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The Influence of Capital Structure, Free Cash Flow, Inflation and Dividend Policy on Company Value with CSR as a Moderator

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ABSTRACT

The main goal of a company is to increase its firm value by maximizing its share price. The higher the firm value, the higher the stock value will be. The construction and building subsector is one of the key sectors supporting economic growth in Indonesia. However, The growth and increase in the number of companies is not accompanied by an increase in the value of companies in the construction and building sub-sector in Indonesia. This study aims to examine the effect of capital structure, free cash flow, and inflation on firm value through dividend policy, with Corporate Social Responsibility (CSR) as a moderating variable. The data analysis techniques used in this study are Path Analysis and Moderated Regression Analysis (MRA) with the help of SPSS version 27. The results indicate that capital structure has a negative and significant effect on firm value, while Free Cash Flow (FCF), inflation, and dividend policy have a positive and significant effect on firm value. Capital structure does not affect dividend policy, while FCF and inflation have a positive and significant effect on dividend policy. Dividend policy mediates the effect of FCF an inflation on firm value but does not mediate the effect of capital structure. CSR strengthens the relationship between dividend policy and firm value. The results of this study are expected to help companies in evaluating factors that can increase firm value in the future, help investors to pay attention to factors that influence firm value as a basis for making investment decisions, and for future researchers it is hoped that they can add other macroeconomic variables by considering more diverse companies in terms of industrial sectors.

Keywords: capital structure, free cash flow, inflation, dividend policy, firm value, corporate social responsibility

INTRODUCTION

Firm value is an investor's perception of the company's success rate which is closely related to the stock price (Sutrisno, 2020) . A firm value describes how well or poorly management manages its wealth (Mentalita *et al*., 2019). Investors will certainly choose a company with a high firm value, because the high value of the company indicates good performance and prospects for the company, this will have an impact on increasing stock prices (Adityaputra and Perdana, 2024). The main goal of a company is to increase the firm value by maximizing the shares it owns (Fortuna & Sulistyowati, 2024).

The value of the company is reflected in the market price playing a role in investment and financing decision-making. The firm value can be used as a signal for investors in making decisions to choose potential company shares, meaning that the company's high value can be the basis for decisions to buy or hold shares. In terms of company management, the firm value plays a role in financing in terms of finances and for investment in choosing investment projects that can increase the firm value in the future. Maximizing firm value is very important for a company because it shows the company's efforts in maximizing the company's main goals (Ayuba *et al*., 2019).

The firm value has 3 measurement indicators, namely *Price Book Value* (*PBV*), *Price Earning Ratio* (*PER*) and *Tobin's Q*. This study uses the Price Earning Ratio (*PER)* to calculate the value of the company (Zatira & Sari, 2020). A higher PER indicates that the market is willing to pay more for a company's revenue or profits, and has high expectations for the future of the company so it is willing to value it at a higher price (Wiratno *et al*., 2022).

The construction and building sub-sectors are one of the mainstay sectors to encourage economic growth and increase their contribution through benchmarks to the national *Gross Domestic Product (GDP*). The development of the construction and building sub-sector industry is so rapid, as evidenced by the increasing number of companies listed on the Indonesia Stock Exchange (Manoharan *et al*., 2023. In 2023, there will be 190,677 construction companies spread across all provinces in Indonesia. The growth of construction and building companies in Indonesia is important related to facility and infrastructure development projects (Swari & Pristiana, 2020).

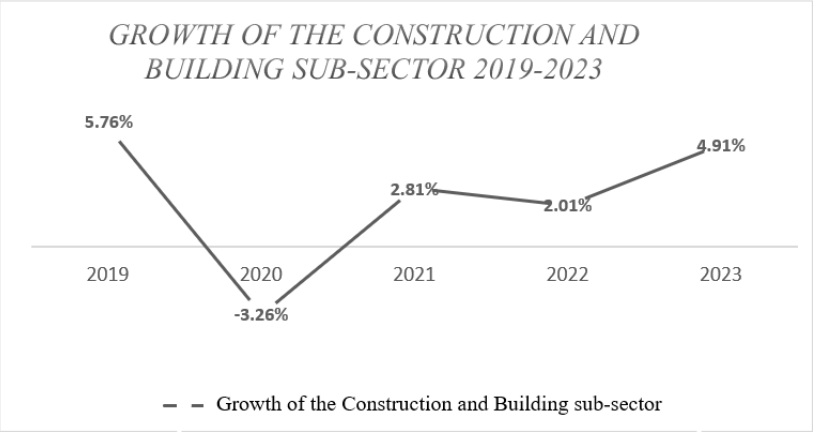

Figure 1. Growth of the Construction and Building Subsector in 2019-2023
Source: Indonesian Central Statistics Agency, 2023

In 2021-2023, the growth of the construction and building subsectors fluctuated post-pandemic. The growth of the construction and building subsectors in 2019-2023 is calculated based on GDP over constant prices. The construction and building subsectors showed a fairly high growth decline in 2020 due to -3.26% due to the covid-19 pandemic (Central Statistics Agency, 2021). The year 2021-2023 continues to show growth because it is driven by commercial and government projects, including development in the capital city (Danareksa Research Institute, 2022).

Figure 2. Value of Construction and Building Subsector Companies in 2019-2023
Source: Indonesia Stock Exchange Annual Report, 2023

Figure 2 shows the value of companies in the construction and building subsectors using the ratio *PER*. In 2019-2023, it experienced consecutive decreases of 14.52%, 25%, 20.15% and 11.82%. The decline in the firm value occurred because the average profit per share of companies in the construction and building subsector decreased by 2-6% per year. A decrease in earnings per share or *Earnings per share* (*EPS*) will lead to a decrease in the value of the company, because it is getting more negative *EPS* Cause *PER* getting smaller or decreasing. This can also be seen from the growth of the construction and building sectors which are still growing slowly after the pandemic. The decline in the value of construction and building companies also occurred due to project delays and limited funds (Sembiring *et al*., 2023).

According to the firm value, it can be influenced by micro and macro factors. Micro factors or fundamental factors are internal factors that originate within the company and can be directly controlled by management consisting of liquidity, solvency, profitability, activity, and markets. Macro factors are external factors derived from national or global economic conditions, and cannot be directly controlled by companies consisting of inflation, interest rates, exchange rates, economic growth, and government policies.

The first fundamental factor, namely the capital structure, can affect the value of the company. The capital structure is a combination of the company's long-term funding, including debt and equity used to fund the company's projects and operations (Brigham & Houston, 2019). According to Mardani (2023) the decision on how a company should fund its operations significantly impacts the company's financial performance, risk, and value. The company's goal is to maximize the firm value with the minimum capital cost, the lower the capital cost, the higher the company's profit and value. Capital structure is very important because it relates to the financial position of the company (Adityaputra and Perdana, 2024). The proxies used to measure the capital structure in this study are *Debt to Equity Ratio* (*DER).* Capital structure has a significant positive impact on the value of the company carried out by (Dewi & Abundanti, 2019) (Rahmi & Swandari, 2021), (Kurniawan & Susanti, 2023), (Adityaputra & Perdana, 2024) (Giawa & Finatariani, 2024). However is not in line with the results of the research the capital structure does not affect the value of the company carried out by (Putra &Widati, 2022), (Hidayah & Rahmawati, 2019).

The second factor is the fundamental factor of the activity, namely *Free Cash Flow (FCF)* can affect the value of the company. According to Angela *et al*. (2023) *FCF* is the amount of cash available to the company after deducting operating expenses and other expenses in an accounting period (Brigham & Dave, 2018). *At Signaling Theory* high free cash flow serves as a good signal to investors regarding effective company management, this will stimulate interest in buying shares and lead to an increase in the stock price, thereby increasing the overall value of the company (Ferdinand *et al*., 2023). Therefore, a company with a high and positive free cash flow will motivate investors to pay more to acquire the company's shares (Mohammed *et al*., 2023). Proxies used to measure *FCF* be *FCF Ratio*. High free cash flow in a company indicates high company performance, so the value of the company will increase (Ferdinand *et al*., 2023). Related research *FCF* that was done found that *FCF* has a positive effect on the firm value (Oktaryani & Mannan, 2018). In line with research (Rengganis *et al*., 2023), (Jao *et al*., 2024) and (Octavia & Riski Anggarini, 2021). But other research shows that *FCF* has negative effects on the firm value (Ginting, 2021).

A macro factor that can affect a firm value is inflation. Inflation is a general and continuous increase in prices over a period of time. Inflation is a general increase in the price

level that causes a decrease in the purchasing power of money (Brigham & Dave, 2018). Rising inflation can lower demand which also affects the value of the company (Ruslim & Michael, 2019) . Inflation has an effect on the value of the company because the impact of the high inflation rate causes an increase in the company's operating expenses, thereby reducing the company's profits. A decline in a company's profit can give investors negative sentiment because they consider the company to have unfavorable future risks and have an impact on a decrease in investment interest and the value of the company (Natasiya, 2020). The inflation used in this study is yearly inflation obtained from Bank Indonesia. Several studies related to the influence of Inflation on firm value show that Inflation has a negative effect on firm value (Sari *et al*., 2023) and (Satriya & Bustaman, 2024). Inflation partially has a positive and significant effect on the value of the company (Permana & Rahyuda, 2019) . Inflation has no effect on the value of the company (Nursalim *et al*., 2021), (Utami & Hasan, 2021), (S. Muhammad & Kurniasari, 2023), and (Suzulia *et al*, 2020).

The fourth fundamental factor of the market, namely dividend policy, can affect the value of the company. Dividend policy is a policy made by the company regarding the amount of profit that will be distributed to shareholders as dividends and the amount of profit that will be retained earnings for operational financing or business expansion in the future (Brigham & Houston, 2019). A dividend policy involves the decision of whether to distribute profits to shareholders or withhold part or all of it as retained profits for reinvestment in the company, which is a decision related to the investment (Giawa & Finatariani, 2024). In *signaling theory*, dividend policy is a positive signal to the company's future value (Wirama *et al*., 2024). The proxies used to measure dividend policy in this study are *Dividend Payout Ratio* (*DPR*). Research conducted by (Oktaviani & Mulya, 2018) show that the dividend policy has an effect on the value of the company. Supported by research conducted by (Prasetya & Hexana Sri Lastanti, 2023), (Yanti & Setiawati, 2022), and (Pratiwi *et al*., 2024). However, it is not in line with the research conducted by (Putra & Widati, 2022) and (Wijaya & Pakpahan, 2021) stated that the dividend policy has no effect on the firm value.

This study uses dividend policy as mediation. Dividend policies can serve as a mediating variable because they have a role in integrating the relationship between independent variables and dependent variables in the context of corporate finance. From *Signaling Theory,* dividends can be used as a signal, where the company that pays dividends shows confidence in its long-term stability and profitability. The higher the dividend given, the higher the value of the company, and vice versa. The dividend policy as mediation is supported by research conducted by (Tirtamara *et al*., 2024), (Dina, 2025), dan (Haq *et al*., 2025).

For the last, *Corporate Social Responsibility* (*CSR*) is an external factor that can affect the firm value. In recent decades, the company's *CSR* practices have attracted the attention of shareholders, employees, customers, and other stakeholders (Sari & Hersugondo, 2023). The amount of funds allocated by companies to meet *CSR* disclosure needs can have an impact on the firm value. The company does not only view the economy (profit) as the sole goal of the company, but there are other goals, which are explicitly a form of accountability to stakeholders (Mela & Putra, 2020).

This study uses *CSR* as a moderation variable. *CSR* as a moderation variable can influence and strengthen the relationship between dividend policy and firm value (Sufrijady and Azib, 2020). Based on signal theory, managers who have good information about the company will be encouraged to convey that information to potential investors so that their stock price increases. The proxy used to measure *CSR* in this study is *the CSR* Score, which is by dividing *CSR*

disclosure and the *CSR* index. Research related to *CSR* as a moderation variable is carried out by Mela & Putra (2020) and Rio Sentosa & Tambunan (2024) which can strengthen the relationship between dividend policy and firm value. However, it is not in line with research conducted by Sutanto & Hariadi (2023) those who state that *CSR* does not strengthen the relationship between dividend policy and firm value.

By *research gap* from the results of the above research, it is necessary to conduct re-research related to the influence of capital structure, *FCF*, inflation to the firm value and dividend policy with *CSR* as a moderator. This research was conducted on construction and building and building sub-sector companies on the IDX in 2019-2023. The sub-sector was chosen because currently the value movement of construction and building companies continues to decline and inconsistency in making dividend payments and disclosing *CSR*. The construction and building sub-sub-sector and is relevant for this study due to the large, long-term, and often community-impacting nature of the project making it an ideal sector to explore the influence of capital structures, *FCF*, Inflation that affects the value of the company and dividend policy by *CSR* as a moderator.

RESEARCH METHOD

This study uses the design or design of *causal explanatory* research to determine the causal relationship (cause and effect) between several variables through hypothesis testing. This design is carried out by explaining the symptoms caused by a research object, the researcher then tries to find an answer to a phenomenon. The objects studied in this study are firm value, capital structure, *FCF*, inflation, dividend policy and *CSR*. This study uses secondary data from the IDX and will be analyzed using *Path Analysis* and *Moderated Regression Analysis* (MRA) methods using SPSS software version 27. The results of statistical tests obtained from data analysis will be used to interpret the formulation of problems and hypotheses in the research.

Path analysis is a technique used to analyze the inherent causal relationships between variables, using path coefficients as a measure of the influence of the independent variable on the dependent variable. A direct relationship occurs when one variable influences another without a third intervening variable. An indirect relationship occurs when a third variable mediates the relationship between the two variables. The equation below:

$$PER_t = \beta_1 DER + \beta_2 FCF + \beta_3 Inflasi + \beta_4 DPR + \varepsilon \dots\dots\dots\dots (1)$$

$$DPR_t = \beta_6 DER + \beta_7 FCF + \beta_8 Inflasi + \varepsilon \dots\dots\dots (2)$$

To test the influence of dependent variables on independents and test the influence of interactions of moderation variables, *Moderated Regression Analysis* (MRA) was used. The statistical equations used to help determine the moderator variables that support the influence between the DPR on PER and *CSR* as moderation are as follows:

$$PER_t = a + \beta_1 DPR_t + \beta_2 CSR\ Score + \beta_3 (DPR \times CSR\ Score)_t + e \dots\dots\dots\dots\dots\dots (3)$$

RESULT AND DISCUSSION

Results

This research uses data from the financial and annual statements of construction and building sub-sector companies on the IDX for 2019-2023. The data used consisted of stock price, earnings per share, cash dividends, number of outstanding shares, dividends per share, earnings per share, total debt, total equity, operating cash flow, fixed assets, depreciation, asset launcher, total liabilities, total assets, *CSR* disclousure, *CSR* index. In addition, this study also uses inflation data for 2019-2023 from Bank Indonesia.

Data Analysis and Hypothesis Testing

a. Results of Descriptive Statistical Analysis Test

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PER	75	-306.82	2500	54.3093	302.79517
DPR	75	-2.5	2.95	0.2391	0.67057
DER	75	0.31	35.47	2.5092	4.25423
FCF RATIO	75	-0.52	0.7	-0.1611	0.20992
INFLATION	75	1.68	5.51	2.878	1.3859
Valid N (listwise)	75				

Source: Data processed, 2025 (Appendix 3)

The minimum *PER value* shows that the stock price is relatively cheap compared to its earnings per share, which means that the company is *undervalued*. The maximum value *of the PER* indicates a high share price even though the earnings per share are low or *overvalued*. The *mean value of PER* shows that the companies in the sample on average have 54.3 times willing to pay the company's profits that are valued by the market.

The minimum value *of the DPR Representatives* shows a negative result, in theory, the value of the *DPR* should not be negative, but this happens because when the company suffers losses but still pays dividends. The maximum value of *the DPR* shows that the company distributes dividends greater than the net profit that is likely to be obtained from the balance of the previous year's profit. The mean value of the DPR shows that the average company in the sample distributes 23.9% of its net profit as dividends.

The minimum value *of the DER* indicates a relatively low debt value. The maximum value of *the DER* indicates a very high and high-risk debt value. The mean value *of the DER* shows that the average company in the sample has 2.5 times more debt than equity, meaning that the average company uses debt in a sizable proportion.

The minimum FCF *Ratio* means that the company has a cash deficit of 0.52 after financing operations and investments. The maximum value of *the FCF Ratio* means that the company has a cash surplus after financing its operations and investments. The mean value of the FCF Ratio means that the average company in the sample has a cash deficit of 0.1611, so the company needs to pay attention and increase cash enough for operational and investment costs.

The minimum value of inflation indicates that inflation is very low and stable. The maximum value of inflation indicates that inflation is quite high. The average value of Inflation shows that the companies in the average sample are still in moderate inflation and still within the government's target (2–4%).

b. Normality Test Results

Table 2. Normality Test

Regression	Asymp. Sig. (2-tailed)	Information
Model 1 Regression	0.2	Normal
Model 2 Regression	0.068	Normal

Source: Data Processed, 2025 (Appendix 4)

The value of asymp.sig (2-tailed) of model 1 regression was 0.2 and model 2 regression was 0.068. The result of asymp.sig (2-tailed) is greater than the value of α (0.05) so it can be concluded that the data is normally distributed.

c. Heteroscedasticity Test Results

Table 3. Heteroscedasticity Test

Regression	Variable	Significance	Information
Model 1 Regression	*DER*	0.508	Normal
	FCF Ratio	0.600	Normal
	Inflation	0.468	Normal
	DPR	0.826	Normal
Model 2 Regression	*FCF* Ratio	0.400	Normal
	Inflation	0.487	Normal
	DPR	0.332	Normal

Source: Data Processed, 2025 (Appendix 5)

d. Autocorrelation Test Results

Table 4. Autocorrelation Test

Regression	Durbin-Watson
Model 1 Regression	1.755
Model 2 Regression	1.741

Source: Data Processed, 2025 (Appendix 6)

Table 4 shows that the Durbin-Watson value of structure 1 is 1.755. Since the statistical d value of 1.755 is between d¬U and 4-dU (1.7390< 1.755 < 2.261) the test with Durbin-Watson is in the region of no autocorrelation, so that in the regression model there are no autocorrelation symptoms. The Durbin-Watson value of structure 2 is 1.741. Since the statistical d value of 1.741 was between d¬U and 4-dU (1.7092< 1.741 < 2.2908) the Durbin-Watson test was in the region of no autocorrelation, so that in the regression model there were no autocorrelation symptoms.

e. Multicolony Test Results

The multicollinearity test aims to test whether there is a correlation between the bound variable and the free variable by paying attention to the tolerance value and VIF (Variance Infation Factor). Tolerance is more than 0.10 and VIF is less than 10, meaning that the data is said to have no multicolonialism.

Table 5. Multicolony Test

Model 1 Regression			**Model 2 Regression**		
	Collinearity Statistics			**Collinearity Statistics**	
	Tolerance	VIF		Tolerance	VIF
(Constant)			(Constant)		
DER	0.112	8.902	DER	0.119	8.411
FCF Ratio	0.187	5.359	*FCF* Ratio	0.208	4.808
Inflation	0.282	3.552	Inflation	0.32	3.128
HOUSE	0.74	1.351			

Source: Data Processed, 2025 (Appendix 8)

f. Regression Analysis Test Results

Table 6. Regression Analysis Test Results 1

Model 1 Regression						
Type		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	2.98	0.25		11.938	0
	DER	-0.486	0.15	-0.807	-3.233	0.002
	FCF Ratio	0.303	0.109	0.539	2.781	0.007
	Inflation	0.325	0.089	0.575	3.644	0.001
	HOUSE	0.557	0.116	0.683	2.853	0.039
a. Dependent Variable: PER						

Source: Data Processed, 2025 (Appendix 9)

Equation of the results of model 1 regression analysis:

$$PER_t = -0{,}807DER + 0{,}539FCF + 0{,}575Inflasi + 0{,}683DPR + \varepsilon \dots\dots (1)$$

Table 7. Regression Analysis Test Results 2

Model 2 Regression						
Type		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	-0.657	0.363		-1.808	0.075
	DER	-0.435	0.264	-0.494	-1.648	0.104
	FCF Ratio	0.499	0.187	0.605	2.669	0.009
	Inflation	0.348	0.151	0.42	2.298	0.025
a. Dependent Variable: DPR						

Source: Data Processed, 2025 (Appendix 10)

Equation of the results of model 2 regression analysis:

$$DPR_t = -0{,}494DER + 0{,}605FCF + 0{,}42Inflasi + \varepsilon \dots\dots\dots\dots\dots\dots\dots (2)$$

g. Path Analysis Test Results (*Path Analysis*)

Based on the results of regression analysis, the path analysis can be calculated as a direct influence, an indirect influence, and the total influence of the model that has been created is as follows:

Table 8. Direct Influence, Indirect Influence and Total Influence

Variabel			**Pengaruh Langsung**	**Pengaruh Tidak Langsung Melalui DPR**	**Pengaruh Total**
DER	⟶	PER	-0.807	-0.337	-1.144
FCF	⟶	PER	0.539	0.413	0.952
Inflasi	⟶	PER	0.575	0.287	0.862
DPR	⟶	PER	0.683		
DER	⟶	DPR	-0.494		
FCF	⟶	DPR	0.605		
Inflasi	⟶	DPR	0.42		

Source: Data Processed, 2025 (Appendix 9)

h. Inferential Statistical Analysis (MRA) Test Results

Table 9. Inferential Statistical Analysis Test Results

Type	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	Std. Error	Beta		

Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
1	(Constant)	2.632	0.229		11.52	0
	HOUSE	0.166	0.063	0.244	2.644	0.01
	CSR	1.29	0.433	0.301	2.976	0.004
	DPR_*CSR*	0.611	0.101	0.615	6.032	0
a. Dependent Variable: PER						

Source: Data Processed, 2025 (Appendix 11)

Table 9 shows the results of *the Moderated Regression Analysis* (MRA). The equations that can be formulated are as follows:

$$PER = 0{,}244DPR + 0{,}301CSR + 0{,}615DPR\_CSR + e \ldots\ldots\ldots (3)$$

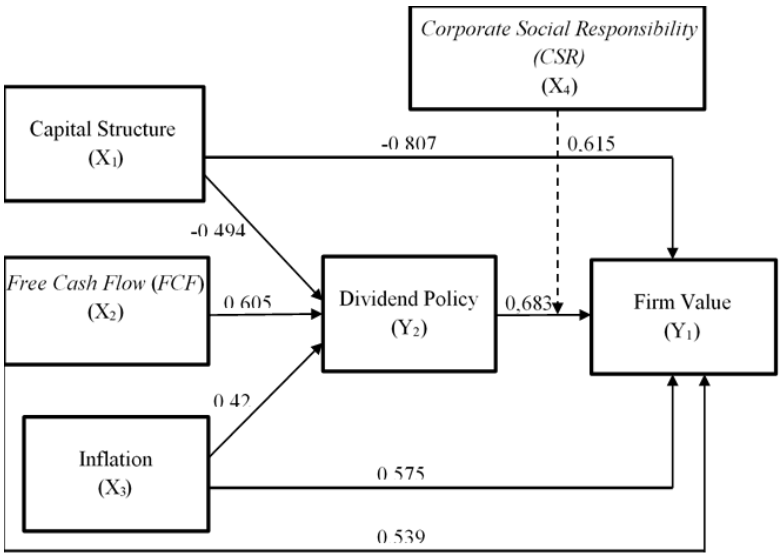

Figure 1. Diagram of Path Analysis Results and Inference Statistics

i. Model Accuracy Test Results (F Test)

Table 10. Model Accuracy Test Results (F Test)

Model 1 Regression						
Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	92.832	6	15.472	12.45	.000b
	Residual	84.479	68	1.242		
	Total	177.311	74			
a. Dependent Variable: PER						
b. Predictors: (Constant), DER, *FCF* Ratio, Inflation, DPR						

Model 2 Regression						
Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	92.367	3	30.789	7.566	.000b
	Residual	288.936	71	4.07		
	Total	381.303	74			
a. Dependent Variable: DPR						
b. Predictors: (Constant), DER, *FCF* Ratio, Inflation						

Moderation

Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	72.225	3	24.075	16.27	.000b
	Residual	105.086	71	1.48		
	Total	177.311	74			

a. Dependent Variable: PER

b. Predictors: (Constant), DPR, *CSR*, DPR_*CSR*

Source: Data Processed, 2025 (Appendix 12)

Table 10 shows the results of the model accuracy test (F test) which shows that the value of sig. F in model 1 regression model 2, and moderation is 0.000 < 0.05. So, the regression model in this study is feasible to use.

j. Determination Test Results (R2)

Table 11. R2 Test Results

Model 1 Regression

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.724a	0.524	0.482	1.1146

a. Predictors: (Constant), DER, *FCF* Ratio, Inflation, DPR

Model 2 Regression

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.492a	0.242	0.21	2.01731

a. Predictors: (Constant), DER, *FCF* Ratio, Inflation

Moderation

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.638a	0.407	0.382	1.21658

a. Predictors: (Constant), DPR, *CSR*, DPR_*CSR*

Source: Data Processed, 2025 (Appendix 13)

k. Sobel Test Results

Table 12. Sobel test results

Variable	Sobel Test Statistic	p-value
DER	-1.558	0.119
FCF Ratio	2.332	0.019
Inflation	2.077	0.037

Source: Data Processed, 2025 (Appendix 13)

Based on the results of the sobel test in table 12, the modal structure has a t test result of -1.558 < 1.96 with a p-value of 0.119 > 0.05. These results show that the capital structure has a negative but insignificant effect on the firm value through dividend policy as a mediating variable. The FCF ratio variable had a t test result of 2.332 > 1.96 with a p-value of 0.019 < 0.05. These results show that the FCF ratio has a positive and significant effect on the firm value through dividend policy as a mediating variable. The inflation variable has a t test result of 2.077 > 1.96

with a p-value of 0.037 > 0.05. These results show that inflation has a positive and significant effect on the firm value through dividend policy as a mediating variable.

DISCUSSION

The Influence of Capital Structure on Firm value

The influence of capital structure on the firm value shows that the H1 results were received, meaning that the capital structure has an effect on the value of companies in the construction and building subsectors on the IDX in 2019-2023. This is because the higher the DER, the greater the risk the company faces. This means that an increase in corporate debt can increase the likelihood of bankruptcy, thus giving rise to a negative investor perception. Negative perception will cause investors not to buy shares, so that the stock price according to the effect on the firm value also decreases. This research supports the theory of signals, in which an increase in capital structure gives a negative signal to shareholders. These signals can have an impact on the decline in the value of the company, which is reflected in the decline in the stock price. The results of this study are in line with the research conducted by (Ramirez & Ferrer, 2021), (Khanh et al., 2020), and (Jao et al., 2024) which stated that capital structure has a negative and significant effect on the value of the company.

The Effect of Free Cash Flow on Firm value

The effect of FCF on firm value shows that the results of H2 are received, meaning that FCF affects the value of companies in the construction and building subsectors on the IDX in 2019-2023. This is because companies with a positive FCF and large value can provide benefits for shareholders, such as dividend payments. Additionally, FCF allows companies to reduce debt, which ultimately increases the firm value in the eyes of investors. Companies that have excess free cash flow tend to perform better because they can take advantage of a variety of opportunities that are not available to other companies. This research is in line with signal theory, where the availability of free cash flow in the company gives a positive signal to investors regarding the company's financial flexibility. Through this signal, shareholders obtain information from management that the company has excess cash that can be used for expansion, fulfilling obligations, and distributing dividends. The results of this study are in line with the research conducted by (Oktaryani & Mannan, 2018), (Angela et al., 2023), and (Rengganis et al., 2023) which states that FCF has a positive and significant effect on the firm value.

The Effect of Inflation on Firm value

The effect of inflation on the value of the company shows the result of H3 rejected, meaning that inflation affects the value of companies in the construction and building subsectors on the IDX in 2019-2023. This is because the average growth of the company's revenue is still higher than the annual inflation growth, so investors continue to invest in the company. Even if inflation is high because the company's asset value is good, investors will continue to invest. With increased investor confidence, the company's goal of maximizing value can be achieved, which ultimately drives up stock prices and increases in firm value. The results of this study are supported by research conducted by (Permana & Rahyuda, 2019) and (Nuryani et al., 2021) and which states that inflation has a positive and significant effect on the value of the company.

The Effect of Dividend Policy on Firm value

The effect of dividend policy on the firm value shows the result of H4 accepted, meaning that the dividend policy has an effect on the value of companies in the construction and building subsectors on the IDX in 2019-2023. This condition suggests that companies that distribute large amounts of dividends will get a positive response from the market (investors), which ultimately

drives up the stock price. In addition, dividends are seen as having a lower level of risk compared to capital gains. The dividends distributed by the company provide positive signals regarding the company's prospects and financial health, thus encouraging investor interest in buying shares. The increase in demand for shares will increase the stock price in the market, which ultimately has an impact on increasing the value of the company. The increase in the number of dividends distributed reflects the increase in the value of the company in the eyes of investors. The results of this study are supported by research conducted by (Luckyardi et al., 2021), (Sumani, 2020), (Pradnyani et al., 2021) dan (Haq et al., 2025) which states that the dividend policy has a positive and significant effect on the firm value.

The Influence of Capital Structure on Dividend Policy

The influence of capital structure on dividend policy, showing the result of H5 rejected, meaning that the capital structure has no effect on the value of companies in the construction and building subsectors on the IDX in 2019-2023. A company that adheres to a stable dividend policy (fixed dividend policy) means that the company pays dividends in a constant or stable amount every year, so that this dividend policy is not sensitive to changes in capital structure. If the capital structure is high, the company will certainly reduce dividend payments because the profits owned by the company will be used for the payment of principal and interest obligations. The dividend policy is more determined by other factors such as FCF, Net profit, so that capital structure is not the main factor in determining dividend policy. This research is in line with signal theory, where an increase in capital structure gives a negative signal to shareholders. Such signals can lower investors' perception of the company's prospects, which is ultimately reflected in a decline in the company's stock price and value. The results of this study are supported by research conducted by (Renaldo et al., 2023) and (Jao et al., 2024) and which states that the capital structure has a negative and insignificant effect on dividend policy.

The Effect of Free Cash Flow on Dividend Policy

Influence FCF to the Dividend Policy shows the result of H6 accepted, meaning that FCF has an effect on dividend policies in construction and building sub-sector companies on the IDX in 2019-2023. The higher it is FCF a company, the higher the company's ability to pay dividends. FCF Usually the company pays dividends in large amounts due to the existence of a certain amount of idle cash. When a company has excess cash with a positive net worth, the fund must be managed effectively. Managers need to distribute excess cash to shareholders to increase their wealth. Additionally, dividend distribution can reduce agency costs by limiting the free cash flow available to managers. These findings support the theory bird in the hand, which states that investors tend to prefer returns in the form of dividends because they are considered more certain compared to capital gains. Therefore, companies with positive free cash flow have a greater capacity to pay dividends consistently, making them more attractive to investors. The results of this study are supported by research conducted by (Sumartana & Dewi, 2024), (Sidharta & Nariman, 2021) and (Gul et al., 2020) which states that FCF have a positive and significant effect on dividend policy.

The Effect of Inflation on Dividend Policy

The effect of inflation on dividend policy, H7 Inflation has an effect on dividend policy in construction and building sub-sector companies on the IDX in 2019-2023. Rising inflation may prompt companies to adjust their dividend policies. By Signaling Theory, the company uses dividend payments as a communication tool to investors to convey stable financial conditions and positive outlooks. When inflation reported in the previous period increases, investors tend to raise their expectations of future inflation. In this context, companies can respond by increasing

dividend distributions to maintain market confidence.If the company is able to keep its profitability high even in high inflation, but the company still gives a positive signal, it means that it can provide dividend profits. To provide investor loyalty, the company continues to provide high dividends despite inflation. The construction sub-sector company runs a government project, it will continue to run which means that cash flow will continue to run and the company will be able to pay dividends. The results of this study are supported by research conducted by (Sumani, 2020) those who stated that inflation has a significant positive effect on the company's dividend policy.

The Influence of Capital Structure on Firm value Through Dividend Policy

The influence of capital structure on the firm value through dividend policy shows a yield of H8 rejected, meaning that the dividend policy does not mediate the influence of capital structure on the value of companies in the construction and building sub-sectors on the IDX in 2019-2023. These findings show that dividend policy is not the main factor in influencing capital structure on market perception or firm value. This can happen if the company implements a fixed dividend policy and investors are also more focused on other fundamental factors such as profit or long-term growth. In other words, the low level of dividend policy does not affect the level of capital structure to the increase in the firm value. Although high dividends can attract investors and increase the value of the company, in this study, the companies that were sampled were mature companies that had large profit reserves. This causes the proportion of dividends to tend to be stagnant. Since there was no increase in dividend distribution, investor interest weakened, so the firm value did not experience significant changes. The results of this study are supported by research conducted by (Ramirez & Ferrer, 2021) and (Kusumarini & Abundanti, 2024).

The Effect of Free Cash Flow on Firm value Through Dividend Policy

Influence FCF to the Firm value through dividend policy, showing the result of H9 accepted, meaning that the dividend policy mediates the relationship FCF to the value of companies in the construction and building subsector on the IDX in 2019-2023. This indicates that the amount of free cash that a company has can signal to investors in decision-making. The availability of free cash flow encourages management to increase dividend payments and increase the value of the company. The ability to pay dividends in mediating the influence of free cash flow on the value of the company shows that the larger the free cash flow, the greater the opportunity to distribute dividends. The high amount of dividends increases the well-being of shareholders, which ultimately drives up the stock price as a representation of the firm value. Based on signal theory, the action of dividend distribution by management is a positive signal for the company's financial prospects in the future. Conversely, a cut or absence of dividends can be interpreted as a negative signal. Therefore, strong financial performance, reflected by high free cash flow, supports the increase in the firm value through dividend distribution. The results of this study are supported by research conducted by (Raharja & Wiagustini, 2018), (Pradnyani et al., 2021) (Jao et al., 2024) and (Widyanti & Widyasari, 2020).

The Effect of Inflation on Firm value through Dividend Policy

The effect of inflation on the value of the company through the dividend policy, shows H10 accepted, meaning that the dividend policy mediates the inflation relationship with the value of companies in the construction and building subsectors on the IDX in 2019-2023. The dividend policy is seen as a signal that management sends to the market regarding the financial prospects and stability of the company. When inflation occurs, operating costs increase and purchasing power decreases, which can depress profits and create uncertainty for investors. In this situation, a policy towards stable or increasing dividend payments can be a positive signal that the company

remains in a healthy financial outlook and is able to maintain cash flow. Confidence signals from dividend policies are able to dampen market worries and maintain or even increase the value of the company. Empirical studies such as those conducted by Ahmed et al. (2022) show that companies that maintain dividend payments during periods of inflation tend to experience a smaller decline in market value than companies that reduce or eliminate dividends The results of this study are supported by research conducted by (Sumani, 2020), (Luthfiyyah et al., 2025), and (M. I. Muhammad et al., 2023).

Corporate Social Responsibility Moderates the Influence of Dividend Policy on Firm value

Influence CSR moderates the relationship between dividend policy and firm value, demonstrating H11 acceptedMeans CSR strengthening the relationship between dividend policy and the value of companies in the construction and building subsectors on the IDX in 2019-2023. Companies that carry out CSR In a good way, it tends to have a positive image and gain high trust from investors. This can increase the value of the company's shares and have an impact on increasing the company's overall value. Companies that invest in CSR activities tend to have lower risk as the potential cost of future sanctions becomes smaller, which encourages a positive response from investors. As a result, the company can provide higher returns to shareholders, increase the stock price, increase dividends and ultimately increase the value of the company. The results of this study are supported by research conducted by (Rio Sentosa & Tambunan, 2024) and (Itsnaini & Subardjo, 2017) which states that CSR can strengthen the relationship between dividend policy and firm value.

CONCLUSION

Based on the objectives, problem formulation, research results, and discussions that have been described, it can be concluded that the capital structure has a negative and significant effect on the value of companies in the construction and building subsectors on the IDX for the 2019–2023 period, which shows that the increase in debt actually decreases the firm value due to a greater risk of bankruptcy. On the other hand, Free Cash Flow (FCF), inflation, and dividend policy have a positive and significant effect on the firm value, as they provide positive signals regarding the company's performance and stability in the eyes of investors. Capital structure is also known to have a negative but insignificant effect on dividend policy, indicating that changes in capital structure do not affect the company's decision to pay dividends stably. Meanwhile, FCF and inflation have a positive and significant effect on dividend policy because of the company's ability to maintain cash flow and profitability even in high inflationary conditions. In addition, the dividend policy is not able to mediate the influence of capital structure on the value of the company, but it does manage to mediate the influence of the FCF and inflation on the value of the company, which shows the importance of dividends in attracting investors when the company has high free cash flow. Lastly, Corporate Social Responsibility (CSR) has been shown to moderate the relationship between dividend policies and corporate value, where companies that actively carry out CSR tend to gain greater investor trust, increase market response to dividends distributed, and ultimately strengthen firm value.

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