DIJEFA:
Dinasti International Journal of Economics, Finance & Accounting
E-ISSN: 2721-303X
P-ISSN: 2721-3021
https://dinastipub.org/DIJEFA dinasti.info@gmail.com +62 811 7404 455
DINASTI PUBLISHER

DOI: https://doi.org/10.38035/dijefa.v6i2.4086
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Received: 21 January 2025 | **Revised:** 01 April 2025 | **Accepted:** 17 April 2025

The Influence of Debt Policy, Profitability and Firm Size on Firm Value with Free Cash Flow as a Moderating Variable on the Kompas100 Index on the Indonesian Stock Exchange 2019-2023

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Abstract: This study aims to identify factors that influence firm value, such as debt policy, profitability, and firm size, with free cash flow as a moderating variable. The indicators in this study, namely firm value is proxied by Tobin's Q, debt policy is proxied by Debt to Equity Ratio (DER), profitability is proxied by Return on Asset (ROA), Firm Size, and Free Cash Flow (FCF). The population in this study were Kompas100 Index companies on the Indonesia Stock Exchange for five years (2019-2023), which were 100 companies. This study is quantitative. The data collection technique used purposive sampling. Based on this, 22 samples with 110 observations were obtained. The data analysis technique used panel data regression analysis and Moderate Regression Analysis (MRA) with Eviews 13 software. The results showed that debt policy had no significant effect on firm value, profitability had a positive effect on firm value, and firm size had a negative effect on firm value. Free cash flow can moderate the relationship between profitability and firm value, but cannot moderate the effect of debt policy and firm size on firm value.

Keywords: Debt Policy, Profitability, Firm Size, Free Cash Flow, Firm Value.

INTRODUCTION

Every company is founded with the main objective, namely to maximize the prosperity of shareholders or company owners, which can be realized by maximizing firm value (Sutrisno, 2017). According to Menurut Sujoko & Soebiantoro (2007), firm value is investor's perception of the company's level of success which is usually reflected in the share price on the market. The higher the share price, the higher the firm value and vice versa. Thus, firm value is investors' perception of management's success in managing the company, which is reflected in the share price on the market, where the higher the share price indicates the higher the firm value, which ultimately reflects the company's success in maximizing shareholder prosperity.

One indicator that can be used to measure firm value is Tobin's Q. According to Sudiyatno & Puspitasari (2010), Tobin's Q is used to measure company performance, especially regarding firm value, which shows management's performance in managing assets to create

profitable market value. According to Chung & Pruitt (1994), Tobin's Q is calculated by stock market capitalization plus total debt, then divided by total assets. According to Rengga & Sukamulja (2013), the greater the value of Tobin's Q shows that the company has good growth prospects and intangible assets which is getting bigger. Firm value cannot be separated from various factors, such as debt policy, profitability, firm size, and free cash flow (Rajagukguk et al. (2019); Zurriah (2021)).

Investors in the capital market can use the index as a reference for trading and assessing companies. One relevant index to use is the Kompas100 Index. Reporting from the Indonesian Stock Exchange (2024), companies in the Kompas100 Index generally have high company value, because the shares in this index cover around 70-80% of the total market capitalization on the IDX, have strong fundamentals and operational stability. The Kompas100 Index is also evaluated periodically every six months to ensure that only companies with high performance and liquidity remain included in the index. This process ensures relevant and consistent data for trend analysis over several years, especially in the dynamic economic period from 2019 to 2023 which includes the Covid-19 pandemic and post-pandemic economic recovery. Therefore, the companies in this index are seen as more stable and attractive for investors, as well as being representative in reflecting the general condition of the Indonesian stock market.

Table 1. Average Debt Policy, Profitability, Firm Size, Free Cash Flow, and Firm Value For Companies Included in The Kompas100 Index For 2019-2023

Year	DER	ROA	Firm Size	FCF	Tobin's Q
2019	81,91%	10,17%	31,10	9,42%	2,98
2020	86,96%	8,88%	31,20	8,21%	2,64
2021	96,50%	9,74%	31,31	9,64%	2,08
2022	92,16%	10,20%	31,36	9,24%	2,10
2023	93,27%	9,16%	31,40	7,81%	1,90
Avarage	**90,16%**	**9,63%**	**31,27**	**8,86%**	**2,34**

Source: www.idx.co.id (processed data, 2024)

Based on Table 1, it shows the financial performance of Kompas100 Index companies from 2019 to 2023. Debt policy as measured by DER shows fluctuations, with an average value of 90.16%. Overall company profitability as measured by ROA is quite stable with an average value of 9.63%, although it fluctuates slightly. Firm Size with an average value of 31.27 and a slight increase from 31.10 in 2019 to 31.40 in 2023. Free cash flow with an average value of 8.86%, shows the company has sufficient remaining cash, although fluctuating and tends to decline. The Tobin's Q value of Kompas100 Index companies from 2019 to 2023 decreased from 2.98 in 2019 to 1.90 in 2023, with an average of 2.34. However, it is still in the ideal category, namely above 1.

The Effect of Debt Policy on Firm Value

Debt policy is a company's decision about the proportion of funding with debt. Measuring debt policy can be done with the Debt to Equity Ratio (DER), which is a ratio to measure the ratio between a company's debt and equity (Kasmir, 2019). According to Modigliani & Miller (1963), the higher the proportion of debt, the higher the value of the company, assuming there is tax. According to the Trade Off Theory (Husnan & Pudjiastuti, 2015), the use of debt provides tax benefits, but also poses the risk of bankruptcy costs. The value of the company will peak if the use of debt is at an optimal level. The higher the debt proportion set by the company, the higher the firm value, however if the debt level exceeds the set proportion it will cause a decrease in the firm value. Based on the Agency Theory by Jensen & Meckling (1976), the use of debt can reduce agency costs by increasing external supervision

of management, encouraging managers to be more careful in decision making. Previous research by Jaunanda & Cunny (2021) and Rajagukguk et al. (2019), which shows that debt policy (DER) has a positive and significant effect on firm value (Tobin's Q) supports this positive relationship.
H1: Debt policy has a positive and significant effect on firm value.

The Effect of Profitability on Firm Value

Profitability is a company's ability to generate profits using the resources it has, such as assets, capital, or sales (Sudana, 2015). Oktaryani & Mannan (2018) stated that high profitability increases the profit that can be distributed to shareholders, thus attracting investor interest. According to Sudana (2015), Return on Assets (ROA) as a measure of profitability provides a positive signal about the company's prospects. Based on Signal Theory, an increase in ROA indicates better company prospects, which increases stock demand and company value (Brigham & Houston, 2018). In addition, Agency Theory states that high profitability reduces agency conflicts through dividend policies that benefit shareholders (Jensen & Meckling, 1976). Research on the effect of profitability on company value has been studied by Dwiastuti & Dillak (2019) and Adhyasta & Sudarsi (2023), with the results of the study showing that profitability has a positive and significant effect on company value supporting this positive relationship.
H2: Profitability has a positive and significant effect on company value.

The Effect of Firm Size on Firm Value

Company size reflects the size of the company based on total assets, where the larger the assets, the larger the company size. A large company size makes it easier to access funding, reflects good growth, and increases the company's value (Dewantari et al., 2020). This also increases investor confidence because the company is better known and its information is easily accessible (Novari & Lestari, 2016). Based on signaling theory, a large company size indicates stability and positive growth potential, so it has a significant effect on company value (Brigham & Houston, 2018). Previous research by Adhyasta & Sudarsi (2023) and Nuur & Komara (2024), with the results of the study, company size has a positive and significant effect on company value supporting this positive relationship.
H3: Company size has a positive and significant effect on company value

The Role of Free Cash Flow in Moderating the Effect of Debt Policy on Firm Value

Free cash flow (FCF) is the excess funds in the company after completing all investment projects that generate a positive Net Present Value (NPV) (Jensen, 1986). According to the agency theory of Jensen & Meckling (1976) and Jensen (1986), FCF can trigger agency conflicts due to differences in interests between management (agent) and shareholders (principal) regarding the distribution of FCF. According to Jensen (1986), the use of debt can reduce this problem, because management must allocate FCF to pay interest on debt and principal. In addition, with increased debt, the company's funding needs do not need additional shares (outside equity). Large FCF can also reduce the negative impact of debt on company value, namely bankruptcy costs, because companies have sufficient cash flow to pay debt. Thus, FCF can moderate the relationship between debt policy and company value, by reducing the potential for agency problems.
H4: Free cash flow is able to moderate the effect of debt policy on company value

The Role of Free Cash Flow in Moderating the Effect of Profitability on Firm Value

Profitability reflects the company's ability to generate profits and the efficiency of asset management, making it an important indicator for investors to assess the company's performance. Based on the agency theory of Jensen & Meckling (1976), free cash flow (FCF)

can reduce conflicts between management and shareholders by ensuring strategic allocation of funds, such as profitable investments or dividend distribution. In signaling theory, optimal utilization of FCF supports increased profitability and provides a positive signal to investors about the efficiency and growth potential of the company (Brigham & Houston, 2018). This will increase investor confidence, encourage stock demand, and ultimately increase the value of the company. Research by Mangku et al. (2024) also found that FCF strengthens the relationship between profitability and firm value. Thus, FCF can moderate the relationship between profitability and firm value.
H5: Free cash flow can moderate the effect of profitability on firm value

The Role of Free Cash Flow in Moderating the Effect of Firm Size on Firm Value

Company size reflects the scale of operations and financial stability of the company (Novari & Lestari, 2016). Large companies, measured by total assets, have more resources to run operations and face risks. This contributes to the increase in cash flow generated by the company, resulting in greater FCF. Brigham & Houston (2018), stated that large companies tend to give positive signals to the market, such as stable performance and long-term survival. However, this signal will only be effective if the company is able to manage its resources, including FCF, well. Adequate FCF allows large companies to expand, make additional investments, pay debts, or pay dividends. In addition, high FCF provides a competitive advantage for large companies in accessing various opportunities that cannot always be optimized by smaller companies (Rengganis et al., 2023). H6: Free cash flow is able to moderate the effect of company size on company valueCompany size reflects the scale of operations and financial stability of the company (Novari & Lestari, 2016). Large companies, measured by total assets, have more resources to run operations and face risks. This contributes to the increase in cash flow generated by the company, resulting in greater FCF. Brigham & Houston (2018), stated that large companies tend to give positive signals to the market, such as stable performance and long-term survival. However, this signal will only be effective if the company is able to manage its resources, including FCF, well. Adequate FCF allows large companies to expand, make additional investments, pay debts, or pay dividends. In addition, high FCF provides a competitive advantage for large companies in accessing various opportunities that cannot always be optimized by smaller companies (Rengganis et al., 2023).
H6: Free cash flow is able to moderate the effect of company size on company value

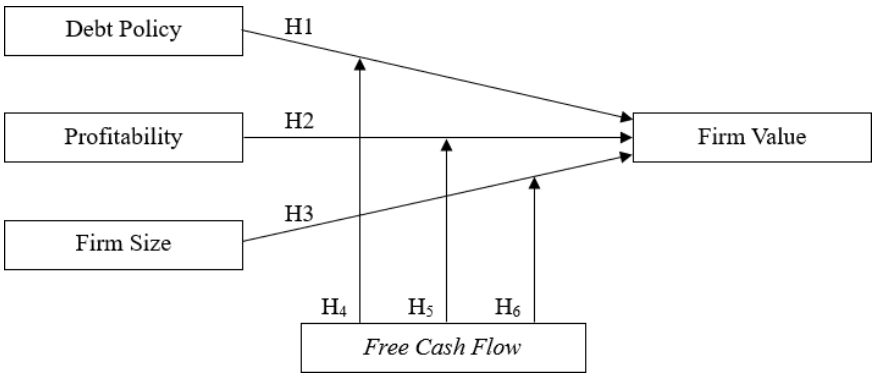


Figure 1. Framework

METHODS

1. This type of research is quantitative research, namely research that emphasizes testing theories through research variables in the form of numbers which are analyzed using statistical procedures (Indriantoro & Supomo, 2018). This research is associative

causality, namely research that looks for causal relationships (influence). This research aims to determine the relationship between the influence of debt policy, profitability and Firm Size on Firm Value which is moderated by free cash flow in companies included in the Kompas100 Index for the 2019-2023 period.

2. To obtain the data and information needed in this research, research was carried out on the Kompas100 Index company on the Indonesia Stock Exchange (BEI) via online media or the internet with the official website used, namely www.idx.co.id. The population in this research is the Kompas100 Index companies on the Indonesia Stock Exchange (BEI) during 2019-2023, namely 100 companies. In this study, the method used, namely purposive sampling, is used to collect representative samples according to predetermined criteria (Sugiyono, 2022). Sample criteria to be used:

Table 2. Sample criteria

No	Criteria	Amount
	Population: Kompas100 Index companies listed on the Indonesia Stock Exchange.	100
	Sampling based on purposive sampling:	
1	Financial sector companies.	(16)
2	Companies that are not listed on the IDX Kompas100 Index consecutively during 2019-2023.	(37)
3	Kompas100 Index companies that use foreign currency in their financial reports.	(10)
4	Kompas100 Index companies that did not make positive profits in 2019-2023.	(5)
5	Kompas100 Index Companies That Did Not Distribute Dividends in 2019-2023	(10)
Total Sample		**22**

Table 3. Indicators Variables

Variables	Measurement/Indicators
Firm Value (Tobin's Q)	$Tobin's\ Q = \frac{\text{MVE} + Debt}{\text{Total Assets}}$ (Chung & Pruitt, 1994)
Debt Policy (DER)	$DER = \frac{Total\ Debt}{\text{Total Equity}}\ x\ 100\%$ (Kasmir, 2019)
Profitability (ROA)	$ROA = \frac{Net\ Income}{\text{Total Assets}}\ x\ 100\%$ (Hery, 2017)
Firm Size	$Size = Ln\ (Total\ Aset)$ (Jogiyanto, 2017)
Free Cash Flow (FCF)	$FCF = \frac{\text{Net Income} - \text{Dividen} + \text{Depreciation}}{\text{Total Assets}}\ x\ 100\%$ (Mollah *et al.*, 2000)

This study uses Multiple Linear Regression Test and Moderated Regression Analysis (MRA) Test. Moderated Regression Analysis (MRA) is an independent variable that will

strengthen or weaken the relationship between other independent variables on the dependent variable (Ghozali, 2021). According to Solimun (2010), moderation variables can be classified into 4 types, namely pure moderation, quasi moderation, homologizer moderation (potential moderation) and Predictor moderation (moderation as a predictor). The equation used to analyze the effect of debt policy, profitability, firm size, on firm value with free cash flow as a moderating variable is:

$Y= \alpha+\beta_1 X_1+\beta_2 X_2+\beta_3 X_3+e$ without involving moderating variables

$Y= \alpha+\beta_1 X_1+\beta_2 X_2+\beta_3 X_3+\beta_4 Z+e$ involving moderating variables

$Y= \alpha+\beta_1 X_1+\beta_2 X_2+\beta_3 X_3+\beta_4 Z+\beta_5 X_1 Z+\beta_6 X_2 Z+〖\beta_7 X〗_3 Z+e$ involving moderating variables and interactions

RESULTS AND DISCUSSION

Descriptive Statistic

Descriptive statistical analysis in this study includes mean, maximum, minimum, and standard deviation values. The following is a descriptive statistical analysis.

Table 4. Descriptive Statistic

	Y	X1	X2	X3	Z
Mean	2.340075	90.10439	9.632338	31.27445	8.865066
Maximum	16.26364	445.7528	35.80319	33.73062	75.00103
Minimum	0.578265	10.28216	0.642002	29.34951	-11.73986
Std. Dev.	2.541066	84.96146	6.970886	1.080799	12.62157
Observations	110	110	110	110	110

Source: Eviews 13 (processed data, 2024)

Based on Table 4.2, the results of the descriptive statistical analysis recorded 110 observation data. These 110 data were obtained from 22 Kompas100 Index companies that were the research samples multiplied by the research period, which was 5 years from 2019-2023.

Based on the results of the descriptive statistical analysis in Table 4, it can be concluded that the Y variable, namely the company value (Tobin's Q) shows an average (mean) of 2.34. This shows that the average value of the Kompas100 Index companies is overvalued, namely the Tobin's Q value is above 1 where the company value is considered higher than the market value. The maximum Tobin's Q value of 16.26 was achieved by PT Unilever Indonesia Tbk. (UNVR) in 2019, while the minimum Tobin's Q value of 0.58 was achieved by PT PP London Sumatra Indonesia Tbk. (LSIP) in 2023. This shows that during the 2019-2023 period, there were companies in the Kompas100 Index that had a relatively very high market value compared to their asset value of 16.26 and had a much lower market value compared to their asset value of 0.58. The standard deviation value of the Kompas100 Index companies is 2.54.

Classical Assumption Test

Normality Test

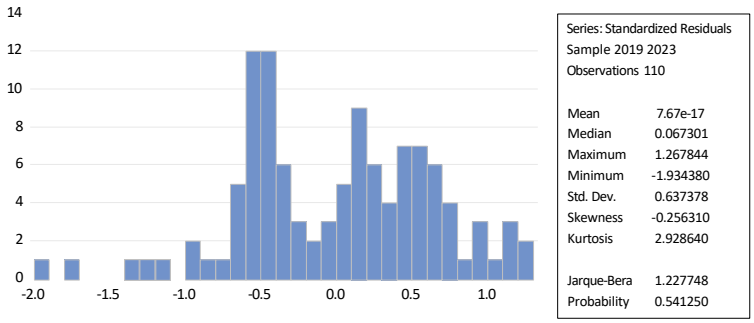


Figure 2. Results of the Jarque-Bera Normality Test

Source: Eviews 13 (processed data, 2024)

Based on Figure 4.1, it can be seen that the Jarque-Bera probability value is 0.541250 > 0.05, so it can be concluded that the data in this study is normally distributed.

Multicollinearity Test

Table 5. Hasil Uji Multikolinearitas

	X1	X2	X3	Z
X1	1.000000	0.289370	0.114436	0.532204
X2	0.289370	1.000000	-0.125150	0.729205
X3	0.114436	-0.125150	1.000000	-0.194961
Z	0.532204	0.729205	-0.194961	1.000000

Source: Eviews 13 (processed data, 2024)

Based on the results of the multicollinearity test in Table 5, it can be seen that the correlation between the independent variables and the moderating variables, namely debt policy (X1), profitability (X2), company size (X3), and free cash flow (Z) ranges from -0.125150 to 0.729205 and less than 0.80. Therefore, it can be said that the model in the study does not have a high correlation between the independent variables and the moderating variables above 0.80 (Ghozali & Ratmono, 2020:73). So, it can be concluded that there are no symptoms of multicollinearity in the regression model in this study.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.859962	6.119914	0.467321	0.6415
X1	-0.001315	0.001574	-0.835740	0.4057
X2	0.004301	0.014124	0.304545	0.7615
X3	-0.081114	0.198774	-0.408074	0.6843
Z	0.016791	0.009148	1.835591	0.0700

Source: Eviews 13 (processed data, 2024)

Based on the results of the heteroscedasticity test in Table 6, it shows that the probability value of all independent and moderating variables in this study is > 0.05. Therefore, it can be concluded that there is no heteroscedasticity problem.

Autocorrelation Test

Table 7. Autocorrelation Test Results

Durbin-Watson stat	1.710562

Source: Eviews 13 (processed data, 2024)

Based on Table 4.9, it can be seen that the Durbin Watson (D-W) value of 1.710562 is between -2 and +2 (-2 < 1.710562 < +2), so it can be concluded that there is no autocorrelation in the research model (Santoso, 2010).

Determination of Regression Models

Test Chow

Table Test Chow

Effects Test	Statistic	d.f.	Prob.

Cross-section F	7.637171	(21,84)	0.0000
Cross-section Chi-square	117.470105	21	0.0000

Source: Eviews 13 (processed data, 2024)

Based on the Table, the results of the Chow test show that the Cross-section Chi-Square probability value is 0.0000 < 0.05, meaning that H0 is rejected and H1 is accepted, so the selected model is the Fixed Effect Model.

Hausman Test

Table Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	21.116300	4	0.0003

Source: Eviews 13 (processed data, 2024)

Based on the Table, the results of the Hausman test show that the random Cross-section probability value is 0.0003 <0.05, meaning that H0 is rejected and H1 is accepted, so the selected model is the Fixed Effect Model.

Thus, the most appropriate model used in this study is the Fixed Effect Model (FEM). This is because based on the results of the model selection test with the Chow test and the Hausman test, the Fixed Effect Model (FEM) was selected successively, and there was no need for the Langrange Multiplier test (Ghozali & Ratmono, 2020).Based on the Table, the results of the Hausman test show that the random Cross-section probability value is 0.0003 <0.05, meaning that H0 is rejected and H1 is accepted, so the selected model is the Fixed Effect Model. Thus, the most appropriate model used in this study is the Fixed Effect Model (FEM). This is because based on the results of the model selection test with the Chow test and the Hausman test, the Fixed Effect Model (FEM) was selected successively, and there was no need for the Langrange Multiplier test (Ghozali & Ratmono, 2020).

Moderated Regression Analysis

Moderated Regression Analysis (MRA) Model 1

Moderation Regression Results Table Model 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	34.31187	4.188961	8.191023	0.0000
X1	-0.001001	0.001899	-0.527027	0.5995
X2	0.083088	0.012654	6.566272	0.0000
X3	-1.045005	0.135522	-7.710945	0.0000

Source: Eviews 13 (processed data, 2024)

Tobin's Q = 34.31187 - 0.001001X1 + 0.083088X2 - 1.045005X3

Moderated Regression Analysis (MRA) Model 2

Moderation Regression Results Table Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	35.19248	4.194950	8.389251	0.0000
X1	-0.001316	0.001762	-0.746510	0.4574
X2	0.081859	0.017766	4.607735	0.0000
X3	-1.069911	0.135017	-7.924265	0.0000
Z	-0.006935	0.013985	-0.495913	0.6213

Source: Eviews 13 (processed data, 2024)

Tobin's Q = 35.19248 - 0.001316X1 + 0.081859X2 - 1.069911X3 - 0.006935Zv

Moderated Regression Analysis (MRA) Model 3

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	52.58100	4.708996	11.16607	0.0000
X1	0.002809	0.001492	1.883073	0.0633
X2	0.053399	0.017015	3.138357	0.0024
X3	-1.633231	0.150156	-10.87688	0.0000
Z	-0.257970	0.341718	-0.754921	0.4525
X1Z	0.000106	0.000210	0.505908	0.6143
X2Z	0.007474	0.001038	7.198846	0.0000
X3Z	0.004000	0.010518	0.380289	0.7047

Source: Eviews 13 (processed data, 2024)

Tobin's Q = 52.58100 + 0.002809X1 + 0.053399X2 - 1.633231X3 - 0.257970Z + 0.000106X1Z + 0.007474X2Z + 0.004000X3Z

F Test (Model Suitability Test)

The F test was conducted using a significance level of 0.05 (α = 5%) and with the testing criteria that if the Prob (F-statistic) value is <0.05 then the regression model is declared fit or feasible.

Table of Results of F Test of Feasibility of Regression Model

Model	F-statistic	Prob(F-statistic)
Model 1	57.97928	0.000000
Model 2	57.69843	0.000000
Model 3	70.07081	0.000000

Source: Eviews 13 (processed data, 2024)

The test results using the Fixed Effect Model approach in Table 4.13, show that the F-statistic value in model 1 is 57.97928, model 2 is 57.69843, and model 3 is 70.07081 with the Prob (F-statistic) value of all models being 0.000000 <0.05. So, it can be concluded that the three regression models are declared fit and significant.

Coefficient of Determination Test (R2)

The coefficient of determination is denoted by R2. This coefficient measures the proportion of influence of all independent variables on the dependent variable. The value of the coefficient of determination in this study is measured by Adjusted R-squared.

Table Results of Determination Coefficient Test

Model	R-squared	Adjusted R-squared
Model 1	0.942432	0.926177
Model 2	0.944971	0.928593
Model 3	0.960352	0.946647

Source: Eviews 13 (processed data, 2024)

The test results using the Fixed Effect Model approach in Table 4.14, show that the results of the regression determination coefficient of model 1 which aims to test the effect of independent variables (DER, ROA, and Company Size) on the dependent variable (Tobin's Q) produce an Adjusted R-squared value of 0.926177 or 92.62%. This means that the company value (Tobin's Q) of the Kompas100 Index for the 2019-2023 period is influenced by Debt Policy (DER), Profitability (ROA), and Company Size by 92.62% and the remaining 7.38% is influenced by other variables not included in the model.

The results of the regression determination coefficient test model 2 which aims to test the influence of independent variables (DER, ROA, and Company Size) and moderating variables (FCF) on the dependent variable (Tobin's Q) produced an Adjusted R-squared value output of 0.928593 or 92.86%. This means that the company value (Tobin's Q) of the Kompas100 Index for the 2019-2023 period is influenced by Debt Policy (DER), Profitability (ROA), Company Size, and Free Cash Flow by 92.86% and the remaining 7.14% is influenced by other variables not included in the research model.

The results of the regression determination coefficient test model 3 which aims to test the moderating effect (interaction) of the moderating variable (FCF) on the influence of the independent variables (DER, ROA, and Company Size) on the dependent variable (Tobin's Q) produced an Adjusted R-squared value output of 0.946647 or 94.66%. This means that the company value (Tobin's Q) of the Kompas100 Index for the 2019-2023 period is influenced by Debt Policy (DER), Profitability (ROA), and Company Size which is moderated by Free Cash Flow by 94.66% and the remaining 5.34% is influenced by other variables not included in the research model.

The Influence of Debt Policy (DER) on Company Value

Based on the results of the data testing that has been done, a negative regression coefficient value of -0.001001 was obtained with a significance value of 0.5995 greater than the specified error tolerance (0.5995> 0.05). So it can be concluded that H1 is rejected, namely that debt policy as measured by DER has a negative and insignificant effect on company value as measured by Tobin's Q. The negative coefficient value indicates that every increase in debt policy (DER) by 1 unit will decrease the company value (Tobin's Q) by 0.001001, assuming other independent variables are constant (ceteris paribus). Insignificance indicates that investors in investing their capital in a company do not make debt policy (DER) the main factor in assessing the company.

According to Jensen & Meckling (1976), based on agency theory, the use of debt can reduce agency costs by increasing external supervision and motivating managers to work more efficiently. However, based on the results of this study, it shows that the mechanism for reducing agency conflict through debt is not effective. The results of this study are also not in line with the Trade-off Theory, which states that the use of debt to an optimal level can increase the value of the company because it provides benefits in the form of tax savings (tax shield) through debt interest. This occurs because the debt ratio of the companies in this study sample has exceeded the optimal level of debt use, so that the benefits of debt are no longer comparable to bankruptcy costs and agency costs. A high debt ratio reflects the proportion of company financing that comes from more debt than equity. This condition causes high interest expenses to be borne by the company. If the company's income is insufficient to cover interest and principal obligations, the company may face financial distress to the risk of default. High interest expenses will also reduce the company's profits and potentially reduce the company's attractiveness in the eyes of investors which has an impact on decreasing the company's value.

The results of this study are supported by the Pecking Order Theory, where corporate funding through debt is not based on achieving the optimal point, but is adjusted based on funding needs and the availability of internal funds (Myers & Majluf (1984); Myers (1984)). The results of this study are in line with research conducted by Anggraeny et al. (2021) and Wati et al. (2023), with research results showing that debt policy (DER) has a negative and insignificant effect on company value (Tobin's Q).

The Influence of Profitability (ROA) on Company Value

Based on the results of the data testing that has been done, a positive regression coefficient value of 0.083088 was obtained with a significance value of 0.0000 which is smaller than the specified error tolerance (0.0000 <0.05). So it can be concluded that H2 is accepted, namely profitability as measured by ROA has a positive and significant effect on company value as measured by Tobin's Q. A positive coefficient value indicates that there is a positive or unidirectional relationship between profitability and company value. Where every increase in profitability (ROA) by 1 unit will increase the company value (Tobin's Q) by 0.083088, assuming other independent variables are constant (ceteris paribus). The significance value indicates that a high level of profitability reflects the company's ability to manage assets to generate profit. For investors, especially those investing in Kompas100 Index companies, profitability (ROA) is the main factor in assessing a company.

The results of this study are in line with Brigham & Houston's Signaling Theory (2018), which states that companies send signals to give investors instructions on how management views the company's prospects. Based on the results of this study, a high level of profitability reflects the company's ability to manage assets to generate profits. This shows that the higher the level of profitability, the higher the return that will be obtained by shareholders. This signal will be captured by investors as information that the company has good financial performance and promising growth potential. This signal encourages investor confidence to invest in the company through stock purchases. Increasing the purchase of company shares will increase the company's stock price and directly impact the increase in the company's value.

The results of this study are also in line with the agency theory proposed by Jensen & Meckling (1976), stating that high profitability can reduce agency conflict between management and shareholders. In this case, one of the mechanisms of self-restraint (bonding) by managers to reduce agency conflict is through dividend policy. In good profitability conditions, management is better able to support the interests of shareholders by providing optimal returns from capital gains and dividend payments. This is in accordance with the hypothesis that was built, namely that profitability affects firm value. The results of this study are in line with research conducted by Dwiastuti & Dillak (2019) and Adhyasta & Sudarsi (2023), with research results showing that profitability (ROA) has a positive and significant effect on firm value (Tobin's Q).

The Influence of Company Size on Company Value

Based on the results of the data testing that has been done, a negative regression coefficient value of -1.045005 was obtained with a significance value of 0.0000 which is smaller than the specified error tolerance (0.0000 <0.05). So it can be concluded that H3 is rejected, namely that company size has a negative and significant effect on company value as measured by Tobin's Q. The negative coefficient value indicates a non-unidirectional relationship between company size and company value. Where every increase in company size by 1 unit will decrease the company value (Tobin's Q) by 1.045005, assuming other independent variables are constant (ceteris paribus). This shows that the larger the company size, the more potential it has to decrease the company value.

The larger the company size, the easier it is for the company to obtain internal and external funding sources to support operations and achieve company goals (Dewantari et al., 2020). However, this condition tends to be accompanied by an increase in debt, especially in large companies with the main source of funding coming from debt. This happens because large companies are often considered to have a low risk of default, making it easier to get loans with favorable terms (Ramdhonah et al., 2019). On the other hand, the large size of the company does not always have a positive impact on investors because of the tendency of large companies to retain earnings rather than distribute them as dividends (Anggraeny et al., 2021). This retained earnings policy is usually used as the company's operating capital or business expansion. However, this can affect investor perceptions, because low dividend distribution tends to reduce the attractiveness of shares and lower the value of the company. Large companies also often face challenges in managing the efficiency of monitoring operational activities and strategies, which can negatively impact the company's performance and value (Pangesti et al., 2020).

The results of this study can be explained through the Agency Theory proposed by Jensen & Meckling (1976). Conflicts of interest between principals and agents often occur due to asymmetric information, where agents tend to prioritize personal interests over company interests. Agents who are risk averse can allocate resources inefficiently, thus inhibiting the increase in company value. Based on the results of this study, it can be stated that companies with large total assets are not necessarily able to provide confidence to investors in managing their assets. Thus, company size cannot be used as the main indicator in assessing a company.

The results of this study are not in line with the research conducted by Adhyasta & Sudarsi (2023) and Nuur & Komara (2024), with the results that company size has a positive and significant effect on company value (Tobin's Q). However, the results of this study are in line with the research of Pangesti et al. (2020) and Anggraeny et al. (2021). Where the results of the study showed that company size had a negative and significant effect on company value (Tobin's Q).

Free Cash Flow Moderates Debt Policy on Firm Value

Based on the results of the data testing that has been done, a positive regression coefficient value of 0.000106 was obtained with a significance value of 0.6143 greater than the specified error tolerance (0.6143> 0.05). So it can be concluded that H4 is rejected, namely free cash flow is not able to moderate the effect of debt policy as measured by DER on company value as measured by Tobin's Q. These results also show that FCF acts as a homologizer moderator, namely FCF is a type of variable that has the potential to be a moderating variable that affects the strength of the relationship between the DER and Tobin's Q variables, but does not interact with the independent variable (DER) and does not have a significant relationship with the dependent variable (Tobin's Q). A positive coefficient value indicates that FCF tends to strengthen the positive relationship between debt policy and company value. This means that when FCF increases, the relationship between DER and Tobin's Q moves in a positive direction, although this influence is very small and insignificant. A significance value greater than 0.05 indicates that the existence of FCF as a moderating mechanism is not strong enough to influence the relationship between debt policy and firm value.

According to the agency theory proposed by Jensen & Meckling (1976), free cash flow (FCF) can trigger agency conflicts if its use is not in line with the interests of shareholders. This conflict tends to increase when managers prefer to use FCF for reinvestment rather than fulfill debt payment obligations. Jensen & Meckling (1976), stated that debt can be a managerial discipline mechanism to reduce agency conflicts by requiring managers to allocate FCF to pay debt. However, the results of this study indicate that this mechanism is not fully effective in overcoming agency conflicts. The results of this study are in line with research conducted by Mangku et al. (2024). Where the results of their research show that free cash flow is unable to moderate the effect of DER on firm value.

Free Cash Flow Moderates Profitability on Firm Value

Based on the results of the data testing that has been done, a positive regression coefficient value of 0.007474 was obtained with a significance value of 0.0000 which is smaller than the specified error tolerance (0.0000 <0.05). So it can be concluded that H5 is accepted, namely free cash flow is able to moderate the effect of profitability as measured by ROA on company value as measured by Tobin's Q. A positive coefficient indicates that the existence of FCF strengthens the relationship between profitability (ROA) and company value (Tobin's Q). This means that when FCF increases, the relationship between profitability and Tobin's Q moves in a positive and significant direction. These results also show that FCF acts as a pure moderator, namely a variable that purely moderates the relationship between profitability and company value where pure FCF interacts with the independent variable (ROA) without becoming an independent variable.

The results of this study are in line with Brigham & Houston's (2018) signal theory, namely when high profitability is supported by sufficient FCF, the company can demonstrate the ability to finance new investment opportunities, pay dividends, or reduce debt, all of which increase market confidence. Thus, the combination of ROA and FCF sends a positive signal to investors. Investors who see the effective use of FCF will assess the company as an entity that is efficient in managing resources and has good growth potential. This increase in investor confidence will ultimately drive demand for the company's shares, then increase the stock price and increase the company's value.

The results of this study are also in line with the agency theory proposed by Jensen & Meckling (1976). In this theory, free cash flow (FCF) is considered an indicator that can reduce agency conflicts if used optimally for the benefit of shareholders. High profitability reflects the company's ability to generate profits, while adequate FCF provides room for management to ensure that the profit is allocated effectively to create added value for shareholders. The results of this study are in line with research conducted by Mangku et al. (2024), which shows that free cash flow is able to moderate the effect of profitability (ROA) on company value.

Free Cash Flow Moderates Firm Size on Firm Value

Based on the results of the data testing that has been done, a positive regression coefficient value of 0.004000 was obtained with a significance value of 0.7047 which is greater than the specified error tolerance (0.7047> 0.05). So it can be concluded that H6 is rejected, namely free cash flow is not able to moderate the effect of company size on company value as measured by Tobin's Q. These results also show that FCF acts as a homologizer moderator, namely FCF is a type of variable that has the potential to be a moderating variable that affects the strength of the relationship between the independent variable (company size) and the dependent variable (Tobin's Q), but does not interact with the company size variable and does not have a significant relationship with the Tobin's Q variable. A positive coefficient value indicates that FCF tends to strengthen the positive relationship between company size and company value. This means that when FCF increases, the relationship between company size and Tobin's Q moves in a positive direction, although this influence is very small and insignificant. A significance value greater than 0.05 indicates that the existence of FCF as a moderating mechanism is not strong enough to influence the relationship between company size and company value.

Based on the results of this study, the inability of FCF to moderate the relationship between firm size and firm value is in line with Agency Theory (Jensen & Meckling, 1976), which explains that conflicts of interest between principals and agents often occur due to information asymmetry. Management that has control over FCF can use the funds for personal interests or decisions that do not improve shareholder welfare. Abdullah (2002), stated that FCF can be used to reduce dependence on external financing and reduce capital costs, but without good control, managers can use the funds for personal interests or suboptimal investment decisions. This is because managers feel that power and job satisfaction increase with the size of the company, which can worsen the potential for agency conflicts and reduce the company's operational efficiency.

Thus, the results of this study indicate that company size and free cash flow (FCF) cannot always contribute to increasing company value without being supported by strict supervision and effective management policies. This explains why FCF is unable to moderate the relationship between company size and company value. This hypothesis emerged without a basis for previous research that specifically discussed the effect of company size on company value with free cash flow as a moderating variable.

CONCLUSION

This study examines the effect of debt policy, profitability, and company size on company value with free cash flow as a moderating variable in Kompas100 Index companies listed on the Indonesia Stock Exchange in 2019-2023. Based on the results of the analysis and discussion, the following conclusions are obtained:

1. Debt policy (DER) has a negative and insignificant effect on company value (Tobin's Q).
2. Profitability (ROA) has a positive and significant effect on company value (Tobin's Q).
3. Company size has a negative and significant effect on company value (Tobin's Q).
4. Free cash flow is unable to moderate the effect of debt policy on company value.
5. Free cash flow is able to moderate the effect of profitability on company value.
6. Free cash flow is unable to moderate the effect of company size on company value.

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