilized as dependent variable (Y). Moderating variable (Z) is financial performance. The control variable is firm size. This research variable can be defined in more detailed as follows:

Variables	Proxy
Firm value (Y)	Tobin's Q = (Market Value Equity + Debt)/ Total asset, describes how much the market value of a company is compared to its book value. (Angela et al., 2023; Titisari et al., 2019)
Cost of capital (X1)	weighted average cost of capital (WACC), measures the average cost of capital from debt and equity used by the company. (Dobrowolski et al., 2022; Yuliah et al., 2023)

Investment opportunity set (X2)	market to book value of equity (MBVE), which illustrates the company's growth opportunities. (Anggraini & Nyale, 2022; Dharmawan & Riza, 2019; Tangngisalu et al., 2023)
Capital structure (X3)	debt to equity ratio (DER), which indicates the ratio between debt and capital. (Agustin et al., 2022; Rachmadevi et al., 2023)
Financial performance (Mod)	return on assets (ROA), measures a company's profitability relative to its assets. (Meilyani & Angela, 2024; Wirawan & Angela, 2024)
Firm size (control)	ln total asset, describing the size of a company based on its total assets. (Chakkravarthy et al., 2024; Rahmadhani et al., 2024)

Table 1. Measurement of variables

Multiple linear regression is chosen to analyze research data with moderating variables so that moderated regression analysis (MRA) was carried out, the statistical application used was SPSS, the research formula was as follows:

$$FV = \alpha + \beta_1 COC + \beta_2 IOS + \beta_3 CS + \beta_4 FP + \beta_5 MOD1 + \beta_6 MOD2 + \beta_7 MOD3 + \beta_8 FSIZE + e$$

Where:
FV: firm value
COC: cost of capital
IOS: investment opportunity set
CS: capital structure
FP: financial performance
MOD1: interaction of COC with financial performance
MOD2: interaction of IOS with financial performance
MOD3: interaction of CS with financial performance
FSIZE: firm size
e: residual value

Before conducting hypothesis testing with Moderated Regression Analysis, the data has been tested with classical assumptions such as normality, multicollinearity, heteroscedasticity, autocorrelation, and goodness of fit model.

RESULTS AND DISCUSSION

All listed companies in Indonesia become this research population with an observation period of 5 years (2019-2023). Table 2 exhibit the process and result for determining this research sample.

Description	Total
Companies listing in Indonesia (refinitiv eikon data)	953
Financial Companies	(162)
Companies that present incomplete data during the observation period (2019-2023)	(419)
Companies that present complete data and meet the sample criteria	372
Total research data (2019-2023)	1860

Table 2. Sample selection

Total outlier research data	(255)
Total research data after outliers	1605

Source: researcher own data, 2024

Table 3 presented the descriptive statistics results from the sample data obtained.

Table 3. Results of descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FV	1605	0.11	95.95	1.4272	4.23001
COC	1605	-0.05	0.3	0.0739	0.04479
IOS	1605	0.03	101.26	1.5528	4.80553
CS	1605	0.06	837.49	78.5911	94.92772
FP	1605	-25.75	45.43	2.8304	7.33595
FSIZE	1605	10.78	19.92	15.2123	1.67004

Source: research data, 2024

The results of descriptive statistics show variations between companies for each variable. Firm value in sample companies has a minimum value of 0.11, a maximum value of 95.95, an average value of 1.43 and a standard deviation of 4.23. Since the average value of firm value is above 1, this can indicate that the firm value in the sample is relatively good. Besides that, its high standard deviation indicates more diverse firm value in research samples. Cost of capital in sample companies has a minimum value of -0.05, a maximum value of 0.3, an average value of 0.07 and a standard deviation of 0.04. This result exhibit low value and small data variations for the cost of capital variable. The investment opportunity set in the sample companies has a minimum value of 0.03, a maximum value of 101.26, an average value of 1.55, and a standard deviation of 4.81. This result exhibit that firm in sample have varying level of investment opportunity set. Minimum value of the capital structure in the sample companies observe as 0.06 and the maximum value observe is 837.49 with an average value of 78.59 and a standard deviation of 94.92. This result gives an indication of huge fluctuation in the capital structure among the sample companies. The financial performance in the sample companies has a minimum value of -25.75 and a maximum value of 45.43 with an average value of 2.83. Financial performance exhibit high variation among the research sample since the standard deviation value is 7.33. The firm size in the sample companies has a minimum value of 10.78, a maximum value of 19.92, an average value of 15.21. Firm size, which is proxied by natural logarithm of total assets, exhibit a standard deviation value of 1.67 that give the indication of high variation among the samples.

Classical assumption test also conducted to the research data, which consist of the normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. From table 4, it can be concluded that this research data met the criteria to pass classical assumption test.

Table 4. Data testing results

Classical Assumption	Result			Description
Normality test (Kolmogorov-Smirnov)	Asymp. Sig. (2-tailed) 0.080			normal data
Multicollinearity test (VIF)		Tolerance	VIF	there is no multicollinearity
	COC	0.844	1.185	
	IOS	0.935	1.069	
	CS	0.827	1.208	
	ROA	0.419	2.385	
	MOD1	0.495	2.020	
	MOD2	0.814	1.228	

	MOD3	0.935	1.070	
	FSIZE	0.833	1.200	
Autocorrelation test (Runs test)	Asymp. Sig. (2-tailed) 0.128			No autocorrelation problem observed
Heterocedasticity test (Glejser)	COC	0.160		there is no heterocedasticity
	IOS	0.071		
	CS	0.201		
	ROA	0.109		
	MOD1	0.058		
	MOD2	0.870		
	MOD3	0.113		
	FSIZE	0.066		
Goodness of fit	sig.	0.000		The model is suitable for use as research

Source: research data, 2024

Table 5 represented the hypothesis testing in this research.

Table 5. Hypothesis testing results

Variable	**coefficient**	**t**	**sig**	**result**
COC	-0.454	-15.160	0.001	significant
IOS	0.001	0.660	0.509	not significant
CS	-0.004	-5.040	0.000	significant
FP	0.069	9.664	0.000	significant
MOD1	0.935	120.738	0.000	significant
MOD2	0.001	0.444	0.657	not significant
MOD3	0.011	2.472	0.014	significant
FSIZE	0.003	4.429	0.000	significant

Source: researcher own data, 2024

Results of the hypothesis testing in Table 5 can be interpreted as follow:

H1 is accepted: the cost of capital exhibit negative direction with significance value of 0.001 < 0.05. Indication can be made that cost of capital negatively impact firm value significantly.

H2 is not accepted: Significance value of investment opportunity set shown value of 0.509 > 0.05 with a positive direction. The result exhibit that firm value can be increased with investment opportunity set in corporation, but the impact is not significant.

H3 is accepted: capital structure has a negative direction with a significance value of 0.000 < 0.05. The result give insight that firm value will be decreased significantly with the present of high capital structure.

Financial performance has a significance value of 0.000 < 0.05 with a positive direction. This means that financial performance has a significant positive effect on firm value. Furthermore, financial performance as a moderating variable has the following test results:

H4 accepted: the interaction of cost of capital with financial performance (mod1) has a significance value of 0.000 < 0.05. This means that financial performance can moderate the relationship between COC and firm value.

H5 is not accepted: the interaction of the investment opportunity set with financial performance (mod2) has a significance value of 0.657 > 0.05. This means that financial performance fails to moderate the relationship between IOS and firm value.

H6 is accepted: the interaction of capital structure with financial performance (mod3) has a significance value of 0.014 < 0.05. This means that financial performance can moderate capital structure and firm value interaction.
Firm size in this study, as a control variable, showed results 0.000 < 0.05 that had a significant effect on company value. By controlling firm size, the researchers ensured that the main effects of COC, IOS, and CS on firm value were not distorted by differences in company scale.

Table 6, which exhibit the result of coefficient determination test, shows the increasing value from 42.2% to 95.1% in the adjusted R-square value after including the moderating variable. This result shows that relationship between the independent and dependent variables get significant impact from the addition of moderating variable. This increase means that the model of regression becomes better at answering the variation in the dependent variable after taking into account the moderating variable.

Table 6. Coefficient Determination Test

	without moderation	with moderation
Adj. R-square	0.422	0.951

Source: research data, 2024

The effect of cost of capital on firm value
The hypothesis testing shows that firm value gets affected by cost of capital (H1 accepted). The result shows that COC, as measured by WACC, give adverse impact on firm value, meaning that the increase in firm value can be happened if the cost of capital is lower and vice versa. In order to construct a good corporate image for investor, management must minimise COC to increase firm value. Companies can pursue more investment projects with higher rate of return than the cost of capital if they can obtain capital at a cheaper budget and make them spend less money to pay interest or dividends so as to increase the efficiency of capital allocation and improve growth prospects that will be appreciated by the market, this can maximise firm value. In addition, a lower cost of capital directly affects the company's net profit. Reduced interest costs on debt will increase net profit after tax which will increase firm value because net profit is an important component in company valuation. This event will send positive signal to the market that the company has healthy financial condition and good prospects in the future, which is in line with signaling theory. The risk faced by firm can be reflected in company cost of capital. A higher level of cost of capital usually reflects higher risk. By reducing the cost of capital, companies show that they can manage risk well. Increase in firm value and investor confidence will become the outcome from this situation. This research results proving that firm value can increase when there is decrease in coc value which are in line with previous research conducted by Meilyani & Angela, (2024), Ibrahim (2020), Titisari et al. (2019), and Gomes et al. (2019). This research results inconsistent with Cahyadi & Angela, (2025), Putri & Husaini, (2024).

The impact to firm value from investment opportunity set
The result from hypothesis testing imply that firm value can increase with the presence of investment opportunity set despite the effect is not significant (H2 is not accepted). Conclusion can be derived that investment opportunity is not the main predictor in increasing firm value. Company market value will increase since short-term orientated investors will consider investment opportunities to take a long time to provide returns that make them pay more attention to the company's current performance and stock fluctuations. Investors do not have sufficient information about the investment opportunities taken by the company because it is private information, this uncertainty makes them reluctant to link

investment opportunities with an increase in firm value. The results of this research are in line with research conducted by Prayitno et al. (2020), Kebon & Suryanawa (2017), Tarima et al. (2016). This research results inconsistent with Tangngisalu et al. (2023), Sudiyatno et al. (2023), Wulandari & Trinawati (2022).

The effect of capital structure on firm value

The results from this research show that firm value get affected by capital structure (H3 accepted). Negative direction observed in the capital structure interaction with firm value. This implied that firm value would decrease if the company's debt higher and vice versa. Debt to equity ratio used to measure capital structure. Positive signal from a company with a low debt ratio can be perceived by investors since the lower of this ratio exhibit that a company is healthy and suitable as a place to invest. Conversely, higher risk of company experiencing financial difficulties to pay off loan principal and interest costs is more prominent if the company have high debt ratio due to the insufficient amount of assets owned to guarantee its debts. The findings from this research are consistent with previous research by Agustin et al. (2022), Ibrahim (2020), Sudiyatno et al. (2023) dan Luu (2021).

The role of financial performance as a moderating variable

Result of this research exhibit that moderation role successfully done by financial performance in cost of capital and firm value interaction (H4 accepted). In this study, the role of financial performance as a moderating variable is to strengthen the positive effect of low COC on increasing firm value. Firm value decrease with the presence of high COC with means that higher firm value can be achieved with lowering the cost of capital. Efficiency and effectiveness in capital structure exhibit with lower WACC value since this indicates lower cost required to fund the company's project. Strengthens the positive effect of low capital costs on increasing firm value is the financial performance role, which measured by profitability as a moderating variable, may be due to the fact that good profits are generated from low costs. In line with signal theory, if investors see a low cost of capital, it is indicating efficiency and effectiveness in the capital structure and perceived as a good signal. When investors see good financial performance, firm value can increase since it will increase investor confidence to invest in the company. If the company has a high cost of capital but is offset by high corporate profits, then the high cost of capital does not decrease corporation's value because the company is still able to generate enough profit to satisfy investors.

Moderation role of financial performance is not observed in interaction of investment opportunity set and firm value (H5 is not accepted). Profitability cannot moderate the interaction between investment opportunities and firm value. Impact of investment opportunities on firm value does not depend on the level of corporate profitability observed in research result. Companies can still make investment decisions even though the company's performance is not generating high profits if a company has good financial flexibility, by using free cash flow, investment opportunities can still be carried out for company expansion. Prayitno et al. (2020) also stated that the interaction of investment opportunities with firm value can be moderated by financial performance.

H6 in this research is accepted which means that financial performance moderates the interaction of capital structure and firm value. Moderating variable in this research, which is financial performance have a role to weaken the negative effect of high capital structure on the decline in firm value. Debt to equity ratio (der), which is a proxy for capital structure, influence firm value negatively, meaning that firm value will decrease if the company's debt is high. In line with signal theory, investors are reluctant to invest in companies with high debt ratios since it gives bad signals to investors. Moderating role from financial performance, which measured by profitability, to weakens the negative effect of high debt on the decline in firm value. This may be because high profitability indicates the company's ability to generate sufficient profits to cover interest and principal payments on debt, indicating that debt is being used productively to support business growth. Strong profitability which suggests that investors will see the corporation prospect favorably going forward and will be motivated to react to the encouraging signals provided. When investors see companies with high debt, but show good financial performance, investors can interpret that the company uses debt to develop its business so that it is considered a natural thing. Therefore, the role of financial performance weakens the negative relationship between capital structure and firm value. Other research that shows that financial performance can moderate the interaction of capital structure with firm value is Sari et al. (2020), Prayitno et al. (2020), Bahriah et al. (2022).

CONCLUSION

Conclusion from this research can be stated as follows: firm value negatively affected by cost of capital and capital structure, firm value is not impacted by investment opportunity set, financial performance successfully moderates the cost of capital and capital structure interaction on firm value, investment opportunity set and firm value interaction is not moderated by financial performance. Conducting this research cannot be separated from limitations such as not all companies in Indonesia provide complete data and there are also outlier data so that most of the companies that should have been sampled had to be excluded. Since some financial ratios, such as cost of capital ratio, investment opportunities, capital structure, and financial performance, have been shown to affect firm value, management are encouraged to focus on them. Based on signal theory, efficiency in capital costs, increasing investment opportunities, and reducing debt ratios can provide good signals to investors so that investors want to invest that affects to raise the value of the corporation. Suggestions for future researchers are to add variables outside of financial ratios such as Environmental, Social, and Governance (ESG) disclosures to develop factors in increasing firm value.

ACKNOWLEDGEMENTS

In order for this research to be performed successfully, the researcher would like to thank LPPM Maranatha Christian University and Accounting Department, for their material and moral contributions.

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