Research Article

Effect of Profitability, Dividend Policy, Free Cash Flow, and Market Capitalization on Bank Firm Value

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Abstract: Firm value is a crucial indicator of market perception of a company's performance and long-term sustainability, particularly in the banking sector, which plays a strategic role in the Indonesian economy. However, inconsistencies in empirical findings regarding the determinants of firm value indicate the need for further investigation. This research aims to analyze the effect of profitability, dividend policy, free cash flow, and market capitalization on firm value, as well as to examine the moderating role of Good Corporate Governance (GCG) in banking sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. This study employs a quantitative research approach using panel data regression analysis and Moderated Regression Analysis (MRA), processed with EViews 12 software. The research sample consists of 13 banking companies selected through purposive sampling, resulting in 52 firm-year observations. The results indicate that profitability and market capitalization have a positive and significant effect on firm value, while dividend policy and free cash flow do not significantly influence firm value. Furthermore, the moderation analysis reveals that only the independent commissioner variable is able to strengthen the relationship between profitability and firm value, whereas GCG self-assessment does not moderate any of the examined relationships. These findings suggest that investors place greater emphasis on fundamental financial performance indicators and the effectiveness of independent commissioners as an internal governance mechanism in enhancing firm value. In conclusion, strengthening profitability performance and optimizing the role of independent commissioners are essential strategies for increasing firm value in the banking sector.

Keywords: Dividend Policy; Firm Value; Free Cash Flow; Market Capitalization; Profitability.

1. Introduction

The banking sector is the backbone of the national financial system because it acts as an intermediary institution that mobilizes and allocates public funds. The sustainability and stability of banks largely determine the smooth running of economic activity and public confidence in the financial system. During 2021–2024, the Indonesian banking industry faced significant challenges due to the post-COVID-19 economic recovery, global inflationary pressures, rising benchmark interest rates, and exchange-rate volatility. These conditions affected bank performance, investor perception, and ultimately firm value. Firm value is a key indicator that reflects management's success in deploying resources and the company's ability to create shareholder wealth. For public companies, firm value is mirrored by the stock price formed in the capital market (Veronica & Pebriani, 2020). A rising share price signals investor optimism about the company's prospects, whereas a declining price indicates waning market confidence. Therefore, understanding the determinants of firm value is crucial, especially in the banking sector, which relies heavily on public trust.

Profitability reflects banks' ability to generate sustainable earnings and serves as the primary signal for investors. Dividend policy shows management's decision to distribute profits to shareholders and is often linked to the "bird-in-the-hand" theory (Maharani, 2021).

Free cash flow illustrates the firm's financial flexibility to fund investments and meet obligations, but it can also trigger agency conflicts. Meanwhile, market capitalization represents the market's aggregate valuation of the firm and its business stability. However, prior research has yielded conflicting results about how these factors affect business value, especially in the banking industry. Furthermore, it is thought that corporate governance, specifically Good Corporate Governance (GCG), is crucial in enhancing the relationship between business value and financial performance. The presence of independent commissioners and GCG self-assessment mechanisms is expected to enhance transparency, reduce agency conflicts, and bolster investor confidence (Nurdhiana et al., 2025). This study is to investigate the impact of profitability, dividend policy, free cash flow, and market capitalization on firm value with GCG as a moderating variable in the Indonesian banking sub-sector based on these empirical occurrences and research gaps.

2. Literature Review

Signalling Theory, introduced by Spence (1973), emphasizes that firms need to provide signals to investors under conditions of information asymmetry, allowing investors to assess corporate performance and prospects more accurately (Dewi & Soedaryono, 2023). In the banking sector, these signals are reflected through profitability, dividend policy, free cash flow, and firm size, which affects market capitalization (Jessica & Arfianti, 2025). High profitability indicates efficient asset management and sustainable earnings, stable dividends signal management's confidence in future profits, and free cash flow reflects financial flexibility to support operations and business expansion. The effectiveness of these signals is further strengthened through the implementation of Good Corporate Governance (GCG), which enhances transparency, accountability, and investor confidence (Febiola & Ekadjaja, 2024).

This aligns with Agency Theory, which explains that principal-agent relationships may lead to conflicts of interest due to managerial discretion and information asymmetry (Jensen, 1976; Listiorini & Putri, 2022). Such conflicts can arise in dividend decisions and free cash flow management, where management may prioritize personal interests. Consistent dividend payments can limit free cash available for opportunistic managerial actions, while the implementation of GCG ensures managerial decisions align with shareholder interests.

Bird-in-the-Hand Theory emphasizes that investors prefer current dividends over uncertain capital gains, making stable dividends a positive signal that strengthens market perception of corporate performance (Gordon, 1963; Lintner, 1962; (Ratnasari & Purnawati, 2019). All these concepts can be understood within the framework of Valuation Theory, which states that firm value is determined by investor perceptions of a company's ability to generate profits, cash flows, and growth prospects (Constantinides, 2005). Profitability, free cash flow, dividend policy, and market capitalization collectively provide fundamental information, and the presence of GCG enhances the credibility of this information, enabling investors to optimally assess the value of banking firms (Kasmir, 2019).

3. Research Method

This study uses a causal research design and a quantitative methodology. All banking subsector companies registered on the Indonesia Stock Exchange between 2021 and 2024 make up the population. Purposive sampling was used to choose samples, yielding 13 banks with 52 observations in total. Tobin's Q is used to calculate firm value. Return on assets (ROA), dividend policy (DPR), free cash flow (FCF ratio), and market capitalization (derived by multiplying the stock price by the number of outstanding shares) are proxies for profitability. The percentage of independent commissioners and the GCG self-assessment score serve as proxies for the moderating variable of Good Corporate Governance (GCG).

The research further adopts a quantitative panel data regression approach to examine the effects of profitability, dividend policy, free cash flow, and market capitalization on firm value, as well as the moderating role of GCG. The first stage involves descriptive statistical analysis to present a concise profile of all variables, including the mean, median, standard deviation, extreme values, and outlier detection. To capture both cross-sectional differences and temporal dynamics, the panel data are estimated through three model specifications Common Effect, Fixed Effect, and Random Effect each assuming different intercept and

slope behaviors. Model suitability is sequentially determined using the Chow test (CEM vs. FEM), the Hausman test (FEM vs. REM), and the Lagrange Multiplier test (CEM vs. REM); a model is considered selected if the probability value is < 0.05.

After determining the best model, essential classical assumption tests for panel data are conducted, namely multicollinearity (tolerance > 0.10 or VIF < 10) and heteroskedasticity using the Glejser method at a 5% significance level. Hypothesis testing is performed using the adjusted R^2 coefficient to assess goodness-of-fit and the t-test to evaluate the significance of each predictor. The moderating effects of independent commissioners and the GCG self-assessment are tested through Moderated Regression Analysis by including eight multiplicative interaction terms; a moderating effect is considered significant if the interaction p-value < 0.05. The overall research flow progresses from data description, model selection, assumption diagnostics, main hypothesis testing, to the interpretation of moderating findings, thereby providing consistent and reliable empirical evidence.

4. Results and Discussion

Tabel 1. Descriptive Statistics.

	X1	X2	X3	X4	Y	Z1	Z2
Mean	0.022724	0.427941	0.019141	31.51634	1.078820	0.586978	4.192308
Median	0.018740	0.427170	0.010295	31.08074	0.996060	0.585715	4.000000
Maximum	0.084090	0.934010	0.258280	34.71498	1.650690	0.750000	5.000000
Minimum	0.004630	0.074710	-0.117700	29.20815	0.457870	0.500000	4.000000
Std. Dev.	0.015677	0.193610	0.072906	1.977273	0.727043	0.085728	0.397959
Observations	52	52	52	52	52	52	52

Based on Table 1, the study analyzed 52 observations from the financial statements of banking subsector companies listed on the Indonesia Stock Exchange during 2021–2024.

a.   Profitability (X1 – ROA): ROA ranges from 0.00463 (Bank Maybank Indonesia, 2024) to 0.08409 (Bank BTPN Syariah, 2022), with a mean of 0.02272 and a standard deviation of 0.01568, indicating stable and representative data.

b.   Dividend Policy (X2 – DPR): DPR ranges from 0.07471 (Bank BNI, 2021) to 0.93401 (Bank Mega, 2024), with a mean of 0.42794 and SD of 0.19361, showing sufficient variation.

c.   Free Cash Flow (X3 – FCF Ratio): FCF ranges from -0.11770 (Bank Mestika Dharma, 2024) to 0.25828 (Bank Jatim, 2021), with a mean of 0.01914 and SD of 0.07291.

d.   Market Capitalization (X4): Market cap ranges from 29.20815 (Bank Woori Saudara Indonesia 1, 2021) to 34.71498 (Bank BCA, 2024), mean 31.51634, SD 1.97727, indicating stable and representative values.

e.   Firm Value (Y – Tobin's Q): Tobin's Q ranges from 0.45787 (Bank BTPN Syariah, 2024) to 1.65069 (Bank BCA, 2023), mean 1.07882, SD 0.72704, showing sufficient variation.

f.   Independent Commissioners (Z1): Proportion ranges from 0.50 to 0.75, with a mean of 0.58698 and SD of 0.08573, indicating stable and representative data.

g.   GCG Self-assessment (Z2): Scores range from 4.0 to 5.0, mean 4.19231, SD 0.39796, demonstrating stable and representative variation across the sample.

Overall, for all variables, the mean exceeds the standard deviation, indicating that the data are sufficiently varied, stable, and representative of the population.

The following are the results of the panel data regression using the fixed effects model.

Tabel 2. Results of Multiple Regression Test Using Panel Data –Fixed Effect Model

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.787560	2.581277	-3.404346	0.0017
X1	7.682597	2.995089	2.565065	0.048
X2	-0.158076	0.104479	-1.512983	0.1393
X3	0.334540	0.188646	1.773374	0.0849
X4	0.309460	0.083128	3.722676	0.0007

The regression equation based on Table 2 Fixed Effect Model is:

$Y = -8.787560 + 7.682597X_1 - 0.158076X_2 + 0.334540X_3 + 0.309460X_4 + e$

The regression equation demonstrates how market capitalization (X_4), profitability (X_1), dividend policy (X_2), and free cash flow (X_3) all affect corporate value (Y). When all independent variables are zero, the theoretical firm value is represented by the constant (-8.787560). Profitability has a significant positive impact (7.682597), suggesting that increased bank profits raise the value of the company. The tiny negative effect of dividend policy (-0.158076) indicates that greater dividends may somewhat lower business value. Market capitalization (0.309460) and free cash flow (0.334540) both have a positive impact on company value, indicating that larger firms and higher FCF both increase firm value. All things considered, the regression shows how each variable in the model either favorably or adversely affects business value.

Table 3. Results of Moderated Regression Analysis (MRA) –Panel Data with Fixed Effect Model.

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	-27.47957	33.68883	-0.815688	0.4224
X1Z1	-40.17018	14.40029	-2.789540	0.0100
X1Z2	5.833191	11.13546	0.523839	0.6050
X2Z1	0.657165	0.849207	0.773856	0.4463
X2Z2	-0.065194	0.291111	-0.223950	0.8246
X3Z1	-3.832045	2.563751	-1.494703	0.1475
X3Z2	-0.724079	1.044123	-0.693480	0.4944
X4Z1	0.212446	0.152517	1.392936	0.1759
X4Z2	-0.169917	0.242612	-0.700366	0.4902

Based on the Moderated Regression Analysis (MRA) in Table 3, the regression equation is:

$Y = -27.47957 - 4.228495X_1 - 0.130267X_2 + 5.351695X_3 + 0.870813X_4 - 6.306468Z_1 + 5.598713Z_2 - 40.17018X_1Z_1 + 5.833191X_1Z_2 + 0.657165X_2Z_1 - 0.065194X_2Z_2 - 3.832045X_3Z_1 - 0.724079X_3Z_2 + 0.212446X_4Z_1 - 0.169917X_4Z_2 + e$

The results show that only the interaction between independent commissioners (Z_1) and profitability (X_1) is significant ($p = 0.010 < 0.05$), indicating that independent commissioners positively moderate the effect of profitability on firm value (H_5 accepted). Interactions of independent commissioners with dividend policy, free cash flow, and market capitalization, as well as all interactions with self-assessment GCG (Z_2), are not significant ($p > 0.05$), meaning these moderating effects are not supported (H_6–H_{12} rejected). Overall, the MRA indicates that independent commissioners strengthen the impact of profitability on firm value, while other moderating variables do not show significant influence.

As indicated by the outcomes presented above, The analysis supports the following conclusions regarding the research hypotheses:

Tabel 4. Hypothesis Testing Results.

No	Hypothesis	Result
H$_1$	Profitability has a positive effect on company value	Accepted
H$_2$	Dividend policy has a positive effect on company value	Rejected
H$_3$	Free cash flow has a positive effect on company value	Rejected
H$_4$	Market capitalization has a positive effect on company value	Accepted
H$_5$	Independent Commissioners can strengthen the influence of profitability on company value	Accepted
H$_6$	Independent Commissioners can strengthen the influence of dividend policy on company value	Rejected
H$_7$	Independent commissioners can strengthen the influence of free cash flow on company value.	Rejected
H$_8$	Independent commissioners can strengthen the influence of market capitalization on company value	Rejected
H$_9$	Independent commissioners GCG Self-Assessment can strengthen the influence of profitability on company value	Rejected
H$_{10}$	GCG Self-Assessment can strengthen the influence of dividend policy on company value	Rejected
H$_{11}$	GCG Self-Assessment can strengthen the influence of free cash flow on company value.	Rejected
H$_{12}$	GCG Self-Assessment can strengthen the influence of market capitalization on company value	Rejected

5. Conclusions

Overall, the findings indicate that the value of Indonesian banking firms is more influenced by fundamental performance and market perception than by routine internal policies. Profitability and market capitalization prove to be the primary signals captured by investors, whereas dividend policy and free cash flow do not exert a significant impact. The ability of independent commissioners to strengthen the effect of profitability on firm value underscores the importance of effective oversight mechanisms in mitigating agency conflicts. Conversely, the fact that GCG self-assessment plays no moderating role suggests that investors place greater trust in real, structural governance arrangements than in formal, self-reported evaluations. Practically, bank management should prioritize improving profitability and enhancing the role of independent commissioners to boost firm value. For investors, profitability and market capitalization can serve as the main indicators when making investment decisions in the banking sector.

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