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The Effect of Capital Structure, Liquidity and Profitability on Company Value with Sustainability Report as a Moderation Variable in Mining Companies on the Indonesia Stock Exchange

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ABSTRACT: This research investigates the influence of capital structure, liquidity, and profitability on firm value, with the disclosure of sustainability reports serving as a moderating variable in mining companies listed on the Indonesia Stock Exchange. The study population comprises all mining firms listed on the exchange, and a purposive sampling method was employed to select a sample of 35 companies over a three-year observation period. Data were collected through documentation techniques, and the analysis was conducted using multiple linear regression. The findings reveal that capital structure exerts a negative impact on firm value, whereas liquidity and profitability have a positive influence. Furthermore, the disclosure of sustainability reports is found to moderate the relationship between capital structure, liquidity, profitability, and firm value.

KEYWORDS: Capital Structure, Liquidity, Profitability, Company Value, Sustainability Report.

I. INTRODUCTION

Investor perceptions regarding a firm's potential are often encapsulated in its market valuation, particularly its share price. Within the framework of firm theory, a company's fundamental aim is to enhance its overall valuation, which aligns with the goal of increasing shareholder wealth. This pursuit is crucial, as the growth of firm value is inherently tied to the enhancement of shareholder prosperity. A firm's perceived future performance significantly influences its market position; when investors believe the company holds strong future potential, this is typically reflected in elevated stock prices (Hirdinis M, 2019).

According to statistics provided by the Indonesia Stock Exchange, the company value measured by PBV is inconsistent in listed mining companies. The company value changes erratically every year, profitability ratios, liquidity and capital structure are not always directly proportional to changes in company value.

Tabel 1. 1. Value of Mining Companies Listed on the IDX in 2021-2023

Year	Profitability (ROA)	Liquidity (CR)	Capital Structure (DER)	Company Values (PBV)
2021	0.14	2.53	0.99	2.41
2022	0.23	2.24	1.09	2.79
2023	0.17	3.17	0.99	2.22

The selection of an appropriate capital structure is a critical decision for any company, as it significantly influences the firm's capacity to identify and invest in projects with the potential for higher returns. The investment choices a company makes directly affect its competitive advantage, particularly in dynamic and challenging market conditions. Fundamentally, a company's capital structure represents a combination of various financial instruments. In general, firms have multiple alternatives when determining their capital structure. They may opt to raise substantial debt, utilize lease financing, issue convertible securities such as warrants or bonds, or engage in financial instruments like futures contracts and bond trading. The company can also issue dozens of different securities in unlimited combinations; however, the company tries to get the right combination that makes the most of the general market value (Aishwarya, 2020).

Several studies have examined the relationship between capital structure and firm value. Hirdinis M, (2019) identified a significant positive influence of capital structure on the value of a company. In contrast, Bidaya et al. (2023) reported that, when considered together, liquidity and capital structure do not exhibit a significant impact on firm value. And in his research, he advised prospective investors to consider other variables if they want to invest in a company. This is certainly a consideration of other variables that affect company value

Financial issues within a company often stem from challenges in maintaining sufficient liquidity to fulfill its short-term financial obligations. Liquidity reflects a company's capacity to meet immediate debts as they become due. It demonstrates the firm's ability to repay short-term liabilities to its creditors. One common method to assess liquidity is through the Current Ratio (CR), which is calculated by dividing current assets by current liabilities (Awaliya et al. 2023). The level of a company's liquidity serves as a critical indicator for potential investors, creditors, and suppliers in evaluating the firm's ability to secure and manage short-term financing.

One of the company's value variables is profitability, because profitability symbolizes the company's future prospects. A company's profitability can be proxied by *Return on Equity* . High ROE means high profitability, because the rate of return is also higher. ROE in manufacturing companies in Indonesia moves in a fluctuating, There is experiencing increases, decreases, and even decline from year to year (Suzulia et al. 2020).

Indonesia has acknowledged the importance of corporate social responsibility since 1999. Despite this, its application has been limited mainly to State-Owned Enterprises, and there has been an absence of formalized guidelines specifying the format or substance of sustainability reports. As a result, such disclosures have remained largely discretionary. Data from the Financial Services Authority (OJK) in 2016 indicated that only about 9% of companies listed on the Indonesia Stock Exchange (IDX) had released sustainability reports in accordance with the Global Reporting Initiative (GRI) Standards, with reporting still being voluntary at that time. This changed with the issuance of OJK Regulation No. 51/POJK.03/2017, which mandates that all issuers, including financial institutions, progressively implement sustainability reporting starting from the 2019 fiscal year (Farhana & Adelina, 2019).

Based on the inconsistency of previous studies above, this study uses research variables such as capital structure, liquidity, and profitability as part of company performance and company value. In addition, sustainability performance is also used as a moderating variable.

II. LITERATURE REVIEW

A. Stakeholder Theory

Freeman (1984) identifies stakeholders as any parties whose interests are tied to, or who may impact, an organization's pursuit of its objectives. Sustaining constructive engagement with these parties is vital, particularly with those whose influence directly affects access to essential operational resources such as workforce supply, product demand, and capital investment.

B. Signaling Theory

The signaling theory examines how information conveyed through market movements such as changes in stock or bond prices can serve as indicators that shape investor behavior. These signals, whether interpreted as positive or negative, significantly influence how investors engage with the market. In response, some may pursue investment opportunities aggressively, particularly when assets appear undervalued, while others may adopt a more cautious stance, opting to observe market trends before making financial decisions.

C. Sustainability *Report*

The sustainability report serves as an instrument for communicating a company's overall performance, extending beyond financial outcomes to encompass social and environmental dimensions. This type of reporting plays a crucial role in fostering long-term organizational sustainability. The Global Reporting Initiative (GRI), a leading authority in sustainability disclosure, defines such reports as systematic efforts to assess and reveal an organization's operations. These disclosures aim to fulfill the company's accountability to both internal and external stakeholders by illustrating its commitment to sustainable development objectives.

D. Company Values

Firm value reflects investors' assessment of a company's overall worth, commonly indicated by its stock price. According to the theory of the firm, the primary objective of a company is to enhance its value or shareholder wealth. Enhancing firm value is crucial, as it directly contributes to increasing shareholder prosperity, which represents the core objective of corporate operation.

E. Capital Structure

A firm's approach to structuring its capital is a fundamental aspect of financial strategy, as it shapes its capacity to allocate resources toward profitable ventures. Strategic investment choices not only influence a company's growth trajectory but also enhance its resilience in competitive and rapidly evolving markets. At its core, capital structure represents the proportionate use of various funding sources. Companies typically have multiple configurations to consider when determining the most effective financing arrangement.

***F.* Liquidity**

The ability of a company to maintain adequate liquidity is a significant element influencing its profit-making potential. Liquidity reflects how effectively a firm can manage and fulfill its short-term financial commitments, both from internal operations and external entities. When a company exhibits high liquidity, it indicates a stronger position in covering its immediate liabilities using its current assets, which in turn may lead to improved profitability (Qur'ani & Purwaningsih, 2022).

***G.* Profitability**

Profitability, as discussed by Weston and Brigham, represents the extent to which management is able to utilize resources efficiently to generate income, typically evaluated through the relationship between profit and either sales or investment. Thus, understanding the effectiveness of management can be achieved by analyzing the profitability ratios that reflect the financial performance within a particular community or entity.

III. METHODOLOGY

This study uses quantitative analysis, where this quantitative evaluation when looking at the relationship between the variables studied is more causal to the object to be studied. The research targeted entities within the mining sector that are publicly traded on the Indonesia Stock Exchange. A total of 35 companies were selected through a purposive sampling method, covering a span of three years. The study relied on secondary data gathered from existing documentation, and the analysis was conducted using a multiple linear regression approach.

IV. RESULTS

This research focuses on mining sector firms that were publicly listed on the Indonesia Stock Exchange (IDX) and whose data were accessible through their official websites during the 2021–2023 timeframe. Initially, 91 companies were identified as the study population. Through purposive sampling, 35 companies were selected, yielding a total of 105 observational data points across the three-year period. Nonetheless, due to the detection of 25 outliers, the final dataset was refined to 80 valid observations for analysis.

Table 4. 1 Value of Mining Companies Listed on the IDX in 2021-2023

Coefficients [a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.374	.254		1.473	.145
	DER	-.130	.059	-.184	-2.218	.030
	CR	.139	.047	.237	2.935	.004
	ROE	.947	.382	.288	2.480	.015
	CSR	-.382	.964	-.031	-.396	.693
	DER_CSR	.299	.141	.173	2.120	.037
	CR_CSR	-.249	.118	-.174	-2.111	.038
	ROE_CSR	9.825	2.296	.507	4.279	.000
a. Dependent Variable: PBV						

CSR = 0.374 - 0.130 DER + 0.139 CR + 0.947 ROE - 0.382 CSR + 0.299(DER*CSR) – 0.249 (CR*CSR) + 9.825 (ROE*CSR)

The multiple linear regression equation can be described as follows:

a = 0.374 means if DER , CR, ROE and CSR *is worth zero percent or does not experience any change, then the* PBV value is 0.374 .

X_1 = DER has a negative effect on PBV with a value of 0.130, meaning that if DER increases while CR, *ROE* and *CSR* remain the same, the PBV will decrease by 0.130.

X_2 = CR has a positive effect on PBV with a value of 0.139, meaning that if DER increased while DER, *ROE* and *CSR* remains the same, then the PBV will increase by 0.139.

X_3 = ROE has a positive effect on PBV with a value of 0.947, meaning that if ROE increases while DER, CR and *CSR* remain the same, the PBV will increase by 0.947.

X1*M = Coefficient 0.299 with standard error 0.141, Beta 0.299, t value 2.120, and Sig. 0.037. This shows that the interaction between DER and *CSR* is significant, meaning that *CSR* moderates the effect of DER on PBV .

X2*M = Coefficient -0.249 with standard error 0.118, Beta -0.174, t value -2.111, and Sig. 0.038. This shows that the interaction between *CR* and *SCR* is significant, meaning that *CSR* moderates the effect of *CR* on PBV .

X3*M = Coefficient 9.825 with standard error 2.296, Beta 0.507, t value 4.279, and Sig. 0.000. This shows that the interaction between *ROE* and *CSR* is significant, meaning that *CSR* moderates the effect of *ROE* on *PBV.*

V. DISCUSSION

A. The Effect of Capital Structure (DER) On Company Value (PBV)

The outcomes of the hypothesis testing indicate that capital structure has a statistically significant negative impact on firm value among mining companies listed on the Indonesia Stock Exchange. This suggests that an increase in debt within a company's financial structure is generally followed by a decrease in the company's market valuation. Therefore, the study's first hypothesis is empirically supported.

The test results highlight that as the Debt-to-Equity Ratio (DER) rises, firm value tends to decline. This inverse relationship may be explained by the average DER of mining companies during the 2021–2023 period, which was recorded at 0.9673 or 96.73%. This figure reflects the companies' considerable reliance on debt to finance their assets. Heavy dependence on borrowed capital leads to higher interest expenses and increased financial risk, which includes a greater probability of incurring bankruptcy-related costs. These risks can erode investor trust and market confidence, ultimately resulting in a decline in stock performance and overall firm value.

Capital structure refers to the financial configuration of a company, especially the proportion between long-term debt and equity capital that serves as the foundation for funding corporate activities. Companies with elevated solvency ratios, indicated by high DER values, often face amplified financial risk due to their larger debt loads, even though such a structure may offer opportunities for higher returns. A DER above 1 implies that liabilities surpass equity, positioning the firm in a financially leveraged state. While leverage can potentially enhance returns, it also makes the company more vulnerable to financial distress and external shocks. These findings are in accordance with those of previous research conducted by Chen & Prentice, (2025) and Kahfi et al. (2024), both of which concluded that greater reliance on debt financing is associated with a reduction in firm value. The results reinforce the argument that while debt can be a strategic tool, excessive leverage in capital-intensive sectors like mining may pose significant threats to long-term corporate sustainability and investor perception.

B. The Effect Of Liquidity (CR) On Company Value (PBV)

The hypothesis test outcomes demonstrate that liquidity significantly and positively affects the valuation of mining firms listed on the Indonesia Stock Exchange. This outcome confirms the acceptance of the study's second hypothesis.

Liquidity reflects a firm's efficiency in settling its immediate financial commitments. The extent of these obligations can influence profitability larger debt obligations often lead to diminished earnings due to high interest expenses, whereas smaller obligations may support greater profit margins. One common measure of liquidity, the current ratio, evaluates the proportion of current assets to current liabilities. A strong current ratio indicates a firm's ability to cover short-term debts, thereby reducing the risk of financial distress. This financial resilience enhances investor confidence, potentially driving up the firm's share price and overall market value. Therefore, strategic liquidity management is essential in supporting sustainable firm value. The present findings align with previous research by Parvin et al. (2019) and Sari et al. (2023), which also established a significant and positive relationship between liquidity and firm value.

C. Influence Of Profitability (ROE) To Company Value (PBV)

The analysis reveals that profitability significantly and positively contributes to the enhancement of a firm's value, leading to the acceptance of hypothesis H3, which asserts that "profitability positively influences firm value." In essence, profitability reflects how effectively a company's management utilizes its resources to generate financial returns, typically assessed through profits relative to revenue or invested capital. One of the key indicators in evaluating profitability is the Return on Equity (ROE), which measures how efficiently a company generates net income from shareholders' equity. This metric is particularly relevant to investors, as it highlights the firm's ability to deliver returns on their capital contributions. A high or increasing ROE suggests that the management is successful in optimizing capital to produce profit, signaling favorable future business prospects. Moreover, the findings of this study are consistent with those of Rachmat et al. (2019) and Suzulia et al. (2020), both of which demonstrate that profitability has a statistically significant and positive impact on firm value.

D. The Influence Of Capital Structure (DER) On Company Value With Sustainability Reports As A Moderating Variable

The empirical findings reveal that sustainability report disclosure significantly amplifies the relationship between capital structure represented by the Debt-to-Equity Ratio (DER) and firm value. This outcome supports Hypothesis H4, which asserts that "Sustainability report disclosure serves as a moderating variable in the relationship between capital structure and firm value."

An elevated DER signals a heightened risk of default on credit obligations, encouraging firms to present stronger short-term earnings as a strategic response. Companies with high leverage are generally exposed to greater financial risk; however, such firms often possess substantial capital and profitability, which can contribute positively to their market valuation. These dynamics suggest that investors tend to exercise increased scrutiny when assessing firms with high leverage prior to making investment decisions. This conclusion aligns with previous research conducted by Lating et al. (2018) and Hapsoro & Husain (2019), both of which found that sustainability reporting plays a moderating role in the influence of capital structure on firm performance

E. The Effect Of Liquidity (CR) On Company Value With Sustainability Reports As A Moderating Variable

The analysis reveals that the interaction between liquidity, measured by the Current Ratio (CR), and sustainability report disclosure leads to a diminished effect of liquidity on firm value. This finding confirms Hypothesis 5, which asserts that the disclosure of sustainability reports plays a moderating role in the relationship between liquidity and company value.

Firms exhibiting high liquidity typically face lower financial risk, as this indicates a strong capacity to meet short-term liabilities punctually. Such financial stability enhances the firm's trustworthiness and reinforces a favorable reputation among stakeholders. This positive corporate image encourages continued stakeholder confidence and support. Empirical evidence provided by Hapsoro and Husain (2019) as well as Pambudi and Maini (2023) supports this conclusion, indicating that sustainability reporting effectively moderates the link between liquidity and firm valuation.

F. The Effect Of Profitability (ROE) On Company Value With Sustainability Reports As A Moderating Variable

The test results indicate that the relationship between profitability, proxied by Return on Equity (ROE), and firm value is significantly influenced by the presence of sustainability report disclosures. This suggests that the sustainability report acts as a reinforcing factor, enhancing the effect of profitability on firm value. Therefore, hypothesis H6, which states that "sustainability report disclosure moderates the influence of profitability on firm value," is empirically supported.

When a firm achieves high profitability, it is generally perceived by investors as being capable of managing its resources efficiently, which contributes to a positive outlook regarding the company's long-term performance. A rising ROE reflects competent management in utilizing financial capital to produce income, thus strengthening the link between profitability and share price. As share prices increase, so too does the overall valuation of the company.

Additionally, the sustainability report provides qualitative insights that complement financial performance, offering stakeholders a more comprehensive understanding of the firm's operations and commitment to long-term value creation. This transparency can enhance investor trust and interest, thereby contributing to higher firm value. These findings align with prior research by Lating et al. (2018) and Hapsoro & Husain (2019), both of which emphasize the moderating role of sustainability reporting in the profitability–firm value nexus

VI. CONCLUSION AND RECOMMENDATIONS

The study concludes that a firm's capital structure exerts a negative influence on its overall value, whereas liquidity and profitability contribute positively to enhancing firm value. Moreover, the publication of sustainability reports plays a moderating role in the relationship between capital structure, liquidity, and profitability, thereby reinforcing their impact on the firm's value.

In light of these findings, mining companies are advised to place greater emphasis on improving liquidity, as it is positively correlated with higher firm valuation. Strategic financial management should include reducing overreliance on debt by fostering a more balanced capital composition and ensuring transparency and operational efficiency. To enhance profitability, firms should adopt comprehensive strategies focusing on revenue growth, cost optimization, improved asset utilization, and productivity enhancement, all while ensuring service excellence and preserving a robust capital structure.

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