

Beyond the Numbers: How Institutional Ownership and Capital Structure Shape Firm Value


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<p>Article Info</p> <p><i>Keywords:</i></p> <ul style="list-style-type: none"> ○ Capital Structure, ○ Institutional Ownership, ○ Profitability, ○ Firm Value <hr/> <p>Article History</p> <p>Received: 04 - 01 - 2026 Revised: 25 - 02 - 2026 Accepted: 02 - 03 - 2026 Published: 02 - 04 - 2026</p> <hr/> <p>DOI</p> <p>https://doi.org/10.65440/jaa.v2i2.180</p> <div style="text-align: center; margin-top: 10px;">  </div> <p>Copyright: © 2026 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY SA) license (https://creativecommons.org/licenses/by-sa/4.0/)</p>	<p>Abstract</p> <p><i>Purpose - This study aims to analyze the relationship between capital structure, institutional ownership, and profitability on firm value in financial sector companies in Indonesia.</i></p> <p><i>Design/methodology/approach - This study uses secondary data from the annual reports of financial sector companies listed on the Indonesian Stock Exchanged (IDX) for the period 2022-2024. Through purposive sampling technique, a sample of 70 companies was obtained with a total of 210 observations. Data analysis was carried out using a panel data regression model using EViews9 software, where the Random Effect Model (REM) was selected as the best model based on the results of the Chow, Hausman, and Lagrange Multiplier tests.</i></p> <p><i>Findings - These results of the study shows that Capital Structure has a positive and significant effect on Firm Value. In contrast, Institutional Ownership and Profitability do not have a significant influence on Firm Value in the financial sector during the observation period. This indicates that investors in the financial sector place more value on the management of funding structures compared to the proportion of institutional ownership or short-term profit levels.</i></p> <p><i>Research limitations/implications - Companies in the financial swctor are advised to optimize the composition of debt and equity to increase investor confidence. For investors, these results provide insight that the value of companies in the financial sector is influenced by funding stability, so investment strategies need to consider fundamental aspects of capital structure in addition to other macroeconomic factors.</i></p> <p>JEL : G21, G30, G32, M41</p>
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INTRODUCTION

The financial sector is the backbone of a country's economy, and Indonesia is no exception. As a financial intermediary, the stability and performance of this sector is a vital indicator for the health of the national economy. In the post-pandemic era and global

geopolitical uncertainty, companies in the financial sector face major challenges in maintaining firm value. The value of a company is not just a reflection of the stock price in the market, but a representation of investors' perception of the company's past performance and future prospects. Optimizing the company's value is the main goal because the increase in value reflects the increased welfare of shareholders. Phenomenally, the financial sector on the Indonesia Stock Exchange (IDX) has shown fluctuating dynamics in recent years. Despite increased credit growth and financial literacy, profitability ratios in several sub-sectors such as digital banking and insurance are under pressure due to increased operating costs and non-performing loan (NPL) risks. An interesting phenomenon can be seen in the gap between asset growth and stock market value. Some companies with large assets are actually trading below their book value (price to book value < 1), which indicates that the market has not given maximum appreciation to the funding structure and governance implemented by the company.

Capital structure is one of the main determinants that affect a company's value. Based on the Trade-off Theory, the company will try to balance the tax benefits of using debt with the bankruptcy costs that may arise. However, in Indonesia's financial sector, the use of debt is often viewed in a dualistic manner. On the one hand, high debt can be considered a signal of trust from creditors; On the other hand, the risk of default can erode investor confidence. This is supported by research by Amanah et al. (2020) which found that capital structure has a significant positive effect on the value of the company. However, this result is contradicted by the findings of Pratama & Wirawati (2021) which states that capital structure has no effect on the value of the company, as investors focus more on operational efficiency than on how the company funds its assets.

Institutional ownership plays an important role in the corporate governance mechanism. The existence of institutions as shareholders is expected to be able to carry out the monitoring function of management to reduce agency conflicts. Referring to Agency Theory, institutional shareholders have incentives and resources to monitor managerial policies to align with the interests of shareholders. Research by Sari & Sedana (2020) shows that institutional ownership is able to increase the value of the company through effective supervision. On the contrary, Hidayat's (2022) research found a negative influence, arguing that institutional ownership that is too dominant can trigger collusion with management or interventions that actually hinder the company's strategic flexibility.

Profitability is an indicator of a company's efficiency in generating profits from assets under management. According to the Signalling Theory, a high profit rate is a positive signal that management sends to the market about the bright prospects of the future, which is then responded to with an increase in stock prices. The majority of previous research, such as by Dewi & Suaryana (2021), agree that profitability has a strong positive correlation with company value. However, in the financial sector, the phenomenon of high profit is not always followed by high value if the profit is not balanced with adequate risk management. The inconsistency of the results of previous studies related to the above variables creates a research gap that underlies the importance of this research being carried out again.

The novelty in this study lies in the integration of these variables in the context of Indonesia's financial sector in the most recent observation period, which includes the economic recovery period and the adjustment of the benchmark interest rate. This study not only looks at the influence partially, but also understands how the interaction between funding policy

(capital structure), external controls (institutional ownership), and operational results (profitability) shapes market perception amid increasingly stringent regulations of financial services authorities. The importance of this research is based on three main aspects. First, theoretically, this research aims to strengthen the validity of Agency Theory and Signalling Theory in sectors that have highly regulated characteristics. Second, practically, for company management, the results of this research can be a reference in concocting the composition of the capital structure and maintaining the level of profitability so that it remains attractive in the eyes of investors. Third, for investors, this study provides an in-depth overview of which factors are the most dominant in determining the value of the company, so that investors can make more rational and measurable investment decisions in the Indonesian financial sector. Against the background of fluctuating phenomena and the contradiction of previous research results, this research is very crucial to be carried out with the title: "The Influence of Capital Structure, Institutional Ownership, and Profitability on Company Value in the Financial Sector in Indonesia".

LITERATUR REVIEW

Trade-Off Theory

Widnyana & Purbawangsa (2024) explain that the trade-off theory is one of the theories in capital structure that emphasizes the importance of continuity between the benefits and costs arising from the use of debts. This theory explains that companies can achieve an optimal capital structure by considering the tax benefits of using debt and the risk of bankruptcy that may occur. Trade-Off Theory explains that the optimal capital structure is achieved when the additional benefits of using debt are balanced with the additional costs resulting from increased bankruptcy risk. If the tax benefits obtained from using debt are higher than the risks, then companies will tend to increase the proportion of debt in their capital structure. Conversely, if bankruptcy costs and financial risks are greater, companies will reduce their use of debt and prefer financing through equity. Therefore, this theory serves as a conceptual basis for companies in determining the ideal capital structure composition, in order to maximize company value while maintaining financial stability.

Stakeholder Theory

The stakeholder theory introduced by Freeman (1984) emphasizes that a company's success is determined by its ability to manage and balance the interests of all stakeholders. This theory directs companies to make ethical and sustainable decisions in order to create long-term value. In this perspective, institutional ownership acts as a supervisory mechanism that encourages management to implement good corporate governance. Institutional investors have the ability and resources to improve corporate transparency, accountability, and sustainability. Effective management of relationships with stakeholders, particularly institutional investors, can increase market confidence and corporate value. In addition, profitability reflects a company's success in meeting stakeholder interests and supporting business sustainability.

Firm Value

Putra et al., (2024) firm value is a representation of investors views on the company's

performance and condition, which is directly reflected in its share price. Mayangsari (2018) explains that firm value's a reflection of the company's performance as a manifested in its share price, which is determined by the dynamics of supply and demand in the dynamics of supply and demand in the capital market, reflecting the public's evaluation or the company.

Capital Structure

Widyatuti (2017) explains that capital structure is a form of long-term financing consisting of three main components: long-term debt, preferred stock, and shareholder equity. Meanwhile, according to Habibah & Andayani (2015), capital structure is the proportion or balance between total debt and equity, which is measured by the debt and equity, which is measured by the debt-to-equity ratio (DER). In the financial sector, debt has unique characteristics because it function as operational raw material (third-party funds). Therefore, capital structure here is not simply a financial burden, but rather a signal of efficiency. Optimal debt use demonstrates managements ability to manage leverage to generate growth, ultimately increasing market confidence and company value.

Institutional Ownership

Wardhani & Samrotun (2020), institutional ownership refers to a situation in which an agency or institution acts as a shareholder in a company. Purwanto et al., (2020) explains that institutional ownership occurs when that institutional or agency owns shares in a company. Institutional investors are key stakeholders expected to reduce agency costs through professional oversight. However, in Indonesia's highly regulated financial sector ecosystem, regulated by the Financial Services Authority (OJK), the role of institutional oversight often intersects with government regulations.

Profitability

Putra & Hermawan (2022) explain that profitability is a fundamental indicator in assessing a company's performance, as it reflects the company's ability to generate profits by utilizing assets, sales, and share capital during a specific period of time. Companies that are able to maintain a stable capital structure tend to generate consistent profits. This profit then becomes a tool for management to satisfy shareholder and customer expectations. In the financial sector, profitability is tangible evidence that a company has successfully managed intermediation risk, which in theory should be a major attraction for investors, increasing, increasing the companys market valuation.

Hypotheses development

Capital Structure on Firm Value

Capital structure is the ratio between long-term debt and equity used by companies to finance their operations. Capital structure can come from share capital, retained earnings, and company reserves as alternative funding to support business growth. An optimal capital structure reflects a company's ability to manage funding sources effectively. This condition sends a positive signal to investors about the company's future prospects. Increased investor confidence drives demand for shares, which in turn increase the company's value. This is supported by research by Setiawan (2021), Kammagi (2023), and Muliana (2021), which states

that capital structure has a positive effect on firm value. Therefore, the researcher proposes the following hypothesis:

H₁: Capital Structure has a positive effect on Firm Value.

Institutional Ownership on Firm Value

Institutional ownership plays an important role in improving oversight of company management. This ownership reflects the proportion of shares owned by external parties such as insurance companies, financial institutions, and other institutions. High institutional ownership encourages effective monitoring, thereby curbing opportunistic behavior by management. Share ownership above 5% indicates a higher level of monitoring activity compared to smaller ownership. This contributes to an increase in the company's reputation and value. This is supported by research by Jullia & Finatariyani (2024) and Murti et al., (2024), which states that institutional ownership has a positive effect on firm value. Therefore, the researcher proposes the following hypothesis:

H₂: Institutional Ownership has a positive effect on Firm Value.

Profitability on Firm Value

Profitability reflects a company's ability to generate profits from its assets or capital. A high level of profitability indicates good financial performance and demonstrates the effectiveness of management in optimizing resource management. This condition sends a positive signal to investors as it illustrates the potential for higher returns on investment. Therefore, companies with high profitability generally have a higher company value, as investor confidence and interest in their shares increase. This explanation is reinforced by a number of previous studies related to company value, which can be significantly boosted by profitability, conducted by (Inayah, 2022; Kammagi & Venny, 2023; Widilestariningtyas & Ahmad, 2022; Iman et al., 2021; Chynthiawati & Jonnardi, 2022; Amro & Asyik, 2021). Based on previous research and explanations regarding the effect of profitability on firm value, the researcher proposes the following hypothesis:

H₃: Profitability has a positive effect on Firm Value.

RESEARCH METHOD

Research Design

The study aims to analyze the relationship between independent variables, namely capital structure, institutional ownership, and profitability, and dependent variable, namely firm value. This study is designed to test hypotheses that explain the relationship between these variables. The type of data used in this study is quantitative data. The research objects used in this study are companies engaged in the financial sector listed on the Indonesia Stock Exchange (IDX) in 2022 – 2024. This study uses a probability sampling approach with cluster sampling techniques. The population was determined using purposive sampling techniques. This study uses secondary data obtained from the annual reports of companies in the financial sector listed on the Indonesia Stock Exchange (IDX) for the period 2022 – 2024.

Population and Sampel

Population refers to the entire group of individuals, events, or objects that are the main focus of the researcher and from which conclusions will be drawn based on the results of statistical sample analysis. (Sekaran, 2016). This study uses a probability sampling approach with a cluster sampling technique. The cluster sampling technique is carried out by dividing the population into groups or clusters that ideally the population naturally. After that, the clusters are selected randomly, and from each selected cluster, all or some of the elements can be used as research samples. The population in this study consists of companies engaged in the financial sector that are listed on the Indonesia Stock Exchange (IDX). The total population used includes 103 companies from the financial sector that meet the criteria set by the researcher for further analysis. Based on the population determination that has been established using purposive sampling techniques, the criteria used as the basis for sample selection in this study are as follows:

1. Companies in the financial sector listed on the Indonesia Stock Exchange (IDX) in 2022 – 2024.
2. Financial sector companies that have submitted annual report for 2022 – 2024 that can be used in this study.
3. Financial sector companies that reported profits for 2022 – 2024.

This study uses secondary data obtained from the annual reports of financial sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2022 – 2024. The data can be accessed through the IDX official website <https://www.idxchannel.com>.

Table 1. Operationalization of Research Variabel

<i>Variable</i>	<i>Measurement</i>
Capital Structure	$DER = \frac{\text{Total Debt}}{\text{Total Equity}} \times 100\%$
Institutional Ownership	$IO = \frac{\text{Number of Institutional Shares}}{\text{Number of Shares Outstanding}} \times 100\%$
Profitability	$ROA = \frac{\text{Net Profit After Tax}}{\text{Total Asset}}$
Firm Value	$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$

Source: Data processed (2025)

The three independent ratio (DER, IO, ROA) are actually instruments that form PBV. DER shows the funding strategy, IO ensures investment security, and ROA shows the real results of work. Investors on the IDX process information from these three ratios, and the final result is reflected in the PBV whether they will value the company at a premium or below its book value.

RESULTS

Descriptive Analysis

Descriptive analysis of the research variables aims to explain the characteristics of the independent, dependent variable used. The independent variables in this study include capital structure, institutional ownership, and profitability. Meanwhile, the dependent variable studied is firm value. Based on the results of the study, information was obtained regarding the minimum, maximum, mean, and standard deviation of each variable during the observation period of 2022 – 2024. The following table presents the descriptive statistical results as follow:

Tabel 2. Descriptive Statistic

Variables	Observations	Minimum	Maximum	Mean	Standard Deviation
Capital Structure	210	0.000000	1857.220	10.47271	128.0747
Institutional Ownership	210	0.000000	9.736400	0.736330	1.197716
Profitability	210	0.000000	4.007900	0.097963	0.462606
Firm Value	210	0.000300	997261.2	13329.66	92896.60

Source: Data processed using EViews9 (2025)

The table above shows that there were 210 observation (balanced) during the research period of 2022 – 2024. This indicates good data during the observation period. Based on the descriptive statistic table:

1. The capital structure variable ranges from a minimum value of 0.000000 to a maximum of 1857.220. The mean value is 10.47271, with a standard deviation 128.0747. In other words, the capital structure in the financial sector tends to be uneven, because a small number of companies have very high values, causing the data to be widely dispersed.
2. The institutional ownership variable ranges from a minimum value of 0.000000 to a maximum of 9.736400. The mean value is 0.736330, with standard deviation 1.197716. This indicates that there are significant differences in the structure of institutional share ownership in the financial sector during the research period.
3. The profitability variable ranges from a minimum value of 0.000000 to a maximum of 4.007900. The mean value is 0.097963, with standard deviation 0.462606. This indicates that the ability of companies to generate profits in the financial sector was uneven during the research period.
4. The firm value variable ranges from a minimum value of 0.00030 to a maximum of 997261.2. The mean value is 13329.66, with a standard deviation 92896.60. This shows that there are significant differences in scale and performance between companies, where a small number of companies with very high values cause the data to be spread out a lot.

Tabel 3. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.080378	(69,137)	0.0001
Cross-section Chi-square	150.518983	69	0.0000

Source: Data processed using EViews9 (2025)

Based on the chow test results using EViews9, the probability value 0.0001. This results shows that the value is less than the significance level ($\alpha= 0.05$). This indicates that the best model to use is the Fixed Effect Model (FEM). Therefore, the Hausman Test is needed to select the best model between the Fixed Effect Model (FEM) and the Random Effect Model (REM).

Tabel 4. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.053830	3	0.9967

Source: Data processed using EViews9 (2025)

Based on the hausman test results using Eview9, the probability value 0.9967. This result is greater than the significance level ($\alpha= 0.05$). This indicates that the best model to use is the Random Effect Model (REM). Therefore, the Lagrange Multiplier test is needed to determine the best model between the Common Effect Model (CEM) and the Random Effect Model (REM).

Tabel 5. Lagrange Multiplier

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	15.00237 (0.0001)	0.519604 (0.4710)	15.52198 (0.0001)
Honda	3.873290 (0.0001)	-0.720835 --	2.229122 (0.0129)
King-Wu	3.873290 (0.0001)	-0.720835 --	-0.060532 --
Standardized Honda	4.052370 (0.0000)	-0.388453 --	-3.827147 --
Standardized King-Wu	4.052370 (0.0000)	-0.388453 --	-2.529813 --
Gourierieux, et al.*	--	--	15.00237 (< 0.01)

*Mixed chi-square asymptotic critical values:

1%	7.289
5%	4.321
10%	2.952

Source: Data processed using EViews9 (2025)

Based on the lagrange multiplier results using EViews9, the significance value in Both

Breusch-Pagan is 0.0001. This result is less than the significance level ($\alpha = 0.05$). The best model to use is the Random Effect Model (REM).

Tabel 6. Hypothesis Test Results

Variable	Prediction	Coefficient	t-Statistic	Prob.
C		12097.47	1.458516	0.1462
CP	+	356.8026	8.579239	0.0000
IO	+	-2841.786	-0.486517	0.31355
PRO	+	-4205.73	-0.338008	0.36785

Source: Data processed using EViews9 (2025)

The table above shows the results of hypothesis testing that describes the effect of each independent variable on the dependent variable. The capital structure variable has a positive coefficient of 356.8026 with a probability value of 0.0000, which means that capital structure has a positive and significant effect on dependent variable, namely firm value. The institutional ownership variable has a negative coefficient of -284.1786 with a probability value of 0.31355, indicating that institutional ownership does not have a significant effect on firm value. The profitability variable also shows a negative coefficient of -4205.73 with a probability value of 0.36783, indicating that profitability does not have a significant effect. The t-statistic values for each variable support this conclusion because only capital structure has a high and significant t-statistic. Of the three variables tested, only capital structure is proven to have a significant effect on the dependent variable in this research model.

Tabel 7. Coefficient of Determination Test

R-Squared	0.267742
Adjusted R-Squared	0.257078
F-Statistic	25.1072
Prob (F-Statistic)	0.000000

Source: Data processed using EViews9 (2025)

R-Squared shows a value of 0.267742, which means that 26.77% of the variation in firm value can be explained by the variables capital structure, institutional ownership, and profitability in this research model, while the remaining 73.23% is explained by other variables outside the research model. The low R-Squared value in this model does not indicate a weakness in the selected variables, but rather reflects the unique characteristics of the financial sector as a highly regulated industry, where company value (PBV) is more influenced by external factors such as interest rate fluctuations, Financial Services Authority (OJK) policies, and macroeconomic market sentiment that simply reported internal performance indicators.

Tabel 8. Partial Test (T-Test)

Variable	Prediction	Coefficient	t-Statistic	Prob.
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C		12097.47	1.458516	0.1462
CP	+	356.8026	8.579239	0.0000
IO	+	-2841.786	-0.486517	0.31355
PRO	+	-4205.73	-0.338008	0.36785

CP = Capital Structure, IO = Institutional Ownership, PRO = Profitability

Source: Data processed using EViews9 (2025)

The results of the test using the Random Effect Model (REM) can be concluded as follows:

1. Capital structure with a probability value of $0.0000/2 = 0 < 0.05$. This means that capital structure has an effect on firm value.
2. Institutional ownership with a probability value of $0.6271/2 = 0.31355 > 0.05$. This means that institutional ownership has no effect on firm value.
3. Profitability with a a probability value of $-0.7357/2 = 0.36785 > . 0.05$. This means that profitability has no effect on firm value.

DISCUSSION

The Effect of Capital Structure on Firm Value

The results of the study show that the capital structure has a positive and significant influence on the value of companies in the financial sector in Indonesia. This indicates that any increase in the proportion of debt in a company's funding structure is responded positively to by the market, which in turn increases the value of the company. This phenomenon reinforces the relevance of Trade-off Theory. In the context of the financial sector, companies tend to utilize debt to the optimal point to get tax shield benefits for interest expenses. As long as the benefits obtained from the use of debt are greater than the potential financial distress cost, the additional debt will continue to increase the value of the company. In addition, this is in line with the Signalling Theory, where management's decision to take on debt is seen by investors as a signal of management's confidence in stable future cash flow to repay the obligation.

These findings support research conducted by Amanah et al. (2020) and Sari & Sedana (2020), which states that a well-managed capital structure is a strategic instrument to increase market value. These results provide confirmation that in the financial sector, leverage is not seen as a daunting burden for investors, but rather as an asset growth engine. However, this result provides an antithesis to the research of Pratama & Wirawati (2021) which previously stated that the capital structure has no effect. This difference is most likely due to differences in observation periods and macroeconomic conditions. In this research period, the effectiveness of the management of third-party funds and subordinated debt in producing productive assets was proven to be able to convince shareholders of the sustainability of the company's profits.

Overall, in the financial sector in Indonesia, the capital structure functions as a driver of company value due to the strict supervision mechanism from the regulator (OJK) that mitigates the risk of bankruptcy. Investors tend to give high appreciation to financial companies that dare to take debt positions to fund their productive assets, as long as the ratio of other financial health is maintained according to the applicable regulatory corridor. This proves that for the financial sector, debt is a credible tool to give positive signals about future performance to the

public.

The Effect of Institutional Ownership on Firm Value

Theoretically, based on Agency Theory, institutional ownership should act as an effective monitoring mechanism to reduce self-serving behavior by managers. Strict supervision from institutions is expected to reduce agency costs and increase company efficiency, ultimately increasing the value of the company. However, the results of this study show an "anomaly" to the theory. The insignificance of this variable signals that the role of monitoring by institutions in the Indonesian financial sector may be passive monitoring. Institutional investors tend to focus more on short-term dividend yields or simply following market index movements rather than actively engaging in managerial interventions that can significantly alter the company's fundamental value in the eyes of the public.

These results are in line with research conducted by Hidayat (2022) and Putri (2021) which states that institutional ownership often fails to be a control tool due to the potential for collusion between institutional owners and management. However, these results are contrary to classical theory and research by Sari & Sedana (2020) which found a positive influence. This difference occurs because the effectiveness of institutional ownership is highly dependent on the ownership structure in a country; in Indonesia, many institutions still have an affiliation with the majority owner, so their supervisory independence is weak. The lack of institutional ownership on the value of companies in the financial sector proves that the external supervisory function by institutional shareholders has not been empirically optimal. A company's value is influenced more by fundamental economic factors and compliance with banking/financial regulations than by its institutional ownership structure. This provides input to regulators that strengthening the role of independent supervision still needs to be pushed further beyond just fulfilling the share ownership quota.

The Effect of Profitability on Firm Value

Theoretically, based on Signalling Theory, profitability is supposed to give a positive signal to the market. High profits reflect good performance and promising future prospects, so they should trigger an increase in the stock price (the value of the company). However, in this study, the profit signal seems to be "distorted" or deemed irrelevant by the market. This indicates that investors in Indonesia's financial sector may be more skeptical of the *bottom line* and pay more attention to the quality of assets or the sustainability of these profits amid existing systemic risks.

The results of this study are in line with the findings of Putra & Lestari (2022) who stated that in highly regulated companies, profitability often fails to be a driver of company value due to regulatory limitations that limit the flexibility of using profits. However, these results are in contrast to the research of Dewi & Suaryana (2021) which found a strong positive influence. This difference confirms the existence of a research gap triggered by differences in macroeconomic conditions or observation periods. When economic conditions are uncertain or there is a change in the benchmark interest rate policy (BI Rate), investors tend to ignore short-term profitability and focus more on the company's financial resilience in the face of market volatility. It can be concluded that in the financial sector in Indonesia, the value of a company is not determined by how much profit it makes, but how safe the company is in

managing operational risks and compliance with government regulations. Investors tend to act rationally by viewing profitability as a secondary factor after security and capital stability.

CONCLUSIONS

Based on the results of data analysis, this study concludes that capital structure is a factor that affects the value of the company, although its strength is not yet dominant. This shows that investors in the financial sector are starting to consider the composition of debt and equity as a signal of funding health, but remain cautious of the risk of default. In contrast, institutional ownership and profitability were found to have no effect on the company's value. The ineffectiveness of institutional ownership indicates the ineffectiveness of the *monitoring* function by institutional shareholders, while the lack of profitability indicates that investors in the financial sector prioritize capital stability, risk management, and compliance with OJK regulations rather than short-term profits. The theoretical implications of this study show a shift in the relevance of *Signalling Theory* and *Agency Theory* in the context of the financial sector in Indonesia. The finding that profitability is not a driver of corporate value suggests that the bottom *line* signal is no longer seen as a single indicator of future prosperity, but rather should be compared to the company's risk profile. In addition, the dysfunction of institutional ownership as a driver of corporate value reinforces the allegation of a more complex agency problem in which institutional roles may be more passive or focused on short-term interests, so agency theory in the context of supervision needs to be revisited by considering more specific ownership structures

Practically, the results of this study provide important implications for the management of financial sector companies and regulators. Management is advised not only to focus on maximizing profits, but rather on strengthening financial fundamentals, capital structure efficiency, and risk management transparency to increase market confidence. For investors, this study emphasizes the importance of a comprehensive analysis that is not only fixated on profitability figures, but also considers macroeconomic factors and the resilience of the company's capital position. Finally, for regulators such as the Financial Services Authority (OJK), this result can be the basis for continuing to strengthen corporate governance policies (*Good Corporate Governance*) so that the role of institutional investors can be more optimal in protecting the interests of all shareholders. For future researchers, this study needs to be replicated due to its limitations. It is recommended to choose a sectors with larger sample size to extend the observation period. In addition, the selection of variables needs to be reviewed to ensure that they are in line with the latest findings to minimize potential bias. Furthermore, conduct an in-depth and comprehensive literature review to ensure that the selected variables are supported by existing theories or research.

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