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The Mediating Role of Capital Structure in the Impact of Profitability and Liquidity on Firm Value

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Abstract

Companies in the property and real estate sectors play a significant role in the economic growth of a country because they are among the sectors that contribute the most to investment realisation in Indonesia. A company's worth is a key indicator of its performance for businesses in the real estate and property industries. The purpose of this study is to determine how profitability and liquidity affect a company's value by using capital structure as an intervening variable. The study will focus on real estate and property sector businesses that are listed on the Indonesian Stock Exchange between 2013 and 2022. Purposive sampling is used in the study, and a sample of 14 samples from 43 property and real estate businesses are used. In this study, the application of SPSS 25 is used as a data analysis tool that will be described with descriptive statistical methods and inferential statistics. The results of the research, obtained in part, show that profitability and capital structure have a significant positive impact on the value of the company. Liquidity has a significant negative impact on company value. Profitability and liquidity have significant negative effects on capital structure. Capital structure is unable to mediate the impact of profitability on the company's value but mediates the effect of profitability on firm value.

Keywords: *profitability, liquidity, company value, capital structure*

BACKGROUND

The modern era's remarkable advancements in science and technology have drastically changed the world economy. This shift has accelerated and broadened buying and selling activities. Business competition and strategic battles between corporations have become increasingly intense, pushing corporations that want to survive and grow to have clear and innovative strategies (Septiani, 2018).

Every corporation aims to maximize profits to increase its firm value, thereby being regarded as a high-quality corporation. Firm value is a measure used to assess a corporation's success related to its stock price and is often a benchmark for evaluating corporate performance. A corporation with high firm value will foster trust among its stakeholders and the general public (Priyatama & Pratini, 2021).

A corporation that has never been declared bankrupt and has a good track record will be an added value for investors when deciding which corporation to invest in. This is because a high firm value indicates that the corporation's performance is good and the welfare of investors is assured. Every corporation naturally has future goals, one of which is to optimize investor success by increasing the firm's value (Brigham & Houston, 2018).

According to data from the Central Statistics Agency (BPS), Indonesia's economic growth in the fourth quarter of 2022 was 5.01% year-on-year (yoy), which remains strong amid the global economic slowdown. Consequently, Indonesia's overall growth for 2022 was recorded at 5.31%, a significant increase from the previous year's achievement of 3.70%. The role of the property sector in economic growth is very substantial. This industry operates in the service development sector by facilitating the construction of integrated and dynamic areas. The products of the property and real estate industry include housing, apartments, shophouses, office buildings, and shopping centers. In 2022, this industry ranked fourth among the top five sectors contributing the most to investment realization in Indonesia, with an investment value of IDR 109.4 trillion (Badan Pusat Statistik, 2023).

One of the main objectives of a publicly traded corporation is to enhance investor welfare by increasing the firm's value. Firm value is a crucial factor because it represents the corporation's capabilities and can influence how shareholders perceive the business. The firm's value can be measured using Price Book Value (PBV), Price Earning Ratio (PER), Earnings Per Share (EPS), and Tobin’s Q ratio (Q Tobin). In this study, the researcher uses PBV as a proxy for firm value because it is often used by investors to assess a corporation and formulate investment strategies in the capital market. Through PBV, investors can predict whether stocks are overvalued or undervalued (Dzaki Ramadhany & Suwaidi, 2021). PBV is used to measure firm value by comparing the stock price with the book value provided by the financial market.

Based on the processed data sourced from the financial reports of each company in the property and real estate sector, it shows that the average price book value (PBV) has tended to decline over the past 10 years. The highest average PBV during the study period occurred in 2014, reaching 1.82. This was due to the low interest rates at that time, which boosted property and real estate sales. Many investors invested in this sector, believing that prices would continue to rise and that the demand for land would steadily increase along with the growing population of Indonesia and the need for housing, workplaces, malls, and other facilities (Alfindy & Andayani, 2019).

Several important factors influence firm value, such as profitability ratios, which can provide information about the company's ability to generate profits at a given time. There are differences in the results of previous studies regarding the impact of profitability on firm value. Research conducted by (Panjaitan et al., 2023) found that profitability had a significantly positive effect on firm value, which contrasts with the findings of (Ilyas & Hertati, 2022), who found that profitability had a significantly

negative effect on firm value. Meanwhile, research by (Anggraini & Siska, 2019) found that profitability did not have a significant effect on firm value.

Liquidity ratios are also believed to be a factor that can influence firm value because they indicate a company's ability to pay off its short-term obligations. If a company cannot meet its short-term obligations and struggles to manage its operations, it will face greater difficulties in the long term (Prabowo & Sutanto, 2019). Research conducted by (Mahanani & Kartika, 2022) found that liquidity has a significantly positive effect on firm value, which contrasts with the findings of (Priyatama & Pratini, 2021), who found that liquidity has a significantly negative effect on firm value. Meanwhile, research by (Putri & Miftah, 2021) found that liquidity does not significantly impact firm value.

In this study, two theories were used, namely signalling theory and pecking order theory. Based on business phenomena and the gaps in the results of previous studies, it can be concluded that profitability and liquidity alone are not sufficient to increase firm value. Therefore, to address the disparity in research results, capital structure is added as an intervening variable. The researcher chose capital structure as an intervening variable because it provides a strategic plan for funding corporate activities, whether through internal funding or debt. When profitability and liquidity increase, companies tend to use internal funds first rather than external funds, which can lead to a decrease in debt.

METHODOLOGY

43 firms in the property and real estate industry that were listed on the IDX between 2013 and 2022 made up the study's population. The purposive selection strategy was employed in this study to choose the sample, taking into account many factors such as profitability over the study period and organizations possessing comprehensive data on research variables spanning from 2013 to 2022. From 2013 to 2022, 14 firms in the property and real estate industry match the criteria to be utilized as examples for this study, based on the criteria mentioned above.

The company value in this study is proxied using Price Book Value (PBV), which is a ratio used to assess whether the price of a corporation's shares is cheap or expensive (Weston & Copeland, 2010:244) in (Nananjaya & Dana, 2023). Profitability in this study is proxied using Return on Assets (ROA), which is a ratio used to determine the percentage of profit collected by the company in relation to the total resources or total assets owned (Prabowo & Sutanto, 2019). Liquidity in this study is proxied using the Current Ratio (CR), which is a ratio used to assess the corporation's ability to pay short-term debts that will mature through current assets with current liabilities. The results of a low current ratio calculation can indicate that the corporation lacks capital to pay debts (Kasmir, 2018). Capital Structure in this study is proxied using the Debt to Equity Ratio (DER), which is a ratio that shows the extent to which the corporation is able to pay debts using the capital or equity it owns. The higher the DER value indicates the use of large debt in the company (Alarussi, 2021). The data analysis technique used is multiple linear regression using IBM SPSS (Statistical

Package for Social Science) version 25. The analytical tool used is SPSS V.25, employing descriptive statistics, classical assumption tests, t-tests, path analysis, and the Sobel test to determine whether the intervening variable affects the relationship between the independent and dependent variables. The regression equation is as follows:

Substructural 1: $DER = \alpha + \rho_3 ROA + \rho_4 CR + \varepsilon_1$

Substructural 2: $PBV = \alpha + \rho_1 ROA + \rho_2 CR + \rho_5 DER + \varepsilon_2$

Hypothesis Development

Impact of Profitability on Firm Value

A corporation's profitability indicates how effectively and efficiently it manages its assets to generate profit. The profit received by the corporation is reused to finance its operational activities, pay debts, and distribute returns to shareholders. A corporation that successfully manages its operational activities will generate substantial profits, thereby increasing its value. This is supported by research conducted by (Mahmudi et al., 2022), which states that profitability has a significant positive impact on a company's value. According to the signaling theory, high profitability can enhance a company's value and serve as a favorable signal to external parties. Thus, the hypothesis derived is:

H1. Profitability has a significant positive impact on Company Value

Impact of Liquidity on Company Value

A high liquidity ratio indicates a corporation's ability to meet its current liabilities. If a corporation can timely pay its short-term debts (within one year), it can be considered liquid. Consequently, investors will not hesitate to invest their funds in such a corporation. This is supported by research by (Ichwanudin et al., 2020), which states that liquidity has a significant positive impact on a company's value. According to the signaling theory, high liquidity enhances a corporation's ability to pay off and resolve debt-related issues, thereby increasing the company's value and attracting investor interest. Thus, the hypothesis derived is:

H2. Liquidity has a significant positive impact on Company Value

Impact of Profitability on Capital Structure

A high profitability ratio indicates that a corporation can manage its assets effectively and efficiently, resulting in substantial profits. A profitable corporation will finance its operational activities from its internal funds (own capital), thereby reducing its need to borrow externally in the form of debt. This is supported by research by (Wijaya & Jessica, 2017), which states that profitability has a significantly negative impact on capital structure. According to the pecking order theory, corporations with high profitability will conduct their operations using the most advantageous source of funding, prioritizing internal funds over debt. Thus, the derived hypothesis is:

H3. Profitability has a significant negative impact on Capital Structure

Impact of Liquidity on Capital Structure

Corporations with high liquidity levels tend to be capable of paying off their short-term debts with their available funds, thus being considered liquid. A liquid corporation is believed to be able to manage its operational activities effectively. Such corporations will first utilize internal funds to finance their operations, and if these internal funds are insufficient, the management will resort to external financing. This is supported by research by (Panjaitan et al., 2023), which states that profitability has a significantly negative impact on capital structure. According to the pecking order theory, a corporation with high liquidity is likely to use internal cash to finance projects or investments rather than taking on additional debt or issuing new shares. Thus, the derived hypothesis is:

H4. Liquidity has a significant negative impact on Capital Structure

Impact of Capital Structure on Company Value

Companies with low capital structure values indicate that their debt levels are also low. These companies will minimize the use of debt and prefer to use internal funds to finance their operational activities and business expansion. This will attract investors as the company poses minimal bankruptcy risk and is expected to provide returns. This is supported by research by (Hanan Naufal Hardiyanto & Akhmadi, 2024), which states that capital structure has a significantly negative impact on firm value. According to the pecking order theory, corporations will use internal funds and limit the use of debt, which will result in an increase in firm value. Thus, the derived hypothesis is:

H5. Capital Structure has a significant negative impact on Company Value

Impact of Profitability on Firm Value Mediated by Capital Structure

Companies with high profitability indicate that they generate substantial profits and can reduce their reliance on debt by choosing to use internal funds for their operational activities. Thus, high profitability helps minimize the composition of the capital structure, thereby increasing the company's value. Companies with low capital structure values are attractive to investors as they are considered to have minimal bankruptcy risk. Consequently, the demand for their shares increases, which in turn enhances the company's value. This is supported by research by (Panjaitan et al., 2023), which states that the capital structure can mediate the relationship between profitability and firm value. According to the pecking order theory, a low capital structure implies that the company has a low level of debt. Higher profitability will reduce the value of the capital structure since the profits can be used to pay off debt, run the company's operations, and even secure additional financing without having to issue additional equity. Therefore, the hypothesis derived is:

H6. Capital Structure can mediate the relationship between Profitability and Firm Value

Impact of Liquidity on Firm Value Mediated by Capital Structure

Companies with high liquidity demonstrate that they are in a liquid condition and are considered capable of paying their short-term debts on time, thus reducing the corporation's debt. The use of debt that is not excessive and the financing of operational activities through internal funding will have a positive impact on the corporation. A low level of debt indicates that the corporation is free from the risk of business failure. This is supported by research by (Kusna & Setijani, 2018), which states that the capital structure can mediate the relationship between liquidity and firm value. According to the pecking order theory, high profitability helps reduce the capital structure, meaning that debt decreases, thus increasing the company's value. A corporation with a high firm value sends a positive signal to the market, attracting investors to invest in the corporation. Therefore, the hypothesis derived is:

H7. Capital Structure can mediate the relationship between Liquidity and Firm Value

RESULTS AND DISCUSSION

DATA ANALYSIS

Normality Test

Table 1 Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual	Unstandardized Residual
N		140	140
Normal Parameters[a,b]	Mean	.0000000	.0000000
	Std. Deviation	.38627348	1.14265048
Most Extreme Differences	Absolute	.046	.168
	Positive	.034	.168
	Negative	-.046	-.116
Test Statistic		.046	.168
Asymp. Sig. (2-tailed)		.200[c,d]	.135v[c]

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Based on Table 1, it can be seen that the results of the normality test using Kolmogorov-Smirnov in Substructure 1 have a value of 0.200 > 0.05 and Substructure 2 has a value of 0.135 > 0.05. This indicates that the data are normally distributed, and the regression model is appropriate to predict the dependent variable, PBV, based on the input of the independent variables, namely ROA, CR, and DER.

Multicollinearity Test

Table 2 Results of Substructural Multicollinearity Test 1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	1.240	.089		13.916	.000		
	ROA	-3.849	.818	-.372	-4.706	.000	.933	1.072
	CR	-.106	.023	-.369	-4.669	.000	.933	1.072

a. Dependent Variable: DER

Based on Table 2, it shows that all variables do not exhibit multicollinearity symptoms. The ROA variable has a tolerance value of 0.993 > 0.10 and a VIF value of 1.007 < 10. The CR variable has a tolerance value of 0.993 > 0.10 and a VIF value of 1.007 < 10.

Table 3 Results of Substructural Multicollinearity Test 2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.238	.411		.580	.563		
	ROA	17.512	2.617	.513	6.691	.000	.803	1.245
	CR	-.171	.073	-.181	-2.355	.020	.805	1.243
	DER	.786	.254	.239	3.100	.002	.797	1.255

a. Dependent Variable: PBV

Based on Table 3, it is shown that all variables do not exhibit symptoms of multicollinearity. The ROA variable has a tolerance value of 0,803 > 0,10 and a VIF value of 1,245 < 10. The CR variable has a tolerance value of 0,805 > 0,10 and a VIF value of 1,243 < 10. Additionally, the DER variable has a tolerance value of 0,797 > 0,10 and a VIF value of 1,255 < 10.

Heteroscedasticity Test

Table 4 Results of Substructural Heteroscedasticity Test 1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.347[a]	.120	.087	.18299

a. Predictors: (Constant), X1X2, X2_KUADRAT, X1_KUADRAT, X1, X2

Based on Table 4, the White test shows that the chi-square value for the substructure obtained from the R Square value multiplied by the number of data samples (N), which is 0.120 x 140, equals 16.8. Therefore, the calculated chi-square value is less than the chi-square table value, i.e., 16.8 < 168.6, indicating that the regression model does not exhibit heteroskedasticity.

Table 5 Results of Substructural Heteroscedasticity Test 2

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.502[a]	.252	.212	3.14068

a. Predictors: (Constant), X1X2Z, Z_KUADRAT, X2_KUADRAT, X1_KUADRAT, Z, X1, X2

Based on Table 5, the White test shows that the chi-square value for the substructure obtained from the R Square value multiplied by the number of data samples (N), which is 0.252 x 140, equals 35.28. Therefore, the calculated chi-square value is less than the chi-square table value, i.e., 35.28 < 168.6, indicating that the regression model does not exhibit heteroskedasticity.

Linearity Test

Table 6 Results of Linearity Test

ANOVA Table	
Deviation from Linearity	**Sig.**
DER * ROA	.258
DER * CR	.521
PBV * ROA	.632
PBV * CR	.257
PBV * DER	.821

Based on Table 5, each variable relationship has a Deviation from Linearity value greater than 0.05. Therefore, it can be said that there is a significant linear relationship.

Descriptive Statistics

Table 7. Descriptive Statistical Analysis Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PBV	140	.15	7.60	1.4691	1.42500
ROA	140	.00	.18	.0602	.04178
CR	140	.24	7.19	2.4180	1.50178
DER	140	.09	1.93	.7512	.43268
Valid N (listwise)	140				

Based on Table 7, it can be seen that the number of observations (N) used is 140 from a sample of 14 companies with 10 years of observation in the property and real estate sector companies listed on the IDX during the period 2013 – 2022. From this table, the results obtained are as follows: (1) PBV has a minimum value of 0.15, a maximum value of 7.6, a mean value of 1.4691, and a standard deviation of 1.4250. (2) ROA has a minimum value of 0.0001, a maximum value of 0.1813, a mean value of 0.0602, and a standard deviation of 0.0417. (3) CR has a minimum value of 0.2405, a maximum value of 7.19, a mean value of 2.4180, and a standard deviation of 1.5017. (4) DER has a minimum value of 0.09, a maximum value of 1.93, a mean value of 0.7512, and a standard deviation of 0.4326. From the descriptive statistics results for all variables, it can be seen that the mean value is greater than the standard deviation value. This indicates that the data deviation for all variables is large, or the high fluctuation in capital structure values can be considered good during the study period.

Hypothesis Testing

Table 8 Results of T-Test on the Impact of Profitability on Firm Value

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.238	.411		.580	.563
	ROA	17.512	2.617	.513	6.691	.000
	CR	-.171	.073	-.181	-2.355	.020
	DER	.786	.254	.239	3.100	.002

a. Dependent Variable: PBV

Based on Table 8, the t-value > t-table value (6,691 > 1,977) with a significance value < 0,05 (0,02 < 0,05). The coefficient value indicates a positive direction, which is 17.512. The conclusion is that profitability has a significant positive effect on firm value, thus **Hypothesis 1 is accepted**.

Table 9 Results of T-Test on the Impact of Liquidity on Firm Value

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.238	.411		.580	.563
	ROA	17.512	2.617	.513	6.691	.000
	CR	-.171	.073	-.181	-2.355	.020
	DER	.786	.254	.239	3.100	.002

a. Dependent Variable: PBV

Based on Table 9, the t-value < t-table value (-2.355 < -1.977) with a significance value less than 0.05 (0.000 < 0.05). The coefficient value indicates a negative direction, which is -0.171. The conclusion is that liquidity has a significant negative effect on firm value, thus **Hypothesis 2 is rejected**.

Table 10 Results of T-Test on the Profitability on Capital Structure

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	1.240	.089		13.916	.000
	ROA	-3.849	.818	-.372	-4.706	.000
	CR	-.106	.023	-.369	-4.669	.000

Based on Table 10, the t-value < t-table value (-4.706 < -1.977) with a significance value less than 0.05 (0.000 < 0.05). The coefficient value indicates a negative direction, which is -3.849. The conclusion is that profitability has a significant negative effect on capital structure, thus **Hypothesis 3 is accepted**.

Table 11 Results of T-Test on the Liquidity on Capital Structure

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	1.240	.089		13.916	.000
	ROA	-3.849	.818	-.372	-4.706	.000
	CR	-.106	.023	-.369	-4.669	.000

Based on Table 11, the t-value < t-table value (-4.669 < -1.977) with a significance value less than 0.05 (0.000 < 0.05). The coefficient value indicates a negative direction, which is -0.106. The conclusion is that liquidity has a significant negative effect on capital structure, thus **Hypothesis 4 is accepted**.

Table 12 Results of T-Test on the Capital Structure on Firm Value

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.238	.411		.580	.563
	ROA	17.512	2.617	.513	6.691	.000
	CR	-.171	.073	-.181	-2.355	.020
	DER	.786	.254	.239	3.100	.002

a. Dependent Variable: PBV

Based on Table 12, the t-value > t-table value (3.100 > 1.977) with a significance value less than 0.05 (0.002 < 0.05). The coefficient value indicates a positive direction, which is 0.786. The conclusion is that capital structure has a significant positive effect on firm value, thus **Hypothesis 5 is rejected**.

Path Analysis

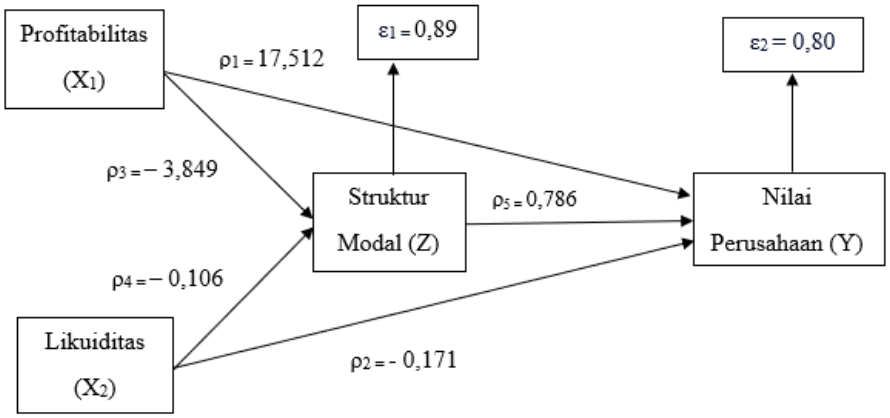


Figure 1 Path Diagram Results

Based on Figure 8, impact of profitability on firm value through capital structure. Direct impact =17,512, indirect impact = -3,849 x 0,786 = -3,025, total impact = 17,512 + (-3,849 x 0,786) = 14,487. Based on the calculations, it is known that the capital structure variable, proxied by DER, does not mediate the relationship between profitability and firm value. This is because the indirect effect (calculated as -3.025) is smaller than the direct effect (calculated as 17.512). Therefore, it can be concluded that the capital structure variable does not mediate the relationship between profitability and firm value. Thus, **H6 is rejected**.

Based on Table 8, impact of liquidity on firm value through capital structure. Direct impact = -0,171, indirect impact = -0,106 x 0,786 = -0,083, total impact = -0,171 + (-0,106 x 0,786) = -0,254. Based on the calculations, it is known that the capital structure variable, proxied by DER, can mediate the relationship between liquidity and firm value. This is because the indirect effect (calculated as -0.083) is greater than the direct effect (calculated as -0.171).

Sobel Test

α = Coefficient of X2 on Z = -0.106
b = Coefficient of Z on Y = 0.786
Sa = Standard error of X2 on Z = 0.023
Sb = Standard error of Z on Y = 0.254

$$Sab = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$$

$$= \sqrt{(0{,}786^2.0{,}023^{2)} + (-0{,}106^2.0{,}254^2) + (0{,}023^2.0{,}254^2)}$$

$$= \sqrt{0{,}617796.0{,}000529) + (0{,}011236.0{,}064516) + (0{,}000529.0{,}064516)}$$

$$= \sqrt{0{,}0003268 + 0{,}0007249 + 0{,}0000341}$$

$$= \sqrt{0{,}0010858}$$

$$Sab = 0{,}0329515$$

To test the significance of the indirect effect partially, the calculation is done using the following formula:

$$z = \frac{ab}{Sab} = \frac{(-0{,}106.0{,}786)}{0{,}032952} = \frac{-0{,}083316}{0{,}032952} = -2{,}52840$$

Based on the Sobel test calculations, the t-value obtained is -2.528, which is less than the t-table value for degrees of freedom (df) = 140 - 3 = 137, resulting in a t-table value of -1.977 (-2.528 < -1.977). Therefore, it can be concluded that capital structure partially mediates the relationship between liquidity and firm value. Partial mediation is indicated because the mediator variable affects the dependent variable both directly and indirectly. Conclusion, **H7 is accepted**, meaning that capital structure partially mediates the relationship between liquidity and firm value.

Discussion

Impact of Profitability on Firm Value

Profitability has a significant positive impact on firm value. This indicates that high profitability suggests the corporation is performing well and optimally, generating substantial profits, which sends a positive signal to investors. Investors are likely to be attracted to invest, leading to increased demand for shares in the property and real estate sector, which in turn boosts stock prices and firm value. Higher profitability values correlate with an increase in firm value. This aligns with the signaling theory, where corporations provide positive signals to investors regarding their profitable business operations year after year, demonstrating good future prospects. These results are consistent with studies by (Mahmudi et al., 2022).

Impact of Liquidity on Firm Value

Liquidity has a significant negative impact on firm value. High liquidity may signal that the corporation is not effectively utilizing its resources, potentially reducing profit capacity due to idle funds such as unsold inventory and uncollectible receivables.

When such issues dominate current assets, it increases liquidity value, giving the impression of high liquidity. This needs attention from corporate management, as the ability to meet short-term obligations smoothly does not guarantee an increase in firm value. Higher liquidity can decrease firm value. This result contradicts the signaling theory, which suggests that positive information provided by the corporation should be viewed positively by investors. However, high liquidity signals may be viewed negatively by investors, leading to a lack of interest in investing. These findings are supported by studies by (Pardede et al., 2018).

Impact of Profitability on Capital Structure

Profitability has a significant negative impact on capital structure. This means that when a corporation has high profitability, it tends to use retained earnings as its capital, reducing the need for external funding such as debt. High profitability typically results in lower debt usage, thereby decreasing the capital structure. According to the Pecking Order Theory, with substantial retained earnings, a corporation will prefer using internal funds over debt. These findings are consistent with studies by (Anggita & Priyanto, 2022).

Impact of Liquidity on Capital Structure

Liquidity has a significant negative impact on capital structure. High liquidity suggests that the corporation has sufficient internal funds to meet short-term obligations, reducing reliance on debt and thus decreasing the capital structure. Corporations tend to use internal funds before resorting to external financing. Higher liquidity generally leads to reduced debt usage and a lower capital structure. This finding aligns with the Pecking Order Theory, which suggests that corporations prefer internal funding over external sources for financing their activities. These results are consistent with studies by (Ichwanudin et al., 2020).

Impact of Capital Structure on Firm Value

Capital structure has a significant positive impact on firm value. High capital structure indicates that the corporation has multiple funding sources, both internal and external, to finance its operations and business expansion. An increased capital structure, characterized by higher debt usage, is viewed positively by investors as it suggests the corporation has good business prospects. Higher capital structure correlates with increased firm value. This result contradicts the Pecking Order Theory, which posits that corporations prefer using internal funds over debt due to concerns about interest burden. The findings are supported by studies by (Fekadu Agmas, 2020).

The Impact of Profitability on Firm Value Mediated by Capital Structure

Capital structure does not mediate the impact of profitability on firm value. This is because the capital structure contributes only marginally to affecting firm value, meaning that the amount of debt used by the corporation is less critical to investors than how effectively the corporation utilizes available funds to achieve added value, such as profit. This finding is consistent with studies by (Rahmatullah, 2019).

The Impact of Liquidity on Firm Value Mediated by Capital Structure

Capital structure can mediate the impact of liquidity on firm value. When liquidity decreases, a corporation may rely more on debt to meet its needs. A higher capital structure often indicates higher debt ratios. When a corporation manages its debt effectively for operations and business expansion, it positively impacts firm value. Investors may be attracted to invest if they see that low liquidity leads to increased debt usage and thus improved business development, resulting in a higher capital structure and firm value. Conversely, higher liquidity often leads to a lighter capital structure with less debt usage. Therefore, capital structure can act as a mediator between liquidity and firm value. These findings are consistent with studies by (Panjaitan et al., 2023).

CONCLUSIONS

Profitability and high capital structure are interpreted as indicators of good company performance and providing positive signals to the market because company is in good condition and capable of generating significant profits for investors. The intervening variable of capital structure can mediate the effect of liquidity on firm value. Investors perceive that corporations with low liquidity will increase their use of debt to help finance operations and expand their business, which will subsequently increase the capital structure and ultimately enhance firm value. Future researchers are advised to consider replacing the capital structure variable with other potential mediating variables, such as activity variables, dividend policies, or other factors that provide positive signals from a corporation. Additionally, they might re-examine the relationships between profitability, liquidity, and firm value, mediated by capital structure, using different subjects to validate and strengthen both the signaling theory and the pecking order theory. To enhance the value of the company, management should signal to investors by increasing profitability and reducing liquidity levels. Management should also consider the composition of the capital structure, as a high capital structure is perceived by investors to indicate that the company has substantial funding sources to expand its business, which in turn impacts the company's value.

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