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# The Effect of Business Risk, Profitability, Current Ratio on Firm Value: Debt Policy as a Mediating Variable (Case Study of Mining Companies Listed on the Indonesia Stock Exchange)

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**Abstract---** This study aims to examine the effects of Business Risk, Current Ratio, and Profitability on Firm Value with Debt to Equity Ratio as a mediating variable. Using purposive sampling, 25 mining companies listed on the Indonesia Stock Exchange during 2019-2023 were analyzed, resulting in 125 data points. The results show that CR negatively affects DER, ROA, CR, and DER positively affect FV, and DER has no mediating effect. This study highlights Debt policy, capital structure, and profitability significantly influence firm value, as these factors determine the company's financial stability, operational efficiency, and ability to create shareholder wealth.

**Keywords---** business risk, debt, firm value, profitability.

#### Introduction

Mining companies have a strategic role in driving national economic growth through the contribution of state revenue, job creation, and mobilizing other sectors. Company value, which is often measured through stock prices, is the main indicator of company success (Yusrizal & Suharti, 2020). However, stock price fluctuations are often affected by economic uncertainty and market conditions. The increase in share prices of mining companies after the COVID-19 pandemic shows the company's ability to overcome the impact of the pandemic (Syunikitta et al., 2023). Efforts to maintain stock prices and firm value involve controlling financial aspects such as *business risk*, *profitability*, and *current ratio*. Research shows that high business risk can reduce firm value, while profitability and liquidity tend to provide positive signals for investors.

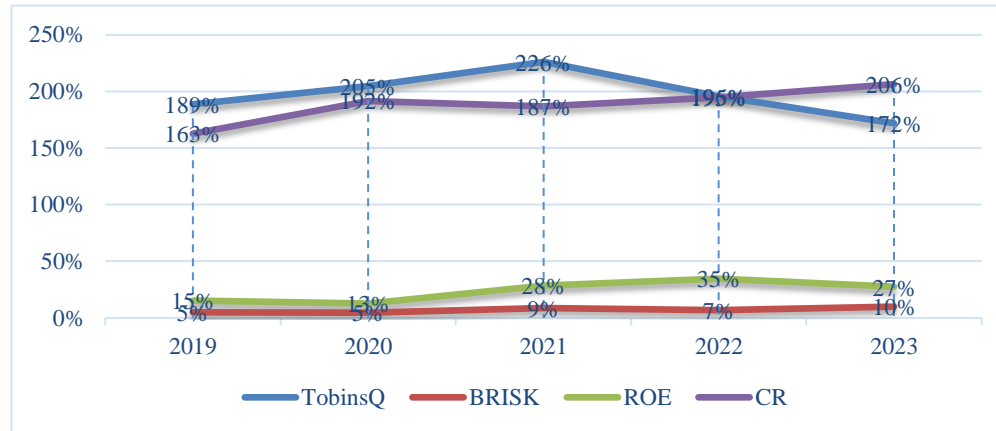


Figure 1. Average Business Risk, Return on Equity, Current Ratio and Tobin's Q in Mining Companies Listed on the IDX for the 2019-2023 Period

Source: *Idx.co.id* (data processed by author)

Figure 1 shows the phenomenon in 2020-2023 where *business risk* has increased accompanied by fluctuations in firm value. This is not in line with the *Signalling Theory* found by Spence (1973), which indicates a negative effect of high business risk on firm value. The higher the business risk faced by the company, indicating that the company is not in a stable condition because it is unable to maintain the level of profit so it has the potential to fail to fulfill its obligations which then increases the risk of bankruptcy (Morck et al., 1988). Investors assess that when bankruptcy occurs, most of the company's assets will be sold to pay off large amounts of debt compared to returning the value of the shares invested. This will be assessed negatively by investors so that the stock market price will fall, thereby reducing the value of the company (Bandanuji & Khoiruddin, 2020). The *current ratio* increased in 2023, but the company value decreased. Based on the *signaling theory* Spence (1973) which is where the *current ratio* value is low, the company's share price also falls or the higher the company's *current ratio* value, the company's share price also rises. This is because the *current ratio* also affects the market price of the stock price in question. This can be a positive signal for investors that companies with high liquidity can prove that they have superior prospects, and do not experience funding problems, especially debt payments to third parties (Hamdani et al., 2022).

Previous research provides mixed results regarding the effect of *business risk*, profitability, and *current ratio* on firm value, including the role of debt policy as a mediating variable. Some studies found positive, negative, or insignificant relationships among these variables, reflecting the existence of a *research gap*. Based on this phenomenon and gap, further research is proposed to analyze the relationship between *business risk*, profitability, *current ratio*, debt policy, and firm value in the mining sector listed on the Indonesia Stock Exchange. Irawati et al. (2019); Irawati & Komariyah (2019) found that *Business Risk* has a positive relationship with firm value. According to research from Bandanuji & Khoiruddin (2020); Tirmizi & Siahaan (2022), found that *Business Risk* has a negative relationship with firm value. According to research results from Sulistiyawati et al. (2023), *Business Risk* has no effect on firm value. Profitability has various results from previous studies such as Sari & Lestari (2022); Putra et al., 2021; Selawati et al. (2022) found that the profitability variable has a significant positive effect on firm value.

According to research from Kartikasari et al. (2023); Pramudya & Mawardi (2023), profitability has no effect on firm value. Kartikasari et al. (2023); Purba & Mahendra (2022); Ramadhan & Widyawati (2021); Wulandari et al. (2022) found that CR has a positive relationship with firm value. According to Nofriyani et al. (2021), found that CR has a negative relationship with firm value. According to research results from Chandra et al. (2020); Sari & Lestari (2022); Syunikitta et al. (2023), found that CR has no effect on firm value. Debt Policy has been researched by previous studies such as Abidin & Hadianto (2019), which found that *Debt Policy* has a positive relationship with firm value. According to research Dewi & Suryono (2019); Sari & Lestari (2021); Mentari & Idayati (2021), found that *Debt Policy* has a negative relationship with firm value. According to research results from Dwiastuti & Dillak (2019), *Debt Policy* has no effect on Firm Value. The object of this study is a Mining company listed on the Indonesia Stock Exchange for 2019-2023. In this study, Company Value is the dependent variable proxied by Tobin's q. Debt Policy is implied as DER (*Debt to Equity Ratio*) as a mediating variable. The independent variables are *Business Risk*, *Return on Equity*, *Current Ratio*. The supporting theories used in this study are *Signaling Theory*, *Trade-Off Theory*, and *Pecking Order Theory*. Based on the phenomenon and research gap above, the authors are interested in conducting research with the title "The Effect of Business Risk, Profitability, Current Ratio on Firm

Value: Debt Policy as a Mediating Variable (Case Study of Mining Companies Listed on the Indonesia Stock Exchange). (Robson et al., 2007; Hock-Doepgen et al., 2021)

## Method

The object of research was conducted on property and *real estate* companies in the 2019-2023 period. Data collection using a *purposive sampling* technique which obtained a research sample of 18 companies. The research method used is a descriptive method with a quantitative approach using path analysis. The classic assumption test is carried out before hypothesis testing so that the test results meet the BLUE (Best Linear Unbiased Estimated) criteria. After that, hypothesis testing is carried out with the t-statistical test, F test, and coefficient of determination analysis. The model used in this study can be formulated as follows:

$$DER = \alpha + \beta_1 BRISK + \beta_2 ROE + \beta_3 CR + e...(\text{equation 1})$$

$$\text{Tobin's } q = \alpha + \beta_5 BRISK + \beta_6 ROE + \beta_7 CR + \beta_8 DER + e...(\text{equation 2})$$

Table 1  
Operational Definition and Measurement of Variables

Variables	Definition	Formula	Measure
<i>Debt to Equity Ratio</i>	The debt ratio is calculated by comparing total debt to total equity (Brigham & Daves, 2019).	DER=Total Debt/Equity	Ratio
<i>Return on Equity</i>	<i>Return on equity</i> is the ratio between profit after tax distributed and total equity (Brigham & Houston, 2019).	ROE = profit after tax / total equity (Brigham & Houston, 2019)	Ratio
<i>Business Risk</i>	According to Weston and Copeland (2001) business risk can be calculated by dividing the standard deviation of EBIT ( <i>earnings before interest tax</i> ) by the total assets owned by the company.	<i>Business Risk</i> = $\sigma EBIT / (\text{Total Aset})$	Ratio
<i>Current Ratio</i>	According to Sutrisno (2017), it compares the current assets owned by the company with short-term debt.	CR = Current liabilities (Sutrisno, 2017)	Ratio
Company Value	The enterprise value of a company is reflected by its closing price and a comparison of its capital and outstanding shares (Brigham & Houston, 2019).	PBV= (Market price per share)/(Book value Per share) (Brigham & Houston, 2006) :	Ratio

Source: Data processed by the author from selected books.

## Result and Discussion

### Descriptive Statistical Analysis Results

Table 2  
Descriptive Statistics

<i>Descriptive Statistics</i>					
	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
BRISK	125	.00	.66	.0706	.11835
ROE	125	.00	1.18	.2375	.23756
CR	125	.05	10.07	1.8854	1.44644
DER	125	.01	4.77	.7214	.69312
TOBINSQ	125	.25	18.11	1.9746	2.88887
<i>Valid N (listwise)</i>	125				

Source: SPSS 25.0 Output

## Hypothesis Testing

### *Coefficient of Determination (Adjusted R<sup>2</sup>)*

The coefficient of determination test aims to measure how far the ability of the independent variables to explain the variation in the dependent variable (Ghozali, 2018). Adjusted R Square value of 0.108 indicates that after adjusting for the number of variables in the model, only 10.8% of the variation in Tobin's Q can be explained by the model. The remaining 89.2% is explained by other factors outside this model. This suggests that the regression model has limited ability to explain variations in the dependent variable.

### *Partial Test (T-Test)*

The t-value test is used to measure how far the influence of one independent variable individually in explaining the variation in the dependent variable (Ghozali, 2018). The results of the t-value test underlie the preparation of the research model which can be formulated as follows:

$$\text{DER} = -0.119\text{BRISK} + 0.085\text{ROE} - 0.357\text{CR} + e \dots (\text{equation 1})$$

$$\text{Tobin's } q = -0.028\text{BRISK} + 0.273\text{ROE} + 0.305\text{CR} + 0.297\text{DER} + e \dots (\text{equation 2})$$

Table 3  
Results of t-Value Test (Direct Effect)

<b>Coefficients<sup>a</sup></b>						
<i>Model</i>		<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig.</i>
		<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
1	<i>(Constant)</i>	1.034	.110		9.425	.000
	BRISK	-.698	.567	-.119	-1.231	.221
	ROE	.248	.277	.085	.896	.372
	CR	-.171	.041	-.357	-4.178	.000

a. *Dependent Variable: DER*

Source: SPSS 25.0 Output

Table 4  
Results of t-Value Test (Indirect Effect)

<i>Coefficients<sup>a</sup></i>						
<i>Model</i>	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig.</i>	
	<i>B</i>	<i>Std. Error</i>	<i>Beta</i>			
1	(Constant)	.105	.335		.313	.755
	BRISK	-.669	2.575	-.028	-.260	.796
	ROE	1.839	.733	.273	2.510	.014
	CR	.299	.124	.305	2.413	.018
	DER	.494	.215	.297	2.301	.024

a. *Dependent Variable: TOBINSQ*

*Source: SPSS 25.0 Output*

## Discussion of Research Results

### *Business Risk on Debt to Equity Ratio*

The results showed that *business risk* has no significant effect on the *debt to equity ratio* in Mining Sector Companies 2019-2023. This is by the *Irrelevance of Capital Structure Theory*, which states that capital structure does not affect firm value in efficient market conditions (Modigliani & Miller, 1958). This result is in line with the results of research by Christine & Bangun (2022); Sari & Pradita (2021); Veronica (2020), which states that *Business Risk* has no effect on Debt Policy.

### *Profitability on Debt to Equity Ratio*

The results showed that profitability has no significant effect on the *debt to equity ratio* in Mining Sector Companies 2019-2023. Large funding needs for exploration and operations can keep companies dependent on debt. Conversely, companies with low profitability may rely on debt to maintain their operational sustainability, so profitability is not a dominant factor in debt policy (Myers & Majluf, 1984). This result is in line with the results of research by Alysa et al. (2024); Kusuma et al. (2019), who found that Profitability has no effect on Debt Policy.

### *Current Ratio to Debt to Equity Ratio*

The results showed that *Current Ratio* has a negative and significant effect on *debt to equity ratio* in Mining Sector Companies 2019-2023. *The pecking Order Theory* proposed by Myers and Majluf (1984) states that companies with high liquidity tend to prefer internal funding over external. With a high current ratio, the company has sufficient current assets to finance operations and investments without the need to increase debt. This reduces dependence on external funding so that debt policy becomes more conservative. This result is in line with Kusuma et al. (2019); Kusumi & Eforis (2020), state that CR has a negative effect on *Debt Policy*

### *Business Risk to Value*

The results showed that *business risk* had no significant effect on the 2019-2023 Mining Sector Company Value. *Trade-Off Theory*, company decisions to increase firm value are usually based on considerations between the tax benefits of debt (*tax shield*) and the costs of *financial distress*. Business risk, which reflects operational instability, may not be directly relevant to firm value because management focuses more on strategic aspects such as capital structure and asset management rather than operational risk (Myers, 1984). This result is in line with research from Sulistiyawati et al. (2023), found that *Business Risk* has no effect on firm value.

### *Profitability to Firm Value*

The results showed that profitability has a positive and significant effect on the 2019-2023 Mining Sector Company Value. This is in line with *Trade-off Theory*, where more profitable companies can utilize debt to obtain tax benefits

from interest (*tax shield*) without significantly increasing the risk of bankruptcy (Myers, 1984). This result is in line with Sari & Lestari (2022); Selawati et al. (2022) found that the Profitability variable has a significant positive effect on firm value.

#### *Current Ratio to Company Value*

The results showed that the *Current Ratio* has a positive and significant effect on the 2019-2023 Mining Sector Company Value. This is in line with *signaling theory*, which states that company management can provide information to the market through certain financial indicators (Ammann et al., 2011; Buchanan et al., 2018). A high *current ratio* can be considered a signal that the company has effective working capital management and can meet its short-term obligations without difficulty (Solihin et al., 2022). This result is in line with Kartikasari et al. (2023); Purba & Mahendra (2022); Ramadhan & Widyawati (2021); Wulandari et al. (2022) found that CR has a positive relationship with firm value.

#### *Debt to Equity Ratio on Company Value*

The results showed that the *Debt to Equity Ratio* had a positive and significant effect on the 2019-2023 Mining Sector Company Value. Research results showing a positive and significant effect between debt policy and firm value can be explained through trade-off theory and agency theory, especially in mining companies (Myers, 1984).

#### *Business Risk to Firm Value through Debt to Equity Ratio*

The results showed that debt policy did not mediate the effect of business risk on the 2019-2023 Mining Sector Company Value. This finding can be explained through several relevant financial theories. Based on the *Trade-Off Theory*, companies with high business risk tend to reduce the use of debt to avoid increasing bankruptcy costs. In this context, debt policy becomes less effective as a mediating mechanism because companies prefer internal financing over financing through debt (Kraus & Litzenberger, 1973).

#### *Profitability to Firm Value through Debt to Equity Ratio*

The results showed that debt policy did not mediate the effect of profitability on the 2019-2023 Mining Sector Company Value. Debt policy does not mediate the effect of profitability on firm value can be explained through *trade-off* and agency theory (Faraglia et al., 2010; Denis & Mihov, 2003). According to *trade-off* theory, companies balance the benefits and costs of using debt. The main benefit of debt is *tax savings (tax shield)*, while the costs include bankruptcy risk and *agency costs*. Companies that have a high level of profitability are generally less dependent on debt because they have the ability to generate sufficient internal profits to finance their activities. This reduces the need to use debt as a source of financing, so the effect of profitability on firm value runs directly without going through debt policy (Jensen & Meckling, 2019; Myers & Majluf, 1984).

#### *Managerial Ownership on Firm Value through Profitability*

The results showed that debt policy does not mediate the effect of the *current ratio* on the value of mining sector companies 2019-2023. The results showed that debt policy does not mediate the relationship between certain ratios, such as profitability, to firm value. Based on *Trade-Off Theory*, companies try to balance the tax benefits of using debt and the potential costs of financial difficulties. However, if debt policy is not significant as a mediator, this can be caused by the minimal impact of changes in capital structure on firm value, especially in companies that rely more on internal capital (Luo, 2003; Sydler et al., 2014).

## **Conclusion**

This study aims to test the independent variables consisting of the variables BRISK (*Business Risk*), ROE (*Return on Equity*), CR (*Current Ratio*) as independent variables. *Debt to Equity Ratio* as an intervening variable and Company Value (*Tobin's Q*) as the dependent variable. The coefficient of determination of this study shows a number which means that the independent variables are only able to explain the dependent variable by Meanwhile, the Adjusted R Square of 0.108 shows that after adjusting for the number of variables in the model, only 10.8% of the variation in

Tobin's Q can be explained by the model. The remaining 89.2% is explained by other factors outside this model. This suggests that the regression model has a limited ability to explain variations in the dependent variable.

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