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CAPITAL STRUCTURE, PROFITABILITY, HEDGING POLICY, FIRM SIZE, AND FIRM VALUE: MEDIATION AND MODERATION ANALYSIS

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ABSTRACT

This study aims to ascertain how the capital structure affects firm value via profitability moderated by hedging practices and firm size. Verification analysis is used in this study, with data analysis techniques through conditional process analysis. Companies from miscellaneous industrial sectors that were listed on the Indonesia Stock Exchange between 2016 and 2020 make up the research population. The study showed that: capital structure affects profitability; capital structure and profitability affect firm value; profitability does not mediate the effect of capital structure on firm value, which is moderated by hedging policies and firm size; hedging policies and firm size do not moderate the indirect effect of profitability on firm value. This conclusion is crucial for decision-makers who aim to optimize the structure to raise the business value.

Keywords: Firm value, profitability, capital structure, hedging policy, firm size

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INTRODUCTION

In making investment decisions, apart from external macroeconomic factors, the company's internal factors are also considered indicators of firm value, such as capital structure, profitability, hedging policy, firm size, etc. The value of the company is essential since it reflects the company's performance, which might affect how investors see the company. (Susanti et al., 2018). The stock price-to-book value ratio is a popular metric for making investment decisions (Lestari et al., 2020). To put it another way, the book value of a firm is calculated by dividing the total value of its assets by the total number of shares it has issued. In other words, the book value of the shares is an accurate representation of the fair value of the issuer's shares, whereas the share price is affected by a range of variables and market sentiment. (Uzliawati et al., 2018). The stock exchange price of shares always reflects the company's estimated future performance or book value (Dang et al., 2020). Because, in essence, people who buy shares are purchasing the future in order to invest in it over time (Burkart & Lee, 2013).

The companies chosen for this study will be chosen by comparing the value of the Industrial Price Book Value (PBV) ratio in each sector on the

Indonesia Stock Exchange. The first step is to compute the Price Book Value (PBV) ratio data. The nine sectors that makeup industries are listed on the Indonesia Stock Exchange. Price Book Value (PBV) is crucial to the sector since it might affect investors' choices to invest in particular companies.

Table 1 shows the average variation of changes occurring yearly in each industry sector's Price Book Value (PBV). Changes from 2016 to 2020 fluctuated with a different average price book value (PBV) in each sector. The highest average price book value (PBV) is in the consumer goods industry sector, with an average price book value (PBV) of 4,93 times, while the lowest average price book value (PBV) is in the miscellaneous industries sector, which is 1,64 times and fluctuates, tending to decrease. Even though manufacturing companies in the miscellaneous industries sector have a low average price book value (PBV) and have experienced decreased fluctuations, the interest in investing in this sector is still quite attractive. This can be seen in the strengthening of the JCI in May and December 2020, as well as in May 2021, with the highest increases occurring in the various industrial sectors.

Table 1: Price Book Value (PBV) of Industry per Sector of Listed Companies on the Indonesia Stock Exchange from 2016 to 2020 (in units of times).

| No. | Industry Classification | 2016 | 2017 | 2018 | 2019 | 2020 | Average PBV |
|-----|--|------|------|------|------|------|-------------|
| A | Main Sector | | | | | | |
| 1 | Agriculture Sector | 3,64 | 3,02 | 1,96 | 1,19 | 1,31 | 2,22 |
| 2 | Mining Sector | 1,57 | 1,67 | 3,24 | 2,26 | 2,01 | 2,15 |
| B | Manufacturing Sector | | | | | | |
| 1 | Basic and Chemical Industry Sector | 1,51 | 5,83 | 1,87 | 1,54 | 1,63 | 2,48 |
| 2 | Miscellaneous Industries Sector | 1,23 | 1,24 | 1,3 | 2,8 | 1,62 | 1,64 |
| 3 | Consumer Goods Industry Sector | 5,4 | 5,58 | 5,65 | 4,17 | 3,83 | 4,93 |
| C | Service Sector | | | | | | |
| 1 | Property, Real Estate & Building Construction Sector | 1,63 | 1,78 | 2,19 | 2,22 | 1,58 | 1,880 |

Table 2: Continued

| No. | Industry Classification | 2016 | 2017 | 2018 | 2019 | 2020 | Average PBV |
|-----|--|-------|------|------|------|------|-------------|
| 2 | Infrastructure, Utilities, and Transportation Sector | -0,86 | 4,17 | 1,82 | 2,34 | 1,91 | 1,876 |
| 3 | Financial Sector | 1,84 | 1,97 | 2,27 | 2,42 | 2,45 | 2,19 |
| 4 | Trade, Services, and Investment Sector | 1,88 | 6,43 | 2,72 | 2,56 | 2,12 | 3,14 |

Source: idx.co.id (processed)

The factors that are thought to affect firm value are profitability (Santosa et al., 2020; Yondrichs et al., 2021). Profitability, which is represented by the profit made from sales and investment income, is the appropriate variable to quantify the level of managerial efficacy in a company (Endri, 2019). Return on equity (ROE), which illustrates how the company's success is observed from the usage of the company's overall capital in creating profits, is used as a proxy for the profitability ratio in this study (Zhang et al., 2020).

The other factor that is thought to affect the profitability and value of the company is its capital structure (Sudiyatno et al., 2020). A high capital structure value will negatively influence or impact the company's finances. Companies that are not able to manage funds effectively and efficiently will see their profits reduced because the greater the value of debt, meaning that the amount of own capital cannot meet all of the company's fixed obligations, the smaller the profit generated.

International economic relations between countries are needed in the industrial era 4.0 and society 5.0. This relationship is characterized by the exchange of products and production facilities, as well as accounts payable and other relationships. International trade provides opportunities and challenges for companies to be able to compete and improve their performance so that company goals can be achieved. Export growth by business sector from January 2020 to December 2021 Every year, export growth is dominated by the manufacturing sector. The average contribution from the manufacturing sector is 78.72%, the mining sector is 14.24%, the agricultural sector is 2.18%, and the oil and gas sector is 5.18%. In 2021, it can be seen that manufacturing companies experienced a decline

in exports by 3.84%. This indicates that fluctuations in foreign exchange rates affect the export level of manufacturing companies.

Due to the global economy, local and multinational businesses now conduct exports and imports in foreign currencies, and activities in the global credit market may be subject to exchange rate swings. Due to the dollar phenomenon, there may be variations in the exchange rate that result in the rupiah appreciating or depreciating versus the dollar. This phenomenon needs to be managed to minimize adverse risks or vice versa to be able to take advantage of opportunities due to the difference in currency values. Based on this, a hedging policy is necessary to mitigate the risks posed by international trade, namely foreign exchange prices (Bessler et al., 2019; Gao et al., 2015). The study's goal is to ascertain whether this hedging strategy can moderate the impact of the capital structure through profitability on the company's value.

Firm size is another regulating factor that plays a part. The direct effect of capital structure on firm value or the indirect effect of capital structure through hedging policy on firm value can both be strengthened as a company's size increases. The larger the firm size, the stronger the influence. Every company must have a desire to always report positive profit growth, as it is hoped that this will be able to attract investors to invest their capital. Companies with a larger size are considered to have a lower level of negative risk because they are considered to have greater access or reach to the capital market to obtain funds and increase company value (Sundarsih & Andriati, 2020).

According to Almahadin & Oroud (2020), without taking into account the interaction of profitability as one of the key variables, the

impact of a capital structure appears complex and challenging to examine. Investigating the interaction impact therefore produces a plethora of data and improves knowledge of the connection between value to the company and capital structure. However, only one interaction variable was included in this study. According to N. Ahmed & Afza (2019), high debt ratios are detrimental to accounting performance. High product market competitiveness can be utilized as a replacement for debt financing to align managers' and company shareholders' interests because it negatively alters the link between capital structure and firm performance. However, the impact of capital structure on firm value has not been explained in this study.

Doorasamy (2021) discusses how capital structure affects firm value. The findings indicate that increased debt reduces firm value. Mills & Mwasambili (2022) educate managers about the costs that will be incurred by the company by ignoring the power to choose the capital structure. However, the findings of these two studies only apply to companies in African countries. Unlike Nguyen et al (2020), this study solely considers businesses in the food and beverage sector in Vietnam. They show that capital structure has a positive link with firm value.

There has been substantial research on the function of profitability in mediating the impact of capital structure on value to the company. (Al-fisah & Khuzaini, 2016; Hamidy et al., 2015; Kartika, 2021; Kirana & Badjra, 2018; Yusuf et al., 2022; Zulfa, 2020), but this research will expand its scope. So that there are several novelties that will be presented, among others: (1) incorporating hedging policy and firm size as moderating variables into the effect of capital structure on firm value as mediated by profitability (2) research model with moderated mediating effect (3) exploring companies in one of the emerging countries in the ASEAN region. To support the novelty, the data analysis method will be based on one of the models (Hayes, 2018), commonly called conditional process analysis.

LITERATURE REVIEW

Capital structure is defined as the ratio of a company's debt to its own capital as recorded in its financial records at the end of the year. The debt-to-equity ratio can be used to assess the

capital structure of a corporation (DER). A financial structure that demonstrates the comparative composition of the company's sources of funds in financing its operations. The decision to choose a source of funds is critical for every company because it affects the company's financial structure, which in turn affects profitability. The trade-off approach is unable to account for the inverse relationship between profitability and debt ratio. The trade-off method, according to Myers (1977), suggests that raising DER value (growing the amount of debt) can increase profitability, but only if the debt is utilized effectively. Studies by Rinofah et al. (2021) and Sriwananda et al. (2021) indicate that capital structure affects profitability favorably.

The trade-off theory explains that the more debt the company uses, the higher the company's stock price will be at the optimal target capital structure. As a result, if the capital structure is below the ideal goal value, the value of the business will rise whenever the level of debt rises. The assumption of the MM theory with taxes explains that the higher the debt used by the company, the more its stock price can reach its maximum value. According to Hermuningsih (2013), the theory of capital structure defines the company's funding strategy when determining the capital structure to maximize the company's value. Studies by N. Y. P. Pratiwi et al. (2016) and Setiawan et al. (2021) studied the relationship between capital structure and firm value and found that there was a substantial positive relationship between the two.

One of the elements influencing corporate value is profitability as measured by return on equity (ROE). High profitability will result in high net earnings per share as well as a high value for the company (Saputri & Giovanni, 2021). Investors typically seek out businesses with high levels of profitability since it suggests a high rate of return (Martins & Lopes, 2016). As a result, businesses that can produce significant profits will inspire more investors to put money into those businesses. High profitability may raise the price of the company's stock. According to the signaling theory (Acep Komara et al., 2020), strong profitability is a sign of

promising business prospects, and as a result, investors will be pleased and the value of the company will rise.

As long as the DER has not yet achieved its ideal position, the trade-off hypothesis states that as the DER increases, the firm's value increases as well. According to trade-off theory, greater DER value (debt amount) can increase profitability, but only if the debt is increased and used carefully. Research by According to Hamidy et al (2015) and Rahman (2014), profitability can mitigate the impact of the capital structure on value to the company.

Try to add a moderating variable of hedging policy and firm size to this study. International trade transactions usually use foreign currency. These transactions cause debt or profits, but fluctuations in the value of foreign exchange can change at any time, so hedging policies are needed to mitigate these risks. The size of the company will also have an impact on both small and large companies in international trade. Large companies can usually get funding sources and be trusted by other companies, so that they can increase profits and have an impact on company value.

The company's hedging policies is an action that aims to increase the company's worth. Investors will place a higher value on companies that engage in hedging efforts in this circumstance (Suriawinata, 2004). To limit the risk of loss due to variations in foreign currency exchange rates, the company must implement a hedging policy approach to decrease exposure and other risks that may affect currency values in financing activities, damaging the company's value. The larger capital structure, which is matched with hedging measures, is projected to reduce risk and boost profitability, resulting in increased firm value (Siswanto & Promalesy, 2021).

One of the factors that investors consider is the company's size. In terms of fund management, larger companies typically have better management. Large corporations typically have long-term financial plans and strategies for implementing those plans. The larger the company, the more likely investors will place their trust in it. The company is considered capable of regulating and controlling

the company's capital structure. In other words, the size of a company, as measured by total assets, will determine the ease with which it will be able to get funds to develop the company's business with large amounts of debt. In other words, the size of a company affects the company's capital structure (Yuwanita et al., 2020).

Companies with large sizes tend to draw investors to invest in them to raise the firm value itself. This is because large companies have tremendous confidence in their ability to raise money, making it simpler for them to receive credit or loans from other people (Dewantari et al., 2019), and can also mitigate risks arising from foreign exchange transactions.

Figure 1 shows the conceptual framework of the study based on the relationships between variables that have been described previously.

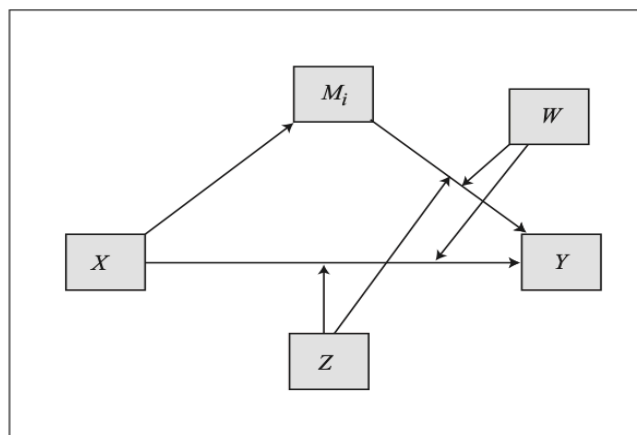


Figure 1: Conceptual Framework

Source: authors' work.

X represents the capital structure; M stands for profitability.; W stands for Hedging Policy.; Z stands for the company's size.; Y stands for Firm Value.

Based on the conceptual framework above, the hypotheses of this research are:

H1: Capital structure affects profitability

H2: Capital structure affects firm value

H3: Profitability affects firm value.

H4: Profitability mediates the effect of capital structure on firm value, which is

moderated by hedging policies and firm size.

- H5: Hedging policies moderate the direct effect of the capital structure on firm value.
 H6: Firm size moderates the direct effect of the capital structure on firm value.
 H7: Hedging policies moderate the indirect effect of profitability on firm value.
 H8: Firm size moderates the indirect effect of profitability on firm value

METHODOLOGY

Fifty-six manufacturing firms in the miscellaneous industries category listed on the

Indonesia Stock Exchange in 2016–2020 make up the study's population. Thirty-nine companies were included in the sample, which was chosen using a purposive sampling approach and a non-probability sampling method.

For each of the variables under study, the operationalization of the variables is shown in Table 2. The factors that will be examined are capital structure, which is determined by the debt-to-equity ratio. Profitability is determined by the return on equity. Hedging practices are determined by dummy variables (0 = No Hedging, 1 = Hedging), firm size, which is determined by total assets, and firm value, which is determined by the price to book value.

Table 3: Variable Operations.

| Variable | Indicator | Formula | Reference |
|-----------------------|----------------------------|---|--|
| Capital Structure (X) | Debt to Equity Ratio (DER) | $\frac{\text{Total Debt}}{\text{Total Equity}}$ | (Kasmir, 2016; Zutter & Smart, 2019) |
| Profitability (M) | Return on Equity (ROE) | $\frac{\text{Profit After Tax}}{\text{Total Equity}}$ | (Macedonia & Alshiqi, 2021; Setiawanta et al., 2021) |
| Hedging Policies (W) | Dummy Variabel | 0 = No Doing Hedging 1 = Doing Hedging | (H. Ahmed et al., 2020; Wahyudi et al., 2019) |
| Firm size (Z) | Total Asset | Ln Total Asset | (Farlinno & Bernawati, 2020) |
| Firm Value (Y) | Price to Book Value (PBV) | $\frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$ | (Chabachib et al., 2019; Saputri & Giovanni, 2021) |

Source: authors' compilation

Furthermore, we used verification analysis to determine the relationship between two or more variables. This method is used to test the truth of a hypothesis. Conditional process analysis using SPSS and PROCESS macros was the method of data analysis employed in this study. This technique can be used when research aims to understand and describe the conditional nature of a mechanism where one variable transmits its influence on another variable and test the hypothesis about the contingency of an influence (Hayes, 2018). The Hayes models that will be used are models 4 and 17 in accordance with the proposed conceptual framework.

RESULT AND DISCUSSION

The path coefficient test's t-statistical value and the r-square (reliability indicator for the dependent construct) can be used to gauge the effectiveness of model testing. The higher the value of r-square, the better the proposed research model's prediction model. In hypothesis testing, the path coefficient value indicates the level of significance. Model strength, moderate strength, and model weakness are all indicated by R² values of 0,75, 0,50, and 0,25, respectively. (Ghozali and Latan, 2014:78). The higher the R² value, the better the proposed research model's prediction model. In

addition, hypothesis testing will be performed based on the proposed hypothesis.

The results of the coefficient of determination are displayed in Table 3. 17,01% of the variability of the profitability construct may be described by the capital structure, while the remaining 82,99% is explained by other constructions outside the scope of the study. Meanwhile, capital structure

and profitability are able to explain the variability of the firm value construct by 13,83% before the moderating variables of hedging policy and firm size are included in the model. After the inclusion of the moderating variable, the r-square value increased to 50,33%; the remaining 49,67 was another construct outside the study.

Table 4: Coefficient of Determination

| | R Square | Information |
|---|----------|----------------|
| Profitability | 0,1701 | Weak Model |
| <i>Before Moderation</i> Firm Value | 0,1382 | Weak Model |
| <i>There is moderation.</i> Firm Value | 0,5033 | Moderate Model |

Source: Data processed, 2022

Table 4 shows the results of hypotheses 1, 2, and 3 tests based on the PROCESS Macro Model 4 (Hayes, 2018), which uses the Bootstrap Method (Resample = 5000) to test it. Based on the findings in table 4, the first hypothesis predicts that capital structure impacts profitability. There is an effect of capital structure on profitability ($b = -0,0123$; $SE = 0,0020$; $p = 0,001$). Thus, H1 is accepted. Financial management's expenditures will form a financial structure that will show the comparative composition of the company's sources of funds in financing the company's operations. The decision on the source of funds is critical for every company because it affects the company's financial structure, which in turn affects profitability. As measured by debt to equity, the company's source of funds is reflected by foreign capital as a source of spending on its assets. If the DER is higher, the company's ability to achieve profitability is reduced, implying that the DER has a negative relationship with profitability (Dewi & Abundanti, 2019; Achmad Komara et al., 2016; Lilia et al., 2019; Rifai et al., 2015).

Furthermore, based on the findings in table 4, the second hypothesis predicts that capital structure affects firm value. H2 is approved since there is a relationship between the capital structure and firm value ($b = 0,0639$; $SE = 0,0253$; $p < 0,05$). There are numerous advantages to using debt in the capital structure. According to the trade-off theory, using debt causes more of the company's operating profit to be accepted by

the investor market. As a result, the greater the use of debt by a company, the greater its value and share price. The trade-off theory states that any new debt will raise the company's value if the capital structure is below the ideal point. However, any new debt will lower the company's value if the capital structure is above where it should be. The trade-off hypothesis predicts a favorable correlation between business value and capital structure, assuming that the optimal capital structure aim has not been attained (Setiawan et al., 2021). According to Nopianti & Suparno (2021), the capital structure increases firm value.

The third hypothesis assumes that firm value is influenced by profitability. Based on the results shown in table 4, there is an effect of profitability on firm value ($b = -2,9163$; $SE = 0,8433$; $p = 0,001$), thus H3 is accepted. Management's performance in managing the available capital has not been maximized, causing net profit to be smaller than equity. It can be seen from the results of the descriptive analysis that this profitability freefall peaked in 2021, posting negative profitability compared to the company value, which tends to be stable. This finding is since while a company's profitability will increase its profit per share, it will not always lead to a rise in the share price. Therefore, if earnings per share rise without also rising share prices, it will affect the company's value (H. R. Pratiwi & Aligarh, 2021).

Table 5: Hypothesis Testing 1, 2, and 3.

| Outcome Variable: Profitability | | | | | | |
|--|----------|-----------|----------|----------|------------------|---------|
| Variable | <i>b</i> | <i>SE</i> | <i>t</i> | <i>p</i> | Bootstrap 95% CI | |
| | | | | | LLCI | ULCI |
| Constant | 0,353 | 0,235 | 1,4990 | 0,1355 | -0,0111 | 0,0817 |
| Capital Structure | -0,0123 | 0,0020 | -6,2900 | < 0,001 | 0,6892 | 0,8287 |
| $R^2 = 0,1701$; $F = 39,5641$; $p < 0,001$ | | | | | | |
| Outcome Variable: Firm Value | | | | | | |
| Constant | 1,5489 | 0,2777 | 5,5785 | < 0,001 | 1,0013 | 2,0966 |
| Capital Structure | 0,0639 | 0,0253 | 2,5303 | < 0,05 | 0,0141 | 0,1137 |
| Profitability | -2,9163 | 0,8433 | -3,4543 | < 0,001 | -4,5815 | -1,2511 |
| $R^2 = 0,1382$; $F = 15,3906$; $p < 0,001$ | | | | | | |

Source: Data processed, 2022

Table 5 shows the results of the tests of hypotheses 4, 5, 6, 7, and 8, based on the PROCESS Macro Model 4 (Hayes, 2018), which uses the Bootstrap Method (Resample = 5000) to test it. The fourth hypothesis predicts that profitability mediates how the capital structure affects a firm's value, which is moderated by hedging policies and firm size. Further mediation analysis based on the bootstrap method shows that profitability does not mediate the effect of capital structure on firm value as moderated by hedging policies and firm size as presented in table 5. The indirect impact of capital structure on firm value through profitability is calculated with a 95 percent bootstrap confidence interval. H4 is rejected because the Bootstrap Confidence Hedging Policy Interval is [-0,1095 to 0,7318] and the Bootstrap Confidence Interval Firm Size is [-0,152 to 0,0491].

The study's findings indicate that even debt that can boost a company's profitability won't be able to raise the business's power since profitability is unable to mitigate the impact of capital structure on firm value. This study is consistent with that of Hirdinis (2019), Kartika, (2021). Thus manufacturing companies in the miscellaneous industries sectors on the Indonesian stock exchange cannot increase firm value by increasing debt since the increase in debt also cannot increase profitability, which indirectly cannot increase firm value. Thus, firm size does not mediate firm value when the additional profitability variable is present or when hedging practices restrain the company's capacity for profit.

The fifth hypothesis proposes that hedging practices moderate the direct impact of capital structure on firm value. Table 5's findings

demonstrate that the capital structure and hedging strategy interact negatively and significantly ($b = -1,776$, $p < 0,001$) in predicting firm value, so H5 is accepted. Hedging is a strategy used by the corporation to raise the value of the company. Investors will therefore place a higher value on companies that engage in hedging operations. The company must put in place a hedging policy approach to lessen exposure and other risks that can affect currency values in financing activities, which in turn will have an impact on the company's value, in order to limit the risk of loss due to changes in foreign exchange rates. The larger the capital structure, as long as it is balanced with hedging measures, the less risk there will be and the more valuable the company will be.

Then the sixth hypothesis surmises that firm size moderates the direct effect of capital structure on firm value. Table 5's findings indicate a negative and substantial relationship between capital structure and firm size ($b = -0,3906$, $p < 0,001$) in predicting firm value, so H6 is accepted. The interaction coefficient is negative, indicating that firm size has a negative moderating impact on capital structure and firm value, which means that firm size lessens the impact of DER on firm value. With a large firm size, the company has large assets that can easily get operational costs in the form of debt (Annisa et al., 2021; Rahayu & Sari, 2022), so that the company can increase its leverage, which results in a high level of risk. This is a negative signal to potential investors that large companies can increase debt, affecting firm value. The findings of this research confirm Santoso & Susilowati (2019).

The seventh hypothesis is that hedging policy

moderates the impact of indirect effect profitability on firm value. Table 5's findings indicate that the profitability and hedging strategy's interaction effect is positive and not statistically significant ($b = 0,8826$, $p > 0,05$) in predicting firm value, so H7 is rejected. Companies that are relatively large tend to use large amounts of external funds because the funds needed are increasing along with the company's growth. In this study, the company's size has no bearing on its ability to obtain

additional external capital to fund its operational activities. Conversely, larger businesses will find it simpler to access external funding in the form of high levels of debt, which will support their operational activities and increase productivity. Hedging policies are required for foreign trade activities in order for the company's profitability and value to increase, but risk exposure will also increase due to transactions involving foreign currency, so hedging policies are required.

Table 6: Hypothesis Testing 4, 5, 6, 7 and 8

| Outcome Variable: Firm Value | | | | | | | |
|---|----------------|-----------|----------|----------|------------------|---------|--------|
| Variabel | <i>b</i> | <i>SE</i> | <i>t</i> | <i>p</i> | Bootstrap 95% CI | | |
| | | | | | LLCI | ULCI | |
| Constant | 1,1044 | 0,2559 | 4,3163 | < 0,001 | 0,5996 | 1,6091 | |
| Capital Structure | 0,7816 | 0,1261 | 6,1978 | < 0,001 | 0,5328 | 1,0304 | |
| Profitability | 3,4675 | 2,72986 | 2,4998 | 0,0133 | 0,731 | 6,204 | |
| Hedging Policy | 0,7453 | 0,6073 | 1,2273 | 0,2213 | -0,4527 | 1,9433 | |
| Capital Structure x Hedging Policy | -1,1776 | 0,1266 | -9,3026 | < 0,001 | -1,4274 | -0,9279 | |
| Profitability x Hedging Policy | 0,8826 | 2,6681 | 0,3308 | 0,7412 | -4,381 | 6,1463 | |
| Firm size | -0,1582 | 0,1728 | -0,9157 | 0,361 | -0,4991 | 0,1826 | |
| Capital Structure x Firm size | -0,3906 | 0,0789 | -4,9515 | < 0,001 | -0,462 | -0,235 | |
| Profitability x Firm size | 0,9142 | 0,9158 | 0,9983 | 0,3194 | -0,8924 | 2,7208 | |
| R² = 0,5033; F = 23,5636; p < 0,001 | | | | | | | |
| Conditional Direct Effect : Hedging Policy and Firm size (X on Y) | | | | | | | |
| Mediator | Hedging Policy | Firm size | Effect | SE | Bootstrap 95% CI | | |
| | | | | | LLCI | ULCI | |
| Profitability | 0 | -1,4668 | 1,3545 | 0,1356 | 1,0870 | 1,6219 | |
| | 0 | 0 | 0,7816 | 0,1261 | 0,5328 | 1,0304 | |
| | 0 | 1,4668 | 0,2087 | 0,2005 | -0,1869 | 0,6042 | |
| | 1 | -1,4668 | 0,1769 | 0,0333 | 0,1112 | 0,2425 | |
| | 1 | 0 | -0,3961 | 0,0933 | -0,5801 | -0,212 | |
| | 1 | 1,4668 | -0,969 | 0,2075 | -1,3784 | -0,5595 | |
| Conditional Indirect Effect : Hedging Policy and Firm size (X – M – Y) | | | | | | | |
| Mediator | Hedging Policy | Firm size | Effect | SE | Bootstrap 95% CI | | |
| | | | | | LLCI | ULCI | |
| Profitability | 0 | -1,4668 | -0,0262 | 0,1293 | -0,3342 | 0,1633 | |
| | 0 | 0 | -0,0428 | 0,0933 | -0,3472 | 0,0129 | |
| | 0 | 1,4668 | -0,0593 | 0,126 | -0,4532 | 0,0093 | |
| | 1 | -1,4668 | -0,0371 | 0,1972 | -0,1136 | 0,6166 | |
| | 1 | 0 | -0,0537 | 0,1589 | -0,1524 | 0,494 | |
| | 1 | 1,4668 | -0,0702 | 0,1571 | -0,2416 | 0,4309 | |
| Indices of partial moderated mediation | | | | | | | |
| Moderators | Index | | | SE | Bootstrap 95% CI | | |
| | | | | | LLCI | ULCI | |
| Hedging Policy | | | | -0,0109 | 0,2162 | -0,1095 | 0,7318 |
| Firm size | | | | -0,0113 | 0,0551 | -0,152 | 0,0491 |

Source: Data processed, 2022

Then the eighth hypothesis predicts that firm size moderates the impact of direct effect profitability on firm value. Table 5's findings indicate that the profitability and firm size interaction effect is positive and not statistically significant. ($b = 0,9142$, $p > 0,05$) in predicting firm value, so H8 is rejected. Firm size cannot strengthen the effect of profitability through firm value. Companies with large firm sizes will certainly be easily recognized by the public and are considered to have better finances than those with small firm sizes. This causes the public to believe in the products and services marketed by companies that have a larger firm size. This will increase the company's sales so that the company's profitability will increase, and the welfare of shareholders, which is the benchmark for company value, will increase. This is not the case when large firm size is not considered to have better finances either.

CONCLUSION

We investigate the impact of capital structure on firm value through profitability moderated by hedging policies and firm size in manufacturing companies in the miscellaneous industries sector listed on the Indonesia Stock Exchange in 2016 to 2020. To support this research, we use verification analysis with data analysis techniques through conditional process analysis. The results show that the more debt the company uses, the higher the value of the company at the optimal target capital structure, but it lowers the level of profitability. Hedging policies and firm size moderate the effect of the capital structure on firm value. Hedging policies are able to mitigate risks that arise due to a high capital structure, which has an impact on firm value. Furthermore, high total assets make it difficult for management to manage them so as to make the value of the company decrease. Any increase in debt that occurs in companies that have large total assets can reduce company value, but companies with small total assets with large amounts of debt can increase company value

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