

Capital Structure Mediating Profitability and Firm Size Effects on Firm Value in Consumer Non-Cyclicals

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Abstract

This research is driven by fluctuations observed in the performance of consumer non-cyclicals firms listed on the Indonesia Stock Exchange (IDX) between 2021 and 2025. It sets out to examine how profitability and firm size shape firm value, treating capital structure as a mediating mechanism. Profitability and firm size act as independent variables, firm value serves as the dependent variable, and capital structure functions as the intervening variable. A quantitative panel-data regression procedure was carried out with the aid of EViews 13. Through purposive sampling, 52 firms from the consumer non-cyclicals sector were retained based on criteria such as uninterrupted IDX listing throughout the study window, complete financial statements denominated in Indonesian Rupiah, and no reported losses. Estimation results show that profitability and capital structure each carry a significant positive influence on firm value, while firm size carries a significant negative influence. Both profitability and firm size, in turn, negatively affect capital structure. Mediation testing further establishes that capital structure meaningfully channels the effects of both profitability and firm size onto firm value. Practically, these results give corporate managers a reference point for shaping financing policy and give investors a basis for judging company performance ahead of an investment decision.

Keywords: Firm Value, Profitability, Firm Size, Capital Structure

Introduction

As a supplier of goods that people continue to need regardless of the broader economic climate, the consumer non-cyclicals industry occupies a strategic place in Indonesia's economy, and this trait leaves firms in the sector comparatively steadier than those tied to cyclical demand. Even with that steadiness, such firms are still expected to do more than merely keep operations running they must also work to lift shareholder wealth by raising firm value. Investors read firm value as a gauge of a company's track record, its outlook, and how well management puts corporate resources to use (Adhyasta & Sudarsi, 2023). A climbing firm value likewise works as a favourable market cue that deepens investor confidence when investment decisions are made (Meirisa, 2025). Here, firm value is captured through the Price-to-Book Value (PBV) ratio, chosen because it shows how the market prices a firm's equity relative to what its books record.

Stable demand in this sector, however, is no guarantee that firm value will keep climbing. Across the 2021–2025 observation period, the sector's average PBV trended downward, moving from 2.26 in 2021 to 2.09 in 2022, 1.87 in 2023, and 1.71 in 2024, before edging back up to 1.86 in 2025. Such a pattern signals that steady demand for necessities alone cannot sustain how investors value these firms; investors instead appear to weigh a wider set of financial conditions, spanning corporate performance and financing choices, when they arrive at that valuation. Pinpointing what actually drives firm value therefore remains a live concern for company managers and investors alike. These recurring swings also hint that investors in this sector may be recalibrating their expectations in the years following the pandemic, making the search for firm value's underlying drivers even more pressing.

This decline and subsequent recovery suggest that stable consumer demand alone may not fully explain variations in firm value within the consumer non-cyclicals sector. Investors may also consider internal financial conditions when assessing firms in this sector. Profitability reflects the firm's ability to generate earnings from its resources, while firm size represents its operational scale and financial capacity. Meanwhile, capital structure reflects financing decisions regarding the use of debt and equity to support business operations and investment. These factors are therefore relevant to understanding variations in firm value, with capital structure potentially serving as a mechanism through which profitability and firm size influence investors' valuation.

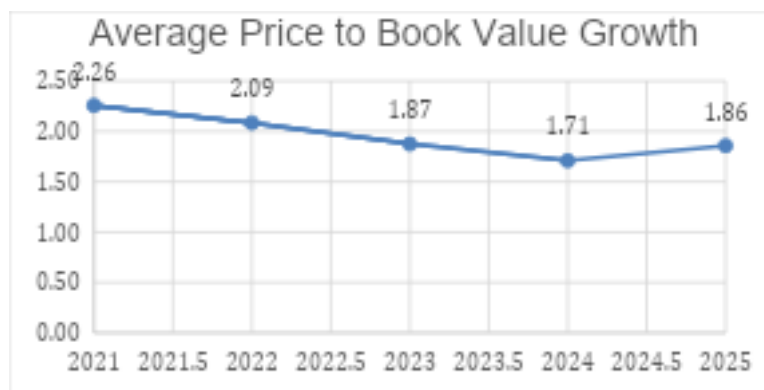


Figure 1. Average Price to Book Value in the Consumer Non-Cyclicals Sector (2021–2025)

Source: secondary data was processed (2026)

Earlier empirical work offers no settled answer on what drives firm value. Some studies tie profitability to a positive effect on firm value (Listyani et al., 2022; Panjaitan et al., 2023; Sadewo et al., 2022); others find the opposite, a negative effect (Ashari & Rahmawati, 2025); and still others report no significant effect at all (Puri & Lisiantara, 2023; Susanto et al., 2021; Widyawati & Lasmini, 2023). Firm size research shows a comparable split: a positive tie to firm value surfaces in some accounts (Bambu et al., 2022; Widyawati & Lasmini, 2023), a negative one appears in others (Susanto et al., 2021; Wulan Sari & Elly Siswanto, 2022), and still others find no significant relationship at all (Listyani et al., 2022; Panjaitan et al., 2023). Capital structure's tie to firm value is no less unsettled: positive associations turn up in several studies (Ashari & Rahmawati, 2025; Panjaitan et al., 2023; Puri & Lisiantara, 2023; Sadewo et al., 2022; Susanto et al., 2021), negative relationships also emerge in the literature (Listyani et al., 2022; Widyawati & Lasmini, 2023), while no significant relationship is reported in another study (Bambu et al., 2022) report no significant relationship. Such divergence across studies may partly stem from differences in industry context, sample period, and how each variable is operationalised, underscoring the need for setting-specific evidence.

Beyond disagreement over these direct effects, researchers also diverge on whether capital structure genuinely mediates such relationships. Capital structure is confirmed as a mediator between profitability and firm value in some studies (Panjaitan et al., 2023; Puri & Lisiantara, 2023; Widyawati & Lasmini, 2023), but rejected as one in (Listyani et al., 2022; Sadewo et al., 2022). The picture repeats for firm size: mediation through capital structure is supported in (Widyawati & Lasmini, 2023; Wulan Sari & Elly Siswanto, 2022), yet dismissed in (Listyani et al., 2022; Panjaitan et al., 2023). This lack of agreement leaves the mechanism linking profitability and firm size to firm value still open to question and worth further empirical scrutiny.

Responding to these gaps, this study examines how profitability and firm size affect firm value through capital structure as a mediating mechanism, focusing on consumer non-cyclicals firms listed on the Indonesia Stock Exchange during 2021–2025. The study contributes to the literature by emphasizing the indirect mechanism through which financing decisions transmit the effects of firm-specific characteristics to firm value, rather than examining only direct relationships. It also provides updated evidence from the post-pandemic period and a sector characterized by relatively stable demand for essential goods. This sector-specific setting is important because stable demand does not necessarily ensure stable firm value, making financing decisions and internal financial conditions relevant to understanding investors' valuation. Thus, the study extends previous evidence by integrating profitability, firm size, capital structure, and firm value within a single mediation framework.

Literature Review

Signalling Theory frames financial reporting and related disclosures as the channel through which firms pass information to outside parties, narrowing the gap between what management and investors each know (Khan et al., 2023). Because managers hold a fuller picture of a firm's condition and prospects than investors do, whatever a company chooses to disclose becomes a signal that shapes

how investors decide (David et al., 2025). Firms that show strong earnings and considerable scale tend to be read favourably by investors under this lens, which can work through to lift firm value.

Pecking Order Theory, on the other hand, describes a financing sequence firms are said to follow internal funds first, external debt next, and new equity only as a last resort (Bortoluzzo et al., 2024). Firms that are more profitable or larger typically hold enough internal resources to cover their activities, which lessens how much they need to borrow (Mohammad, 2022). Together, these two theories give the study its conceptual footing for linking profitability, firm size, and capital structure.

Firm value stands for the market's collective read on a company's financial standing and growth potential (Anggraini & Yudiantoro, 2023). When that value climbs, investors are effectively signalling that they see solid performance and good long-term prospects in the firm. Raising firm value therefore counts among the chief goals of financial management, since it feeds shareholder wealth and deepens investor confidence. Oktoriza and Puspitasari (2023) point out that how well a business is run eventually surfaces in its firm value. Firms carrying higher value in turn tend to draw more investor interest and find it easier to maximize what shareholders earn.

$$PBV = \frac{\text{Close Price}}{\text{Book Value}}$$

Profitability marks a firm's ability to turn its resources and activities into earnings (Puri & Lisiantara, 2023). It is one of the metrics investors lean on most when judging financial performance and weighing whether an investment is worthwhile (Setiowati et al., 2023). Where profitability runs high, it usually points to resources being used well and management performing effectively. Firms posting stronger profitability, as a result, tend to be viewed more favourably by investors, who read them as financially sturdier and more likely to keep growing.

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

Firm size marks how large a company's operations are, commonly proxied by total assets (Cahyani et al., 2025). A bigger asset base usually comes paired with sturdier financial capacity, wider access to funding, and more room to manoeuvre operationally, helping a firm absorb business risk more comfortably. That is part of why investors treat firm size as a marker of stability and staying power (Yovita Bitu et al., 2021). Firm size also feeds into how a company approaches financing and how well it can back its operating and investment activity (Hidayat & Khotimah, 2022). Investors evaluating unfamiliar firms therefore often treat total assets as a convenient, readily available starting point before digging into more detailed indicators.

$$\text{Firm Size} = \ln(\text{Total Assets})$$

Capital structure denotes the mix of debt and equity a firm draws on to fund its operating and investment activity (Minar Savitri et al., 2021). Settling on the right financing mix is a central task within financial management, given its direct bearing on a firm's continuity and growth (Pathak & Chandani, 2023). Consistent with Pecking Order Theory, firms tend to reach for internally generated funds before turning to debt or new shares, mainly because internal funding is cheaper and sidesteps information asymmetry (Putri & Willim, 2024). Capital structure, in this sense, mirrors how management handles financing policy in meeting the firm's capital needs. A well-structured capital policy, in this regard, can serve as one of the clearest indicators of how disciplined a firm's overall financial management truly is.

$$DER = \frac{\text{Total Liability}}{\text{Total Ekuity}}$$

Profitability signals how well a firm converts its operations into earnings and stands among the more closely watched measures of financial performance. Signalling Theory holds that profitable firms send out favourable information about their financial strength and growth trajectory, which draws a higher valuation from investors (Susbiyani et al., 2023). Strong profitability also points to management putting corporate resources to effective use, which further lifts investor confidence and market valuation. This link is empirically supported by Panjaitan et al., (2023), Sadewo et al., (2022), and Listyani et al., (2022), each of which finds profitability lifting firm value. Building on this, the study proposes:

H1: A firm's profitability has a positive effect on its firm value.

Firm size marks the scale of a company's operations and, by extension, its overall financial muscle. Bigger firms generally command more resources, hold firmer market positions, and run more stable operations. Signalling Theory reads these traits as positive cues about a firm's capacity for sustained growth and future returns (Edy Susanto & Suryani, 2024). Investors, following this logic, tend to price

larger firms higher. This is documented by Widyawati & Lasmini, (2023) and Bambu et al., (2022) who both find a positive tie between firm size and firm value. The hypothesis that follows is:

H2: A firm's size has a positive effect on its firm value.

Capital structure captures the financing choices management makes in balancing debt against equity to support the firm's activities, and those choices carry information for investors about a firm's condition and outlook. Signalling Theory suggests a well-judged capital structure builds investor confidence, since it shows management can use external financing without courting excessive risk (Faradilla & Agustin, 2021) which should, in turn, lift firm value. Evidence for this relationship comes from Panjaitan et al., (2023), Sadewo et al., (2022), Puri & Lisiantara, (2023), and Ashari & Rahmawati, (2025). Accordingly:

H3: A firm's capital structure has a positive effect on its firm value.

Under Pecking Order Theory, firms turn first to internally generated funds before looking outward for financing. Firms earning more profit typically build up enough retained earnings to cover operating and investment needs, which cuts their reliance on debt (Rahmawati & Sapari, 2021). Rising profitability is thus expected to pull down the debt share within a firm's capital structure (Nurbayani et al., 2022), a pattern also found by Puri & Lisiantara, (2023). This leads to the hypothesis:

H4: A firm's profitability has a negative effect on its capital structure.

Under Pecking Order Theory, firms lean toward internal financing whenever it is available in sufficient amount rather than borrowing externally. Larger firms tend to hold stronger financial resources and greater room to manoeuvre in funding their activities, which reduces how much they depend on debt (Botta, 2024). Firm size is therefore expected to relate negatively to capital structure, since larger firms typically prefer drawing on retained earnings over adding further debt. This argument is supported by the findings of Widyawati & Lasmini, (2023), who found larger firms keeping lower leverage. This gives rise to:

H5: A firm's size has a negative effect on its capital structure.

Firms that earn more tend to generate enough internal funds to cover their activities, which lowers how much external debt they need. Under Pecking Order Theory, firms are said to favour retained earnings over external financing since internal funds cost less and reduce information asymmetry (Pathak & Chandani, 2023). Because financing decisions follow from profitability, capital structure is expected to work as the intermediary channel through which profitability reaches firm value, a view consistent with (D'Amato, 2021), who frames financing decisions as a key mechanism linking firm-specific traits to corporate value. Further support comes from Puri & Lisiantara, (2023), Panjaitan et al., (2023), and Widyawati & Lasmini, (2023), all of which confirm that capital structure mediates the profitability–firm value relationship. The hypothesis is thus:

H6: Capital structure serves as a mediating variable in the relationship between profitability and firm value.

Larger firms, holding stronger financial capacity, are generally better positioned to shape financing policy efficiently and build an optimal capital structure (Larissa & Susanto, 2024). Sound financing decisions are expected to lift firm value by supporting sustainable growth and reinforcing investor confidence, meaning capital structure should mediate the tie between firm size and firm value a claim backed by Wulan Sari & Elly Siswanto, (2022) and Widyawati & Lasmini, (2023). The hypothesis follows:

H7: Capital structure serves as a mediating variable in the relationship between firm size and firm value.

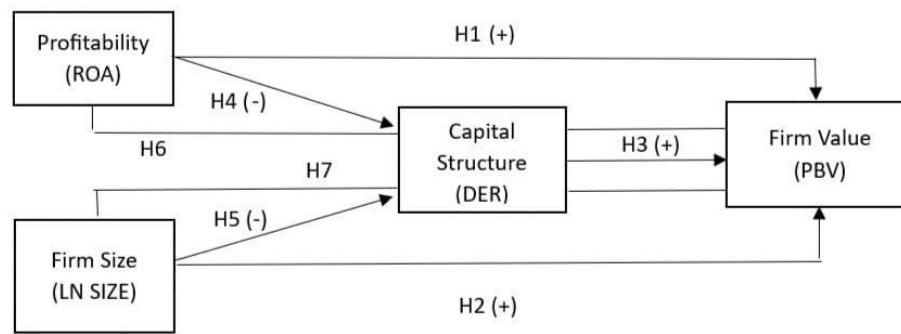


Figure 2. conceptual framework of the study

Method

This research adopts a quantitative research approach to test how profitability and firm size bear on firm value, with capital structure acting as mediator. Estimation was carried out using panel data regression in EViews 13 because the dataset combines cross-sectional observations across firms with time-series observations over the 2021–2025 period, allowing the analysis to capture both firm-specific characteristics and changes over time. Settling on the right model specification began with the Chow test, which weighed the Common Effect Model (CEM) against the Fixed Effect Model (FEM), followed by the Hausman test to settle between FEM and the Random Effect Model (REM).

Several classical assumption checks followed, covering multicollinearity, heteroscedasticity, and autocorrelation. Autocorrelation testing, while not compulsory in panel settings, was still run to confirm the residuals carried no serial correlation Basuki and Prawoto, (2023). Normality testing was skipped, following N Gujarati et al., (2021), who note that with a sufficiently large sample the t-test and F-test stay valid regardless of normality, thanks to the Central Limit Theorem. Hypotheses were then tested via the t-test, F-test, the coefficient of determination (R^2), and the Sobel test, the latter reserved for gauging capital structure's mediating role. Mediation analysis was employed to determine whether capital structure explains the mechanism through which profitability and firm size influence firm value, rather than examining only their direct relationships. Together, these procedures were intended to ensure that the estimated coefficients could be interpreted with confidence before proceeding to hypothesis testing.

The study population comprises 134 companies in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange (IDX) during 2021–2025. Sample selection relied on purposive sampling to ensure that the selected firms met the required data characteristics consistently throughout the observation period. The criteria required continuous listing in the consumer non-cyclicals sector throughout the window, publication of complete annual statements across 2021–2025, reporting denominated in Indonesian Rupiah, and no losses recorded during the period. This left 52 companies in the final sample, yielding 260 firm-year observations.

Results and Discussion

A Chow test weighed the Common Effect Model (CEM) against the Fixed Effect Model (FEM), with a probability value under 5% marking FEM as the better fit. Both specifications with and without the mediator returned a cross-section chi-square probability of 0.0000, comfortably clearing 0.05, so the Fixed Effect Model (FEM) was carried forward as the model of choice in both cases.

Table 1. Without Using Mediation

Effects Test	Statistic	d.f.	Prob.
Cross-section F	34.970452	(51,206)	0.0000
Cross-section Chi-square	589.617334	51	0.0000

Table 2. Using Mediation

Effects Test	Statistic	d.f.	Prob.
Cross-section F	27.145415	(51,205)	0.0000
Cross-section Chi-square	532.509138	51	0.0000

A Hausman test then set the Fixed Effect Model (FEM) against the Random Effect Model (REM), again using a 0.05 cut-off to favour FEM. The non-mediated specification returned a probability of 0.0352, and the mediated specification returned 0.0000 both under the threshold so the Fixed Effect Model (FEM) was retained as the final estimation model.

Table 3. Without Using Mediation

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.695023	2	0.0352

Table 4. Using Mediation

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	22.561152	3	0.0000

A multicollinearity check looked for excessive correlation among the independent variables, with a coefficient under 0.80 read as evidence the problem is absent. In the non-mediated model, profitability and firm size correlated at just – 0.033310. Bringing capital structure into the model as mediator left every pairwise correlation still under 0.80, namely – 0.033310, – 0.006168, and 0.107912, confirming the model carries no multicollinearity issue.

Table 5. Without Using Mediation

	Profitability	Firm Size
Profitability	1	-0.03330953138669526
Firm Size	-0.03330953138669526	1

Table 6. Using Mediation

	Profitability	Firm Size	Capital Structure
Profitability	1	-0.03330953138669526	-0.006167673191949111
Firm Size	-0.03330953138669526	1	0.1079122715417706
Capital Structure	-0.006167673191949111	0.1079122715417706	1

A heteroscedasticity test checked whether residual variance held steady across observations, treating a probability value above 0.05 for each variable as the mark of a clean model. Without the mediator, profitability and firm size scored 0.0976 and 0.3789. Adding capital structure produced 0.4687, 0.9389, and 0.2072 for profitability, firm size, and capital structure respectively. As every figure clears 0.05, the model meets the heteroscedasticity assumption.

Table 7. Without Using Mediation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.378726	0.329721	1.148627	0.2520
Profitability	-0.316210	0.190006	-1.664211	0.0976
Firm Size	-0.009934	0.011266	-0.881767	0.3789

Table 8. Using Mediation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.247977	0.593823	0.417594	0.6767
Profitability	0.242765	0.334380	0.726014	0.4687
Firm Size	-0.001536	0.020010	-0.076773	0.9389
Capital Structure	-0.039096	0.030897	-1.265360	0.2072

A Durbin–Watson test screened for serial correlation among the residuals. The non-mediated model posted a Durbin–Watson statistic of 1.864975, landing in the range that signals no autocorrelation. The mediated model, by contrast, generated a Durbin–Watson statistic of 1.685131, falling into the range flagging its presence. Only the non-mediated model, then, fully clears this assumption.

Table 9. Without Using Mediation

Positive Autocorrelation	Cannot be Concluded	No autocorrelation	Cannot be concluded	Negative autocorrelation
1.7483	1.7887	1.864975	2.2113	2.2517
dL	dU	Nilai DW stat.	4 - dU	4 - dL

Table 10. Using Mediation

Positive Autocorrelation	Cannot be concluded	No autocorrelation	Cannot be concluded	Negative autocorrelation
1.7483	1.7887	1.685131	2.2113	2.2517
dL	Du	Nilai DW stat.	4 - Du	4 - DI

The coefficient of determination (R^2) measures how much of the variation in the dependent variable the model accounts for. Without the mediator, R^2 came to 0.897662, meaning 89.77% of the variation in firm value is explained by profitability and firm size, leaving 10.23% to factors outside the model. Bringing capital structure in raised R^2 to 0.924410, so the independent variables plus the mediator jointly explain roughly 92.44% of the variation, with 7.56% left unaccounted for.

Table 11. Without Using Mediation

R-squared	0.897662
Adjusted R-squared	0.871333
S.E. of regression	0.355629
Sum squared resid	26.05318
Log likelihood	-69.85356
F-statistic	34.09335
Prob(F-statistic)	0.000000

Table 12. Using Mediation

R-squared	0.924410
Adjusted R-squared	0.904499
S.E. of regression	0.298510
Sum squared resid	18.26720
Log likelihood	-23.69935
F-statistic	46.42620

The F-test checked whether the independent variables move the dependent variable together. Both models returned a Prob(F-statistic) of 0.000000, well under 0.05, confirming the explanatory variables carry joint statistical significance. Taken together, these two indicators suggest that the estimated model captures a meaningful share of what drives firm value within the sample.

The t-test isolated each variable's individual contribution. In the first model, profitability ($p = 0.0171$) and firm size ($p = 0.0021$) both showed significant negative ties to capital structure. In the second model, profitability turned up a positive and significant relationship with firm value ($p = 0.0003$), while firm size showed a significant negative effect ($p = 0.0215$). Capital structure itself carried a positive and statistically significant influence on firm value ($p = 0.0007$). Every hypothesized direct relationship, in short, finds statistical backing, though firm size's coefficient runs opposite to what was originally proposed.

Table 13. Without Using Mediation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.129196	1.290521	3.974514	0.0001
Profitability	-1.787492	0.743681	-2.403573	0.0171

Firm Size	-0.137454	0.044095	-3.117243	0.0021
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Table 14. Using Mediation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.707933	1.124014	2.409164	0.0169
Profitability	2.307293	0.632929	3.645422	0.0003
Firm Size	-0.087783	0.037876	-2.317662	0.0215
Capital Structure	0.200446	0.058483	3.427429	0.0007

A Sobel test checked whether capital structure genuinely mediates the ties between the independent variables and firm value. The indirect path from profitability to firm value via capital structure proved significant, carrying a p-value of 0.049079, just under the 5% cutoff. The indirect path from firm size to firm value via capital structure was significant too, with a p-value of 0.02110531. Together these results confirm capital structure's role as a genuine mediator for both profitability's and firm size's effects on firm value.

Table 15. Without Using Mediation

Indirect Effect	Coefficient	Std. Error	t-Statistic	p-value Sobel test
X1-Z-Y	-1.787492	0.743681	-1.96790275	0.04907923

Table 16. Using Mediation

Indirect Effect	Coefficient	Std. Error	t-Statistic	p-value Sobel test
X2-Z-Y	0.200446	0.058483	-2.30609528	0.02110531

Discussion

Empirical results show profitability carrying a positive and significant effect on firm value, backing H1. Firms able to post stronger earnings appear to win over investors more readily, since profitability reflects how efficiently management deploys corporate resources to generate sustainable income. This tracks with Signalling Theory: stronger profitability sends a favourable signal about a firm's financial standing and outlook, nudging investors toward a higher valuation. This relationship is particularly relevant in the consumer non-cyclicals sector, where relatively stable demand for essential goods can support more predictable operating revenues. Therefore, higher profitability may signal not only efficient resource utilization but also stronger financial sustainability, increasing investor confidence and firm value. Investors, as a result, tend to read more profitable firms as carrying stronger growth potential and less investment risk a conclusion that matches Listyani et al., (2022); Panjaitan et al., (2023); Sadewo et al., (2022), all of whom found profitability lifting firm value. This underscores the importance of profitability as a key indicator that investors routinely consider when comparing firms within the same industry.

Firm size, by contrast, comes out with a negative and significant effect on firm value, meaning H2 finds no support. Owning more assets, it turns out, does not automatically translate into a richer market valuation. This suggests investors weigh how well assets are managed more heavily than how many assets a firm holds. From the standpoint of Agency Theory, larger firms often carry more complicated organizational structures, which can raise agency costs and chip away at operational efficiency. This relationship may be particularly relevant in the consumer non-cyclicals sector, where larger asset bases can involve greater operational and resource management demands. For example, PT Indofood CBP Sukses Makmur Tbk. firm size increased from 32.402 in 2021 to 32.540 in 2025, while its PBV declined from 1.847 to 1.298 over the same period. This provides an illustrative example that an increase in firm size does not necessarily translate into higher market valuation. If asset growth is not accompanied by efficient utilization and stronger financial performance, investors may perceive larger firms less favourably, resulting in lower firm value. As a result, a bigger asset base by itself sends investors no clear positive signal unless it comes paired with effective use of those assets a finding that lines up with Susanto et al., (2021); Wulan Sari and Elly Siswanto, (2022), who likewise found a significant negative tie between firm size and firm value. It further implies that firm size alone

should not be treated as a proxy for stability without also considering how effectively a firm's management team operates.

Capital structure turns up a positive and significant effect on firm value, in support of H3, indicating that a well-judged level of debt can lift market valuation when handled with care. Within the consumer non-cyclicals sector specifically, external financing can hand firms extra resources to scale up production, sharpen operational efficiency, and shore up long-run competitiveness. Signalling Theory frames financing decisions as a channel for communicating management's confidence in the firm's future performance, so debt used at a sensible level can read to investors as a positive signal that lifts firm value. This matches earlier work by Ashari and Rahmawati, (2025); Panjaitan et al., (2023); Puri and Lisiantara, (2023); Sadewo et al., (2022); Susanto et al., (2021), who report the same positive link between capital structure and firm value. It also suggests that financing policy deserves close attention from managers seeking to balance growth ambitions against the risk that comes with heavier leverage.

Profitability shows a negative and significant effect on capital structure, confirming H4. Firms with higher profits typically build up larger retained earnings, letting them cover operations without leaning heavily on outside borrowing. This fits Pecking Order Theory's claim that firms favour internal funding ahead of debt or new equity; for consumer non-cyclicals firms, steady operating cash flow further boosts their ability to rely on internally generated funds, keeping leverage down. Profitable firms, then, tend to hold lower debt while retaining financial flexibility a result that mirrors Puri and Lisiantara, (2023). This behaviour illustrates how profitability can shape a firm's broader financing culture over time, not just its year-to-year borrowing decisions.

Firm size similarly shows a negative and significant effect on capital structure, backing H5. Larger firms typically bring stronger internal financial capacity to bear, letting them fund operating and investment activity without depending too much on debt. Pecking Order Theory again applies here: firms holding ample internal resources are more inclined to draw on retained earnings before considering outside financing options. Within the consumer non-cyclicals sector, larger firms tend to generate fairly steady cash flow, which helps them keep leverage low while still funding expansion consistent with what Widyawati and Lasmini, (2023). Such a pattern also implies that smaller firms may need to lean more heavily on external financing simply due to more limited internal reserves.

Mediation analysis confirms that capital structure carries a significant mediating role between profitability and firm value, backing H6. Firms earning more are able to build up internal funds, cutting their need for debt financing; that financing choice then feeds through to firm value by shaping a healthier, more efficient capital structure. Pecking Order Theory explains the preference for internal funds through their lower cost and reduced information asymmetry, framing financing decisions as a key mechanism linking firm-specific traits to corporate value. This mechanism may be particularly relevant in the consumer non-cyclicals sector, where relatively stable demand for essential goods can support more predictable internal cash flows. Profitable firms can therefore rely more heavily on internally generated funds while maintaining their operations and investments, reducing dependence on external debt and potentially supporting higher firm value through a more efficient financing structure. This finding lines up with Panjaitan et al., (2023); Puri and Lisiantara, (2023); Widyawati and Lasmini, (2023), who each confirm capital structure's mediating role. This chain of influence highlights why financing policy should not be viewed in isolation from a firm's broader profitability profile.

Sobel test results likewise confirm capital structure's significant mediating role between firm size and firm value, supporting H7. Larger firms generally hold stronger financial resources and more room to shape financing policy, letting them build a more efficient capital structure. Sound financing decisions then feed into higher firm value by supporting sustainable operations and deepening investor confidence. This finding aligns with Pecking Order Theory: firms with greater financial capacity are better positioned to make sound financing decisions, thereby establishing a capital structure that enhances firm value. Within the consumer non-cyclicals sector, firms with larger asset bases are also better placed to balance internal and external financing while keeping their finances stable. This condition may strengthen the mediating role of capital structure because larger firms generally have greater flexibility in choosing between internally generated funds and external financing. When financing is managed efficiently, this flexibility can support business continuity and investment needs while reducing financial pressure, which may strengthen investor confidence and ultimately enhance

firm value. Firm size thus reaches firm value not just directly but also indirectly, through the financing choices capital structure represents a pattern consistent with previous studies conducted by Widyawati and Lasmini, (2023); Wulan Sari and Elly Siswanto, (2022). This reinforces the notion that scale alone is insufficient to guarantee higher valuation unless it is paired with disciplined financing choices.

Conclusion

This study finds that profitability positively affects firm value, meaning firms posting stronger earnings tend to draw higher market valuations and deeper investor confidence. Firm size runs the other direction, exerting a significant negative effect on firm value, a sign that a larger asset base alone does not raise market value unless those assets are put to efficient use. Capital structure, meanwhile, positively influences firm value, pointing to the payoff from sound financing decisions in building corporate value.

The results further show that profitability and firm size negatively affect capital structure, meaning firms with stronger financial performance and larger operating scale lean more on internal financing than external debt. Mediation analysis confirms, too, that capital structure significantly mediates the effects of both profitability and firm size onto firm value, underlining how central financing decisions are in translating internal firm characteristics into firm value.

Practically, these findings give corporate managers a reference point for shaping financing policy and managing corporate resources toward maximizing firm value, while offering investors added insight for judging financial performance and financing decisions before committing capital. The study is nonetheless bounded by its focus on consumer non-cyclicals firms on the Indonesia Stock Exchange across 2021–2025 and by its narrow set of variables profitability, firm size, capital structure, and firm value. Later studies might usefully widen the observation window and bring in further variables, among them liquidity, dividend policy, firm growth, and corporate governance quality, to build a broader picture of what drives firm value. Taken together, the evidence points to financing policy as a lever managers can actively adjust, rather than a passive consequence of firm characteristics alone.

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