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The Mediating Role of Capital Structure in the Relationship between Profitability and Firm Value: Evidence from the Indonesian Manufacturing Sector

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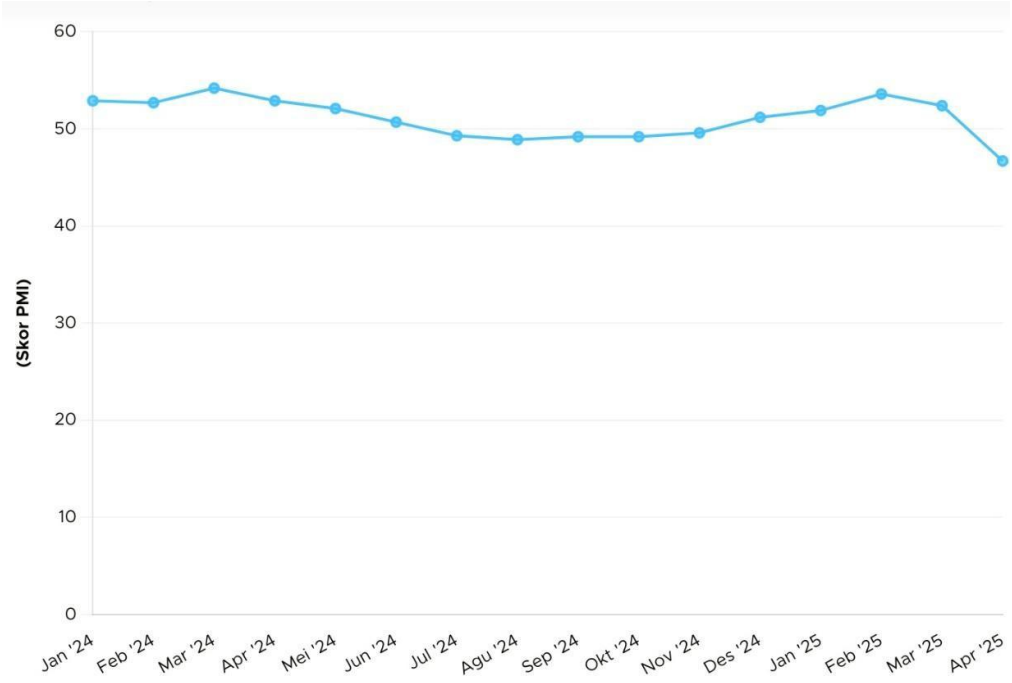
A B S T R A C T

This study investigates the effect of profitability, asset growth, and firm size on firm value, with capital structure as a mediating variable in Indonesian manufacturing companies. The research aims to determine whether internal financial characteristics influence firm value directly or indirectly through capital structure decisions. Using a quantitative, causal-comparative approach, data were collected from 30 basic and chemical manufacturing firms listed on the Indonesia Stock Exchange during 2021–2024. Multiple linear regression and Sobel tests were applied to analyze causal relationships among variables. The results reveal that profitability positively and significantly affects capital structure, whereas asset growth and firm size do not show significant effects. However, profitability, asset growth, and firm size do not significantly influence firm value either directly or through capital structure. The Sobel test further indicates that capital structure does not mediate the relationship between profitability and firm value. These findings suggest that firm value in the Indonesian manufacturing sector is more influenced by factors outside the tested model. The study supports the pecking order theory, highlighting that profitable firms tend to rely on internal funding rather than external debt to sustain firm value.

INTRODUCTION

In recent times, Indonesia's manufacturing sector has faced significant pressure due to slowing global and domestic economic conditions. One key indicator reflecting this condition is the Purchasing Managers Index (PMI). According to a report by S&P Global Market Intelligence, Indonesia's manufacturing PMI fell sharply to 46.7 points in April 2025, the lowest level in three years and signaling a contractionary phase. In fact, in March 2025, the PMI was still in an expansionary position at 52.4 points, down from 53.6 points (Fiscal Policy Agency, 2025). This sharp decline was caused by a decline in new demand, both from the domestic market and exports, which directly impacted production output and purchasing activity. As a result, many companies postponed hiring processes and used finished goods inventories to meet remaining demand. These efficiency measures demonstrate the increasing vigilance of business actors regarding the uncertainty of the economic recovery.



These conditions emphasize that Indonesia's manufacturing sector remains vulnerable to external shocks, particularly weakening global trade. This pressure not only slows production activity but can also impact cash flow, profitability, and companies' competitiveness in the international market. If the PMI contraction trend persists, the manufacturing sector's recovery will be even slower and could undermine investor confidence in the industry's stability. In the long term, this has the potential to hinder investment decisions in the manufacturing sector, particularly for companies in the basic and chemical industries, which are strategic sectors supporting national economic growth.

Companies' decisions to withhold recruitment and rely on available inventory can impact company size by potentially slowing expansion and growth. If this strategy is implemented without long-term planning, company size can be hampered and competitiveness can decline. On the other hand, declining cash flow encourages increased reliance on debt as an alternative

funding source, thereby increasing leverage and financial risk if not balanced with improved performance. Therefore, capital structure is a strategic factor that must be optimally managed to avoid putting pressure on internal variables such as profitability, asset growth, company size, and leverage, which directly and indirectly affect company value (Effendi, 2022).

Corporate value (firm value) is an important indicator for assessing a company's performance and growth potential in the stock market. High firm value reflects management's ability to effectively manage resources and signals optimism to investors on the company's prospects. (Effendi, 2022). Based on agency theory, increasing firm value depends on the extent to which management acts in the interests of shareholders, while signaling theory emphasizes the importance of conveying positive information to the market through improved financial performance and capital structure efficiency.

In the Indonesian context, the manufacturing sector—particularly the basic and chemical industries—contributes significantly to economic growth. However, companies in this sector face challenges in maintaining stable firm value amidst economic uncertainty and global competition. The phenomenon at PT Kimia Farma Tbk demonstrates that firm value can be influenced by factors such as profitability, asset growth, company size, and leverage.

Profitability reflects a company's ability to generate profits from its resources. High profitability indicates efficient asset management and an effective business strategy, thereby increasing investor confidence and firm value (Perwira & Wiksuana, 2018; Jaya, 2020). Asset growth indicates a company's ability to expand its resources over time. Positive asset growth reflects the potential for business expansion and future profit increases, which impacts company value (Perwira & Wiksuana, 2018).

Company size reflects the scale of a company, generally measured by total assets. Large company size provides operational flexibility and access to capital, but also carries greater financial risk. Nevertheless, large company size is generally perceived positively by investors because it indicates the company's capacity and stability (Nurwulandari et al., 2021). Leverage refers to the proportion of funding sourced from debt. High levels of leverage can increase the risk of bankruptcy but also have the potential to increase profits if used efficiently. Research shows that leverage negatively impacts company value, as investors tend to be concerned about high financial burdens (Ariani & Widodo, 2023).

Capital structure is the ratio of debt to equity used to support a company's operations. An optimal capital structure balances risk and return, thereby increasing investor confidence and company value (Effendi, 2022). In several studies, capital structure acts as a mediating variable that bridges the influence of financial factors on firm value. This research is important to provide an empirical understanding of the influence of profitability, asset growth, firm size, and leverage on firm value, with capital structure as a mediating variable, in the basic industrial and chemical manufacturing sectors. The results are expected to contribute to the development of corporate financial strategies and enrich the literature on factors influencing firm value in the stock market.

LITERATURE REVIEW

Agency Theory

Agency theory was first proposed by Jensen and Meckling (1976), explaining the contractual relationship between company owners (principals) and managers (agents). Company owners expect managers to act in their best interests to maximize company value, but conflicts of interest often arise because managers tend to pursue personal interests such as bonuses or reputation (Lesmono & Siregar, 2021). In this context, agency theory is used to explain managerial motivation in financial and investment decision-making, particularly in managing profitability, asset growth, and firm size. Therefore, agency theory serves as a basis for understanding how manager behavior can affect company value and how capital structure acts as a mechanism to align the interests of agents and principals.

Signaling Theory

Signaling theory was introduced by Spence (1973), who explained that companies can provide signals to external parties through certain information to reduce information asymmetry between management and investors. Information conveyed through financial reports, financing decisions, profitability levels, asset growth, and firm size indicators can be considered signals of company quality (Connelly et al., 2024). Positive signals such as increased profitability or an efficient capital structure will increase investor confidence in the company's performance and prospects. In this study, signaling theory is used to explain how internal company factors provide signals to investors regarding future performance and prospects, which ultimately affect firm value.

Profitability affects firm value

Profitability stands out as a vital signpost in gauging a firm's financial standing, notably its proficiency in deriving profits from day-to-day operations. High levels of profitability often demonstrate a company's efficiency in operations and its durability amid external stresses, thus attracting investor attention and contributing to increased firm value. Jaya (2020) demonstrated that Return on Assets (ROA) has a positive and significant effect on firm value in property and real estate companies listed on the IDX. Similar findings were reported by Agustina & Sha (2024) and Wati et al. (2021), who revealed that profitability plays a key role in raising firm value, particularly for manufacturing firms. Furthermore, Ariani & Widodo (2023) also demonstrated that Return on Equity (ROE), as an indicator of profitability, has a positive and significant effect on firm value.

H1 : Profitability affects firm value

Asset growth affects firm value

Asset growth reflects a company's business expansion and long-term strategy to increase production capacity and revenue. In some cases, asset growth can be perceived as a positive signal by investors, since it illustrates management's positive outlook on the company's future. Perwira & Wiksuana

(2018) found that asset growth has a substantial beneficial effect on dividend policy and firm value, indicating that investors view asset growth as an indicator of sustainability and long-term prospects. Conversely, research by Wati et al. (2021) found that firm growth has a significant negative effect on firm value, likely due to poorly managed expansion risks.

H2: Asset growth affects firm value

Firm Size affects firm value

Company size influences company value, as stated by Sartono (2010), who stated that large, well-established companies will have an easier time obtaining capital in the capital market than smaller companies, thus tending to have higher share prices. This is possible given the lower level of information asymmetry in large companies. This aligns with the pecking order theory, which states that companies prioritize the use of internal funds to finance their operations. This will give investors the perception that the company has good prospects (favorable) (Brigham and Houston, 2013).

H3: *Firm Size* affects *firm value*

Leverage affects firm value

Leverage shows how much a company relies on debt for its financing mix. Proper leverage application can enhance company value via financial leverage, as long as the earnings from it exceed the debt expenses. However, excessive leverage increases the risk of bankruptcy and undermines investor confidence. From an agency theory perspective, debt also serves as a disciplining mechanism for management to act efficiently, although excessively high debt levels still have the potential to reduce firm value. Research by Ariani & Widodo (2023) shows that The Debt to Equity Ratio (DER) significantly diminishes firm value, signaling that a large debt share can weaken investor views on the company's reliability and future horizons. Conversely, research by Agustina & Sha (2024) and Wati et al. (2021) indicated that leverage can enhance firm value if managed well to fuel productive expansion. Therefore, the impact of leverage on firm value varies by situation, relying on its capacity to add value.

H4: Leverage affects *firm value.*

Capital structure affects firm value

Capital structure reflects a company's financing decisions in combining the use of debt and equity to fund its operational and investment activities. An appropriate capital structure is considered capable of creating added value for shareholders because it balances risk and expected return. Empirical studies demonstrate a significant relationship between capital structure and firm value. Research by Nurwulandari et al. (2021) states that capital structure can act as an intervening variable that bridges the influence of financial characteristics such as liquidity, profitability, and firm size on firm value. This suggests that capital structure not only directly impacts firm value but also plays a strategic role in determining the extent to which financial characteristics can be converted into increased firm value.

H5: Capital structure affects *firm value.*

Profitabilitity affects struktur modal

Profitability is frequently linked to a company's choices regarding funding options. As per the pecking order theory, firms with strong profitability typically opt for internal financing (such as retained earnings) over external borrowing. This occurs because elevated profits lessen a company's dependence on debt and associated interest expenses. Research by Nurwulandari et al. (2021) aligns with this perspective, noting that profitability exerts a notable negative influence on capital structure. Consequently, greater profitability leads to reduced reliance on debt within the capital mix.

H6: Profitabilitity affects struktur modal.

Asset growth affects capital structure

Asset growth reflects a company's expansion in expanding its business capacity, either through the acquisition of fixed assets or increasing current assets. Companies with high growth rates tend to require additional funds to finance their expansion. In this case, capital structure decisions become crucial because companies must choose between internal and external funding, such as debt and equity. A study conducted by Nurwulandari et al. (2021) revealed that company growth has a significant negative effect on capital structure. This indicates that high-growth companies tend to avoid debt financing because they want to maintain financial flexibility or have better access to internal funding. Such companies also generally have good profit prospects, making them more able to finance growth through equity rather than debt.

H7: Asset growth affects capital structure

Firm Size affects capital structure

Company size reflects the size of a company. Large companies will have significant investment opportunities and high growth. This is consistent with Sartono's (2010) argument, which states that well-established companies have the opportunity to obtain funding from various sources, as larger companies are considered more easily able to obtain credit. Therefore, based on the pecking order theory, large companies, under normal conditions, will prioritize the use of equity over debt to finance their operations. Large companies typically have easier access to external funding because they have assets that can be used as collateral.

H8: Firm Size affects capital structure

Leverage affects capital structure

Leverage is a crucial part of capital structure, representing the balance of external funds (debt) relative to equity. Its employment is deeply connected to executive decisions on optimal capital composition. The trade-off theory proposes that companies offset the tax perks of debt with bankruptcy risks, while the pecking order theory advocates prioritizing internal resources over debt and equity. From an agency theory standpoint, moderate debt levels can reduce conflicts between managers and shareholders through mandatory interest obligations. As such, leverage has a direct impact on capital structure development. Observationally, high leverage indicates a debt-heavy capital

structure, and evidence commonly points to a positive correlation between leverage and capital structure, as leverage is the key measure, exemplified by indicators such as the debt-to-equity ratio (DER) and debt-to-asset ratio (DAR).
H9: *Leverage* affects capital structure

Capital structure mediates the effect of profitability on firm value

Profitability serves as an essential indicator that investors commonly regard as a barometer of a company's financial performance. Nevertheless, its effect on firm value is not always direct. Companies enjoying high profitability often draw on retained earnings for funding (in line with pecking order theory), thereby minimizing reliance on debt. This healthier capital setup, in return, sends optimistic cues to investors concerning the company's financial stability. Findings by Nurwulandari et al. (2021) show that profitability impacts capital structure and ultimately firm value. Consequently, capital structure can mediate the connection between profitability and firm value.
H10: Capital structure mediates the effect of profitability on firm value

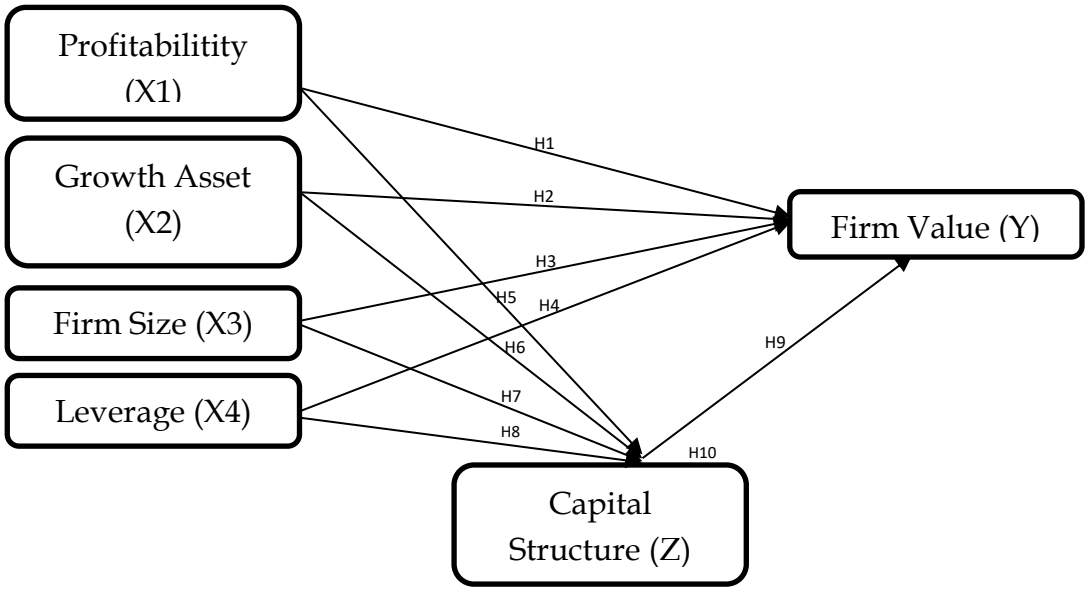


Figure 1. Conceptual Framework

METHODOLOGY

Research Design

This research employs a quantitative method with a causal-comparative research approach. The approach employed is explanatory, as it explains the causal relationships between variables based on available historical data (Ilmi et al., 2020). This research was conducted using statistical methods, namely multiple linear regression, to collect quantitative data from research studies. Analysis using the multiple linear regression method will be applied to link the variables Profitability (X1), Asset Growth (X2), Firm Size (X3), Leverage (X4), Firm Value (Y), and Capital Structure (Z) as mediating variables.

Population and Sample

In this study, the population used was all 55 manufacturing companies listed on the Indonesia Stock Exchange (IDX). After verifying annual and sustainability report data, 30 companies were selected as samples. The sample criteria used in this study are:

1. Manufacturing sector companies in Indonesia.
2. Companies that provide all the required data in their 2021-2024 financial reports, including data for calculating profitability, asset growth, firm size, firm value, and capital structure.
3. Companies that use the rupiah in their 2021-2024 financial reports to avoid exchange rate differences between currencies.
4. Manufacturing sector companies listed on the Indonesia Stock Exchange for the 2021-2024 period.
5. Companies that generated positive profits in their 2021-2024 financial reports.

Data Collection Techniques

The data used in this study is secondary data. Secondary data is data obtained from parties who have previously collected the data. This research data comes from the Annual Reports of manufacturing companies listed on the IDX for the 2021-2024 period. Data were analyzed using statistical software such as SPSS to test the proposed hypothesis (Julianty et al, 2023; Indira et al, 2024; Zalzabilla & Marpaung, 2024).

Operationalization of Variables

Table 1. Operationalization of Variables

Variable Name	Theoretical Definition	Indicators
Profitability (X1)	Profitability is the company's ability to generate profits from its resources during a certain period (Brigham & Gapenski, 1985). This ratio reflects the effectiveness of management in managing assets and capital to create sustainable profits (Wau & Dakhi, 2022). The higher the level of profitability, the better the company's financial performance and the greater investor confidence in the company (Oemar, 2022).	$\text{ROA} = \frac{\text{Total Asset}}{\text{Net profit}} \times 100\%$
Growth Asset (X2)	Asset growth describes the company's ability to expand its operational scale through increasing total assets over time (Weston & Copeland, 1992), High asset growth reflects the company's success in utilizing investment opportunities and increasing productivity (Susanti et al., 2025), In signaling theory, increasing assets is a positive signal for the company's long-term prospects (Oktafia et al., 2025).	$\text{PA} = \frac{\text{Total Asset}_t - \text{Total Asset}_{t-1}}{\text{Total Asset}_{t-1}}$
Firm Size (X3)	Firm size describes the size of a company's business scale which can affect the company's risk diversification ability, access to funding, and competitiveness (Brigham & Gapenski, 1985).	FS = Ln (Total Asset)

	Larger companies are generally considered more stable and have a greater capacity to attract investors (Zuhro, 2021).	
Leverage (X4)	Leverage is a description of a company's use of debt to finance the company's operational activities (Wetson and Copeland, 2010).	$\text{DAR} = \frac{\text{Total Liability}}{\text{Total Asset}}$
Firm Value (Y)	Firm value is the market value of a company that reflects investors' perceptions of the company's performance and future prospects (Copeland & Weston, 1988). High company value indicates management's success in creating prosperity for shareholders (Ariani & Widodo, 2023).	$\text{Q} = \frac{\text{MVE} + \text{D}}{\text{TA}}$
Capital Structure (Z)	Capital structure is the composition of debt and equity that a company uses to finance its operational activities (Van Horne, 1989). An optimal capital structure can minimize capital costs and maximize company value (Nurwulandari et al., 2021).	$DER = \frac{\text{Total Liability}}{\text{Total Equity}}$

Data Analysis Techniques

RESEARCH RESULT

This study uses multiple linear regression to examine the effect of profitability, asset growth, and firm size on firm value, with capital structure as a mediating variable. Descriptive statistics are intended to provide an overview of the data for each variable. The results of the descriptive statistical tests are presented in the following table.

Table 1. Descriptive Statistical Test

Variabel	N	Min	Max	Mean	Std. Dev
Profitability	112	0,46	14,88	5,3422	3,33141
Growth Asset	112	-0,14	0,22	0,0501	0,07717
Firm Size	112	25,16	32,05	28,7370	1,51476
Firm Value	112	0,34	1,85	0,9223	0,30205
Capital Structure	112	1,04	76,00	27,8988	13,12632

Data Processed (2025)

Based on the descriptive statistical test results in Table 1, the Profitability variable showed a minimum value of 0.46 and a maximum of 14.88, with a mean of 5.3422 and a standard deviation of 3.33141. The positive mean value indicates that most companies in the sample were able to generate relatively good profits. However, the relatively wide range between the minimum and maximum values reflects differences in financial performance between companies, with some companies experiencing high profitability while others are experiencing low profitability (Savitri et al., 2021). This aligns with the conditions in the corporate sector in Indonesia, which demonstrate differences in competitiveness and efficiency among business entities.

The Asset Growth variable has a value range of -0.14 to 0.22, with a mean of 0.0501 and a standard deviation of 0.07717. The positive mean value indicates

that most companies experienced asset growth, albeit on a relatively small scale. This figure also indicates that asset growth across companies tends to be stable and does not experience significant fluctuations, as evidenced by the low standard deviation. This phenomenon may reflect a cautious expansion strategy due to fluctuating economic conditions during the study period, resulting in companies focusing more on maintaining asset stability than aggressive expansion (Annatalia & Kadarningsih, 2023).

Furthermore, the Firm Size variable has a minimum value of 25.16 and a maximum of 32.05, with an average of 28.7370 and a standard deviation of 1.51476. The high average value indicates that most companies in the sample are large with significant total assets. The relatively small standard deviation indicates that company size is relatively homogeneous, meaning there are no significant differences between entities. This indicates that companies in the sample have relatively similar resource capacity and operational scale, which can support overall stable financial performance (Rahayu et al., 2021).

Meanwhile, the Firm Value variable showed a minimum value of 0.34 and a maximum of 1.85, with an average of 0.9223 and a standard deviation of 0.30205. The average value close to 1 indicates that most companies have relatively stable market values relative to their book values. The low variation between companies indicates that market values tend to be consistent throughout the study period, which may indicate stable capital market conditions or a uniform investor perception of the sector's performance (Jaya, 2020).

Finally, the Capital Structure variable had a value range from 1.04 to 76.00, with an average of 27.8988 and a standard deviation of 13.12632. The relatively wide range of values indicates significant differences in capital structure composition between companies. Some companies appear to rely predominantly on equity, while others use a larger proportion of debt. The moderate average value indicates that, in general, the companies in the sample maintain a balance between the use of equity and debt (Nurwulandari et al., 2021). This aligns with the theory of optimal capital structure, which states that companies strive to minimize the cost of capital and financial risk by maintaining an efficient funding ratio.

Overall, the results of this descriptive statistical test illustrate that the companies in the study sample exhibit diverse financial characteristics. The capital structure variable exhibits the greatest variation, indicating differences in funding strategies between companies, while asset growth and firm size demonstrate relatively high stability. These findings provide an initial overview of the companies' financial profiles before further inferential analysis is conducted.

Prior to regression testing, classical assumption tests are first performed as a statistical requirement. A good regression model must meet the Best Linear Unbiased Estimator (BLUE) criteria to ensure unbiasedness, consistency, normal distribution, and efficiency, thus serving as a reliable and reliable estimator (Julianty et al., 2023). The classical assumption tests used in this study include the Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test.

Table 2. Classical Assumption Test Model I

	Normality Test	Multicollinearity Test		Heteroscedasticity Test	Autocorrelation Test
		Tolerance	VIF		
Profitability	0.074	0.945	1.058	0.557	1.784
Growth Asset		0.950	1.052	0.824	
Firm Size		0.837	1.195	0.169	
Leverage		0.839	1.192	0.357	

Data Processed (2025)

Model I satisfies all classical linear-model assumptions. The Jarque–Bera normality test yields p = 0.074 (> 0.05), implying that the residuals are normally distributed. Multicollinearity diagnostics indicate that every regressor exhibits Tolerance > 0.10 and VIF < 10, confirming the absence of harmful multicollinearity. The White-type heteroscedasticity test produces p-values exceeding 0.05 for all covariates, so the error variance is homoscedastic. Finally, the Durbin–Watson statistic of 1.784 falls inside the inconclusive-to-no-autocorrelation band (1.5–2.5), ruling out first-order serial correlation. Consequently, Model I is statistically valid for ordinary-least-squares estimation and inference.

Table 3. Classical Assumption Test Model II

	Normality Test	Multicollinearity Test		Heteroscedasticity Test	Autocorrelation Test
		Tolerance	VIF		
Profitability	0.200	0.944	1.060	0.616	1.284
Growth Asset		0.950	1.053	0.047	
Firm Size		0.832	1.202	0.009	
Leverage		0.984	1.016	0.049	

Data Processed (2025)

Meanwhile, the results of the classical assumption test in Model II indicate that the data is also normally distributed with a significance value of 0.200 (> 0.05). The multicollinearity test shows that the Tolerance value of all variables is greater than 0.10 and the VIF is less than 10, which means there are no symptoms of multicollinearity. The heteroscedasticity test shows that most of the significance values are above 0.05, although there are several variables with values slightly below that limit (0.047; 0.009; and 0.049), but the deviation is relatively small and does not indicate a serious heteroscedasticity pattern. The autocorrelation value of 1.284 is still within the tolerance limit, so it can be concluded that there is no autocorrelation in the model. Overall, Model II meets the classical assumptions of regression and can be used for hypothesis testing with a good level of reliability.

Table 4. Multiple Linear Regression Analysis Model I

Variabel	B	Std, Error	t	Sig,
Constant	46.196	25.333	1.824	0.071
Profitability	0.159	0.389	0.409	0.683
Growth Asset	2.074	16.736	0.124	0.902
Firm Size	-0.760	0.908	-0.837	0.405
Leverage	0.093	0.078	1.182	0.240

Data Processed (2025)

The results of the multiple linear regression analysis in Model I indicate that the variables of profitability, asset growth, company size, and leverage do not significantly influence firm value. This is indicated by the significance value of each variable being greater than 0.05, namely profitability of 0.683, asset growth of 0.902, company size of 0.405, and leverage of 0.240. The constant value of 46.196 indicates that if all independent variables are zero, the firm value will be at that number. Thus, it can be concluded that in Model I, all independent variables are not able to significantly explain changes that occur in firm value.

Table 5. Multiple Linear Regression Analysis Model II

Variabel	B	Std, Error	t	Sig,
Constant	0.893	0.187	4.782	0.000
Profitability	0.230	0.008	2.774	0.007
Growth Asset	0.078	0.077	1.015	0.313
Firm Size	-0.000	0.000	1.979	0.051
Leverage	-0.049	0.041	-1.194	0.236

Data Processed (2025)

The results of multiple linear regression in Model II show that only the profitability variable has a positive and significant effect on capital structure, with a significance value of 0.007, which is smaller than 0.05. This indicates that an increase in profitability will be followed by an increase in the company's capital structure. The variables of asset growth, company size, and leverage have significance values of 0.313, 0.051, and 0.236, respectively, which means they have no significant effect on capital structure. A constant value of 0.893 indicates that when all independent variables are zero, the company's capital structure remains at that value. Thus, in Model II, it can be concluded that profitability plays an important role in influencing capital structure, while the other variables do not show a significant effect.

Table 6. Hypothesis Test Model I

Variable	T-Test t	Sig.	F-Test F	Sig.	R^2-Test
Constant	1.990	0.049	0.668	0.668	0.024
Profitability	-0.589	0.557			

Growth Asset	0.223	0.824		
Firm Size	-1.389	0.169		
Leverage	0.96	0.357		
Dependent Variable : Firm Value				

Data Processed (2025)

The results of the hypothesis test in Model I indicate that partially all independent variables, namely profitability, asset growth, firm size, and leverage do not have a significant effect on firm value. This is indicated by the significance value of each variable which is all greater than 0.05, namely profitability of 0.557, asset growth of 0.824, firm size of 0.169, and leverage of 0.357. The simultaneous test (F-test) also produces a significance value of 0.668 (> 0.05), which means that together the four variables do not have a significant effect on firm value. The coefficient of determination (R^2) value of 0.024 indicates that only 2.4% of the variation in firm value can be explained by the variables of profitability, asset growth, firm size, and leverage, while the remaining 97.6% is explained by other factors outside this research model. Thus, Model I has not been able to explain the significant influence on firm value.

Table 7. Hypothesis Test Model II

Variable	T-Test		F-Test		R^2-Test
	t	Sig.	F	Sig.	
Constant	2.522	0.014			
Profitability	0.104	0.917			
Growth Asset	0.028	0.978	0.983	0.434	0.060
Firm Size	-1.893	0.062			
Leverage	1.078	0.284			
Dependent Variable : Firm Value					

Data Processed (2025)

The results of the hypothesis test in Model II also show that all independent variables do not significantly influence firm value. The significance value for profitability is 0.917, asset growth is 0.978, firm size is 0.062, and leverage is 0.284 — all greater than 0.05, making them partially insignificant. The results of the simultaneous test (F-test) show a significance value of 0.434 (> 0.05), which means that together these four variables also do not significantly influence firm value. The R^2 value of 0.060 indicates that only 6% of the variation in firm value can be explained by the independent variables in the model, while the remaining 94% is influenced by other variables outside the model. Thus, Model II shows that both partially and simultaneously, the variables of profitability, asset growth, firm size, and leverage do not have a significant influence on firm value.

Table 8. Sobel Test

Variable	Indirect Effect	Sig.	t	Sig.
Profitability	-0.093	0.925	0.208	0.834

Data Processed (2025)

The Sobel test results indicate that capital structure is unable to mediate the effect of profitability on firm value. This is indicated by a t-value of 0.208 with a significance level of 0.834, which is greater than 0.05, thus declaring the mediation effect insignificant. The indirect effect value of -0.093 also indicates a negative effect, but due to its high significance level (0.925), this effect is not statistically significant. Therefore, it can be concluded that capital structure does not act as a mediating variable in the relationship between profitability and firm value, meaning that the effect of profitability on firm value is not transmitted through capital structure.

DISCUSSION

The results of the mediation test using the Sobel test indicate that capital structure does not act as a mediating variable in the relationship between profitability and firm value. The t-value of 0.208, with a significance level of 0.834, greater than 0.05, indicates that the indirect effect of profitability on firm value through capital structure is not statistically significant. Furthermore, the indirect effect value of -0.093 with a significance level of 0.925 indicates a negative relationship, but this effect is not strong enough to explain the relationship between the two main variables. Therefore, these results confirm that capital structure is not a mediator in the mechanism by which profitability influences firm value.

These findings indicate that changes in firm profitability are not necessarily accompanied by changes in capital structure, which can impact firm value. Firms with high profitability tend to prefer using internal funding sources, such as retained earnings, rather than increasing external debt. This is in line with the pecking order theory, which states that highly profitable firms tend to minimize the use of external funds because their internal resources are sufficient to finance both operational and investment activities. Therefore, changes in capital structure do not significantly contribute to the relationship between profitability and firm value.

The results of this study also support several previous empirical findings that suggest that capital structure is not an effective mechanism for channeling the influence of profitability on firm value. In this context, increased profitability tends to directly increase investor confidence in a company's performance without changing its funding mix. Conversely, for companies with lower profitability, the influence of capital structure may be more significant because they rely more heavily on external funding sources to support growth. Therefore, these results confirm that in this study sample, the effect of profitability on firm value is direct, while capital structure does not act as a significant mediating variable.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results of multiple linear regression analysis and mediation tests using the Sobel test, it can be concluded that profitability, asset growth, firm size, and leverage do not significantly influence firm value, either partially or simultaneously. This indicates that these variables are unable to adequately explain variations in firm value. In the second model, profitability has a positive

and significant effect on capital structure, while the other variables show no significant influence. However, the Sobel test results indicate that capital structure does not mediate the relationship between profitability and firm value. Thus, increases in firm value are largely influenced by factors outside this research model, while capital structure does not act as an intermediary in the relationship between profitability and firm value.

These findings reinforce the view that companies with high profitability tend to use internal funds to fund their operational activities, so changes in capital structure do not significantly impact firm value. Furthermore, these results also support the pecking order theory, which states that companies prioritize internal funding sources before considering external financing through debt.

Based on the results of this study, it is recommended that company management focus more on strategies to increase profitability directly through operational efficiency, product innovation, and strengthening financial performance, as profitability has been shown to be one of the most consistent factors influencing company value, although indirectly through capital structure. Furthermore, companies need to review their capital structure policies to optimize their support for company value growth, particularly by considering the balance between equity and debt capital.

ADVANCED RESEARCH

This study provides an initial contribution to understanding the relationship between profitability, asset growth, firm size, leverage, capital structure, and firm value. However, the results indicate that the influence between variables is not yet statistically significant, thus further research is needed to deepen these findings. Future research is recommended to expand the scope of the analysis by adding other variables that could potentially influence firm value, such as dividend policy, liquidity, operational efficiency, or corporate governance. Furthermore, the use of a more comprehensive analytical approach, such as SPSS, is expected to provide a deeper understanding of the direct and indirect relationships between variables.

Further research could also consider differences in industrial sectors or macroeconomic conditions that influence financing decisions and firm performance. Thus, future research findings are expected to provide stronger theoretical and practical contributions to the development of the literature on financial management and enhancing firm value across various economic contexts.

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