

**THE MEDIATING ROLE OF PROFITABILITY IN THE EFFECT
OF CAPITAL STRUCTURE ON FIRM VALUE****Sonia Restimartha¹), Anggita Langgeng Wijaya²), Maya Novitasari³)**¹Faculty of Economics and Business, Universitas PGRI Madiun
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email: maya.novitasari@unipma.ac.id**Abstrak**

Penelitian ini ditujukan untuk mengetahui peran *profitability* sebagai mediator dampak *capital structure* terhadap *firm value*. Populasi penelitian ini adalah 516 perusahaan sektor *consumer non-cyclical* yang terdaftar di BEI Tahun 2021-2024. Pengambilan sampel menggunakan teknik *purposive sampling* sehingga diperoleh sampel sebanyak 427 perusahaan. Analisis data dilakukan dengan menggunakan *Process Macro* versi 4.2 yang dikembangkan oleh Andrew F. Hayes. Hasil dari penelitian ini adalah terdapat pengaruh positif signifikan *capital structure* dengan *firm value*, terdapat pengaruh negatif signifikan *capital structure* dengan *profitability*, terdapat pengaruh positif signifikan *profitability* dengan *firm value*, *profitability* berperan sebagai mediator *capital structure* pada *firm value*.

Kata Kunci : *Capital Structure, Firm Value, dan Profitability.*

Abstract

This study aims to determine the role of profitability as a mediator of the impact of capital structure on firm value. The study population was 516 non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2024 period. Purposive sampling was used to obtain a sample of 427 companies. Data analysis was performed using Process Macro version 4.2, developed by Andrew F. Hayes. The results of this study indicate a significant positive effect of capital structure on firm value, a significant negative effect of capital structure on profitability, and a significant positive effect of profitability on firm value. Profitability acts as a mediator between capital structure and firm value.

Keywords : *Capital Structure, Firm Value, and Profitability.*

A. INTRODUCTION

Amidst this uncertain global economic climate, Indonesia has successfully recorded positive investment growth. This is evidenced by the government's optimistic stance in maintaining investment growth and strengthening national economic resilience amidst global challenges (Kementerian Investasi dan Hilirisasi, 2025). This situation has also motivated companies to undertake various innovations and strategies, resulting in increasingly intense competition between companies (Ardini & Adhitya, 2022). Amidst this increasingly competitive environment, every company is required to continuously improve its competitiveness to attract investors and achieve its goal of building a good reputation in the market.

Fierce competition drives companies to showcase the best value from their businesses. Every company has a primary goal in conducting business activities, namely increasing its firm value. A company's firm value can be reflected through stock price indicators in the market. Through these indicators, investors can detect positive signals of good investment opportunities (Hidayat & Khotimah, 2022). Companies with high firm value can signal prosperity for shareholders (Nurhaliza & Azizah, 2023).

Increasing firm value is a challenge in itself because it is influenced by both internal and external factors (Indupurnahayu et al., 2023). Several factors influence firm value. Capital structure is the composition of foreign capital and equity (Safaruddin et al., 2023). Financial management determines the appropriate funding sources, both foreign capital and equity, to finance company activities, which can impact the company's firm value (Inayah, 2022).

Profitability is a company's ability to generate profits. A company's performance is assessed based on the profits generated by the company in meeting its obligations to shareholders (Agustin Ekadjaja, 2021). Investors naturally expect high returns on their

invested capital. High returns naturally increase investor prosperity, leading to increased trust in the company (Felicia & Prima, 2021).

Previous research has shown mixed results. In line with the findings of studies (Anggraini et al., 2025; Murti et al., 2024; Rasyid et al., 2022), which explain a significant influence of capital structure on firm value. However, differences are seen in research findings from (Mahanani & Kartika, 2022; Ristiani & Sudarsi, 2022), which explain that capital structure has no influence on firm value. Based on the inconsistent results of previous research, this study aims to provide empirical evidence of direct and indirect influences by adding profit considered as a mediating variable. Capital structure is positively related with profitability (Sabakodi & Andreas, 2024). Profitability has a positive relationship with firm value (Halim, 2022; Nurwahyuni et al., 2023).

It is hoped that this research will contribute to corporate financial management strategies, helping to determine decisions regarding operational financing with an appropriate capital structure mix and maintaining profitability to maximize firm value. Understanding capital structure is crucial because it impacts a company's ability to generate profits, ultimately increasing shareholder value in today's rapidly evolving economy.

1. Theoretical Study and Hypothesis Development

Signalling Theory

Signaling theory emphasizes the importance of companies providing information to external parties in the form of financial reports. Signaling theory aims to minimize discrepancies by conveying information in the form of financial reports to external parties (Putri & Ramadhan, 2023). First, signalling theory explains how high firm value can be positive information for shareholders, motivating them to invest their capital because they see the opportunity to profit from the company. Second, through capital structure,

investors can perceive signals that a company's future performance and prospects are capable of generating profits, with the hope that the company will choose debt financing over issuing new shares (Ayem & Ina, 2023). Third, through profitability, investors can perceive signals that a company has the potential to generate profits through the use of total assets, thus providing investors more effective information about how the company manages its assets.

Capital structure and Firm value

Capital structure is a company's financing source, encompassing long-term liabilities, preferred stock, and equity ownership. Any increase in capital structure can increase the company's firm value (Setiawan et al., 2021). This can be concluded that an increase in corporate debt positively impacts investor perceptions (Priyatama & Pratini, 2021). Companies that are able to use their capital structure wisely, resulting in their business growing well, provide investors with compelling evidence that the company is using its funding sources efficiently. This, in turn, attracts investors to invest their capital in the company, resulting in increased firm value. From this explanation, the researchers propose the following hypothesis:

H1: Capital structure positively affects firm value.

Capital Structure and Profitability

Capital structure is the balance between foreign capital and equity (Safaruddin et al., 2023). The capital structure of a company should be optimal to achieve maximum profitability. Profitability is one of the company's goals, reflecting the amount of profit achieved through proper asset management by company managers. Companies with a higher debt-to-equity ratio can reduce the use of company funds, and effectively and efficiently managed debt will result in high profitability (Sabakodi & Andreas, 2024). Based on this explanation, the researchers propose the following hypothesis:

H2: Capital structure positively affects profitability.

Profitability and Firm value

The increase in a company's firm value is reflected in its profitability. High profitability impacts investor interest in investing in the company, ultimately increasing its firm value (Sari et al., 2022). Investors prioritize profitability as a primary focus in their investments, as stable stock prices depend on the company's profitability. High profitability also contributes to shareholder prosperity (Muzayin & Trisnawati, 2022).

H3: Profitability positively affects firm value.

Mediation Effect

Optimal CS can increase a company's profitability. Increased profitability can boost stock prices, ultimately maximizing the company's firm value (Purwani & Santoso, 2022). Increased profitability can become a primary focus of interest for shareholders, thus increasing demand for shares (Santosa et al., 2022). Therefore, it can be concluded that profitability can act as a bridge for capital structure utilization to increase a company's firm value. Companies that manage their capital structure wisely, resulting in maximum profitability, can be a positive signal for investors to invest in the company. From this explanation, the researchers propose the following hypothesis:

H4: Profitability mediates the influence of capital structure on firm value.

B. METHOD

This investigation aimed to analyze the impact of capital structure on firm value, with profitability serving as a mediator. The population comprised 516 consumer non-cyclical sector companies listed on the IDX 2021 until 2024. Purposive sampling was used to obtain a sample size of 427 companies. The data were analyzed using SPSS 24 for direct and indirect effects, using Process Macro version 4.2 developed by Andrew F. Hayes.

Capital structure was measured using DER, profitability using ROA, and firm value using Tobin's Q.

C. RESULTS AND DISCUSSIONS

Descriptive Statistics

Table 1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std Deviation
CS	427	-23,62	54,98	1,6515	4,52905
Prof	427	-1,39	3,61	0,0491	0,21812
FV	427	0,32	10,57	1,7042	1,32345
Valid N (listwise)	427				

Table 1 presents descriptive statistics. As seen in the figure:

- a. The capital structure variable has a minimum value of -23.62 and a maximum value of 54.98. The CS variable has a mean value of 1.6515, greater than the standard deviation of 4.52905.
- b. The profitability variable has a minimum value of -1.39 and a maximum value of 3.61. The profitability variable has a mean value of 0.0491, smaller than its standard deviation of 0.21812.
- c. The firm value variable has a minimum value of 0.32 and a maximum value of 10.57. The firm value variable has a mean value of 1.7042, exceeding its standard deviation of 1.32345.

Partial Test (T Test)

Table 2 Firm Value and Profitability Regression Results

	Model 1	Model 2
	FV	Prof
CS	0,017 (2,41)	0,001 (-3,31)
Prof	0,000 (5,72)	
_cons	0,000 (15,17)	(0,73) (-0,34)
R2	0,167	0,06
R2_a	0,157	0,05
N	427	427

Table 2 presents the regression results of firm value and profitability. As seen in the figure:

- According to the results of t-test, the t-value capital structure on firm value 2.41 at a significance level of 0.017 (sig. <0.05), indicating that capital structure positively affects FV. Therefore, H1 is accepted.
- According to the findings of t-test, capital structure on profitability -3.31 at a significance level of 0.001 (sig. <0.05), indicating a significant effect of capital structure on profitability. Therefore, H2 is rejected.
- According to the results of t-test, the t-value profitability on firm value is 5.72 at a significance level of 0.000 (sig. <0.05), indicating that profitability has a significant positive effect on firm value. Therefore, H3 is accepted.

Mediation Test Model 4

Table 3 Mediation Test Results

Antecedent	Consequent					
	Prof			FV		
CS	-0,03	0,01	0,00	0,23	0,10	0,02
Prof				4,54	0,79	5,72
Constant	-0,00	0,01	0,73	1,78	0,12	0,00
	R-sq = 0,06			R sq = 0,17		
	F = 10,96 p = 0,05			F = 16,87 p= 0,05		

	Effect	BootSE	BootLLCI	BootULCI
Prof	-0,14	0,06	-0,29	-0,04

Table 2 presents the results of the mediation model using PROCESS Macro. As seen in the figure, BootLLCI and BootULCI show values that do not exceed 0. It can be concluded that profitability mediates the effect of capital structure on firm value. Therefore, H4 is accepted.

D. CONCLUSIONS

The research results concluded that there is a significant positive effect between capital structure and firm value. There is a significant negative effect between capital structure and profitability. There is a significant positive effect between profitability and firm value. Profitability acts as an intervening between capital structure and firm value.

E. SUGGESTIONS

Further research is recommended to add independent and control variables to strengthen the dependent variable. It is also recommended to use business sectors other than non-cyclical consumer sectors and extend the observation period to broaden the research results.

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