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The Effect of Capital Structure and Institutional Ownership on Firm Value with Profitability as a Moderating Variable: Evidence from the Indonesia Financial Sector

[1*]**Gita Christy Immanuella**, [2]**Renata Anastasya Simamora**
[1*]Sekolah Tinggi Ilmu Ekonomi Tri Bhakti, Bekasi, Indonesia
[2] Politeknik STMI Jakarta, Jakarta, Indonesia
Email : [2]renataanastasyaa27@gmail.com
Corresponding author e-mail: [1]gitaachristyy@gmail.com

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Abstract

Purpose – *This study aims to analyze the relationship between capital structure and institutional ownership on firm value with profitability as a moderating variable.*

Design/methodology/approach – *This study uses secondary data. The data collected are from companies engaged in the financial sector listed on the Indonesian Stock Exchange (IDX) with 70 research samples during 2022 – 2024. The author tested the hypothesis using a panel data regression model with some application namely EViews9. The research design is non-probability sampling.*

Findings – *This study shows that capital structure has a significant effect on firm value ($p = 0.0064 < 0.05$), institutional ownership ($p = 0.2758 > 0.05$) and profitability ($p = 0.32125 > 0.05$) have no effect. Profitability was found to weaken the relationship between capital structure and firm value; profitability weakens the relationship between institutional ownership and firm value. These findings imply that managers in the financial sector should prioritize capital structure management to enhance firm value, as profitability and institutional ownership did not show significant impact during this period. Investors are advised to be more selective by focusing on debt ratios as a primary indicator for firm valuation in the Indonesia capital market.*

Research limitations/implications – *The limitation of this study that all variables were measured using samples, making it difficult to obtain data. Another limitation was found in the meta-analysis section, where the required data (journals, books, etc.) are difficult to find. Another limitation was the difficulty in determining the criteria for samples to be used in this study. It is difficult to find annual reports for the specified years, namely 2022 – 2024. It is difficult to carry out the sample selection procedure in the population.*

JEL : G30, G32, M21, C23

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INTRODUCTION

This research lies in its observation of the Indonesian financial sector during the crucial period of 2022-2024, where the stability of this sector is the anchor of national economic growth following the global slowdown. Although this variable is commonly studied, there are inconsistencies in the results from previous researchers such as Irawati (2021) and Kammagi (2023). The contribution of this study is to explore why in the highly regulated financial sector, profitability fails to strengthen the relationship between capital structure and institutional ownership on firm value, an anomaly that challenges common theory.

Based on Press Release: Strong and Stable Financial Services Sector Supports Sustainable Economic Growth on February 20, 2024, the Financial Service Authority (OJK) stated that the stability of the financial sector in Indonesia remains in good condition, supported by solid capital strength, adequate liquidity levels, and controlled risks, enabling the sector to anticipate a possible global economic slowdown. This reflects an improvement in the performance of banking intermediation functions, where banks have successfully collected public funds and channeled them back in the form of www.ojk.go.id .

The financial sector is one of the sectors that plays an important role in the national economy between 2022 and 2024, with investors still seeing this sector as highly attractive. Within each sub-sector, that advantage is particularly evident in large banks and financing companies, which have a higher average PBV (Price to Book Value) compared to other sub-sectors, indicating market expectations of the company's ability to create value that exceeds their book value. This statement is in line with the research objective, which uses PBV as a measure of company value for the samples in the financial sector for the period 2022 – 2024.

By including profitability as a moderating variable, author want to test whether a company's ability to generate profits can strengthen or weaken the influence of capital structure and institutional ownership on firm value-a dimension that often yields different results in each economic period. Through this research, author's hope to provide practical contribution to financial managers in determining the optimal capital composition, as well as provide additional theoretical insight into the relevance of capital structure theory in post-crisis economic conditions in emerging markets such as 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 or debt are balanced with the additional cost 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. Based on the trade-off theory, financial

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Journal of Applied Accounting and Sustainable Finance
https://ojs.azzukhrufcendikia.or.id/index.php/aasf
VOL. 2. ISSUE. 2 ; Agust (2026)

companies tend to have complex capital structures due to their intermediary role. However, in this study, the increase in debt was responded positively by the market, indicating that the use of debt by banks is seen as a signal of healthy credit expansion, not simply a financial burden.

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 interest of all stakeholders. This theory directs companies to make ethical and sustainable decisions 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 investor 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 it is share price, which is determined by 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).

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.

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.

Hypotheses development

Journal of Applied Accounting and Sustainable Finance
https://ojs.azzukhrufcendikia.or.id/index.php/aasf
VOL. 2. ISSUE. 2 ; August (2026)
ISSN 3090-6326

The Effect of Capital Structure on Firm Value

Capital structure is the ratio or long-term debt to equity. The higher the capital structure, the higher the value of the company. Capital structure can be obtained from various sources, such as share capital, retained earnings, and reserves, which can be used as sources of funding to accelerate the company's development, This allows investors to understand the positive signal that an entity (company) with a high number of shares indicates that the entity has bright prospects in the future, so that demand for shares will surge and be directly proportional to he increase in company value. This explanation is reinforced by several previous studies related to the value of a company that can be significantly boosted by capital structure, conducted by Setiawan (2021), Kammagi (2023), and Muliana (2021). Based on previous research and explanations regarding the effect of capital structure on firm value, the researcher proposes the following hypothesis:
H_1: Capital Structure has a positive effect on Firm Value.

The Effect of Institutional Ownership on Firm Value

Institutional ownership plays an important role in monitoring management. Institutional ownership can provide an incentive to maximize existing oversight. Institutional ownership is the amount of the company shares owned by external parties such as insurance companies, institutions, or other organizations. Institutional ownership can be the key to optimizing company value. Share ownership above 5% has a higher level of activity compared to share ownership below 5%, which indicates that its ability to monitor management is greater. Thus, institutional ownership is very important for building a company's reputation. This explanation is reinforced by a few previous studies related to company value, which can be significantly boosted by institutional ownership, conducted by Jullia & Finatariani (2024) and Murti et al., (2024). Based on previous research and explanations regarding the influence of institutional ownership on firm value, the researchers formulated the following hypothesis:
H_2: Institutional Ownership has a positive effect on Firm Value.

The Effect of 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 because it illustrates the potential for higher company value, as investor confidence and interest in their shares increase. This explanation is reinforced by several previous studies related to company being significantly boosted by profitability, conducted by (Inayah, 2022; Kammagi & Veny, 2023; Widilestariningtyas & Ahmad, 2022; Iman et al., 2021; Chynthiawati & Jonnardi, 2022; Amr0 & Asyik, 2021). Based on previous research and explanations regarding the effect of profitability on firm value, the researchers propose the following hypothesis:
H_3: Profitability strengthens the Capital Structure on Firm Value.

The Effect of Capital Structure on Firm Value with Profitability as a moderate factor

Profitability is a company's ability to generate profits. A company's performance can be assessed when it generates profits, because profitability is used as an assessment of the effectiveness of its management. Profitability can be seen from the profit from assets or capital compared to one another. When a company has high profitability, the use of an optimal capital structure through debt or equity financing can be more effective in increasing company value. This explanation is reinforced by a number of previous studies related to company value that can be significantly boosted by capital structure with profitability on firm value conducted by (Setiawan et al., 2021), (Kammagi & Veny, 2023), Muliana (2021), Iman et al., (2021), Saputri & Giovanni (2021), Chynthiawati & Jonnardi (2022), and Amro & Asyik (2021). Based on previous research and explanations regarding the effect of capital structure on firm value with profitability as a moderating variable, the researchers formulated the following hypothesis:
H_4: Profitability strengthens the effect of Capital Structure on Firm Value.

The Effect of Institutional Ownership on Firm Value with Profitability

Profitability is a management performance indicator demonstrated through the acquisition of profits while managing company assets. The higher the profitability recorded in the financial statements, the better the company's performance, and the better it prospects are. High profitability reflects management's ability to maximize assets and capital, thereby increasing investor confidence. In the context of institutional ownership, profitability acts as a reinforcer because institutions tend to invest in companies with stable and prospective profit performance. Therefore, companies with high profitability could attract greater interest from institutional investors, which in turn can increase company value. This explanation is reinforced by a few previous studies related to company value being significantly boosted by institutional ownership with profitability on firm value conducted by Jullia & Finatariani (2024), Murti et al., (2024), Iman et al., (2021), Saputri & Giovanni (2021), Chynthiawati & Jonnardi (2022), and Amro & Asyik (2021). Based on previous research and explanations regarding the effect of institutional ownership on firm value with profitability as a moderating variable, the researcher proposes the following hypothesis:
H_5: Profitability strengthens Institutional Ownership on Firm Value.

RESEARCH METHOD

Research Design

The study aims to analyze the relationship between independent variables, namely capital structure, institutional ownership, and dependent variable namely firm value with moderating variable namely profitability. This study is designed to test hypotheses that explain the relationship between these variables. This research uses a sampling method with a purposive sampling technique. From a total population of 103 financial sector companies, 70 companies were selected that met the criteria:

1. Companies in the financial sector listed on the IDX 2022-2024.
2. Companies in the financial sector that have submitted annual financial reports for 2022-2024 that can be used in this study.
3. Companies in the financial sector that reported profits for 2022-2024.

The selection of panel data regression models is done through a series of formal tests:

Journal of Applied Accounting and Sustainable Finance
https://ojs.azzukhrufcendikia.or.id/index.php/aasf
VOL. 2. ISSUE. 2 ; August (2026)
ISSN 3090-6326

the Chow Test to choose between CEM and FEM, the Hausman Test to choose FEM or REM, and the Lagrange Multiplier Test to ensure the accuracy of the final model.

Variable Operationalization

The following is a table containing the indicators for each variable:

Table 1. Operationalization of Research Variable

Variable	Measurement	Source
X1 = Capital Structure	$DER = \frac{\text{Total Debt}}{\text{Total Equity}} \times 100\%$	Muhammad Rhamadan Setiawan, Neneng Susanti, Nugi Mohammad Nugraha
X2 = Institutional Ownership	$IO = \frac{\text{Number of Institutional Shares}}{\text{Number of Shares Outstanding}} \times 100\%$	Dini Dwicahyani, Paulina Van Rate, Arrazi Bin Hasan Jan
Y = Firm Value	$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$	Dian Melsa Irawati, Sri Hermuningsih, Alfiatul Maulida
Z = Profitability	$ROA = \frac{\text{Net Profit After Tax}}{\text{Total Asset}}$	Heni Tri Mahanani, Andi Kartika

Source: Data processed (2025)

RESULTS

Descriptive Analysis

Descriptive analysis of these research variables aims to explain the characteristics of the independent, dependent, and moderating variables used. The independent variables in this study include capital structure and institutional ownership. Meanwhile, the dependent variable studied is company value, with profitability as the moderating variable. 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 follows:

Table 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
Firm Value	210	0.000300	997261.2	13329.66	92896.60

ISSN 3090-6326

Journal of Applied Accounting and Sustainable Finance
https://ojs.azzukhrufcendikia.or.id/index.php/aasf
VOL. 2. ISSUE. 2 ; Agust (2026)

Profitability	210	0.000000	4.007900	0.097963	0.462606

Source: Data processed using EViews9 (2025)

The table above shows that there were 210 observations (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 128.9747. 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 0.736360, with standard deviation 1.1977716. This indicates that there are significant differences in the structure of institutional share ownership in the financial sector during the research period.
3. The firm value variable ranges from a minimum value of 0.000300 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.
4. 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.

Selection of Panel Data Regression Model

Table 3. Chow Test

Effects Test	Statistic	def.	Prob.
Cross-section F	2.136276	(69,135)	0.0001
Cross-section Chi-square	154.992717	69	0.0000

Source: Data processed using EViews9 (2025)

Based on the chow test results using Eviews9, the probability value 0.0001. This result shows that the value is less than the significance level (α= 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	3.408153	5	0.6373

ISSN 3090-6326

Source: Data Processed using EViews9 (2025)

Based on the Hausman Test results using Eview9, the probability value 0.6373. This result is greater than the significance level (α= 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	14.87886 (0.0001)	0.491548 (0.4832)	15.37041 (0.0001)
Honda	3.857313 (0.0001)	-0.701105 --	2.231776 (0.0128)
King-Wu	3.857313 (0.0001)	-0.701105 --	-0.043763 --
Standardized Honda	4.057452 (0.0000)	-0.364789 --	-3.809398 --
Standardized King-Wu	4.057452 (0.0000)	-0.364789 --	-2.505022 --
Gourieroux, et al.*	--	--	14.87886 (< 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 Test using EView9, the significance value in Both Breusch-Pagan is 0.0001. This result is less than the significance level (α= 0.05). The best model to use is the Random Effect Model (REM).

Hypothesis Test Results

Tabel 6. Hypothesis Test Results

Variable	Prediction	Coefficient	t- Statistic	Prob.
C		12803.60	1.495337	0.1364
CP	+	342.8324	2.510677	0.0064
IO	+	-3759.706	-0.596417	0.2758

ISSN 3090-6326

Journal of Applied Accounting and Sustainable Finance
https://ojs.azzukhrufcendikia.or.id/index.php/aasf
VOL. 2. ISSUE. 2 ; Agust (2026)

PRO	+	-9978.862	-0.464830	0.32125
CP*PRO	+	2727.002	0.106922	0.4575
IO*PRO	+	2694.226	0.415449	0.3391

Source: Data processed using EViews9 (2025)

The table above shows the results of hypothesis testing that describe the effect of each independent variable on the dependent variable. The capital structure variable has a positive coefficient of 342.8324 with a probability value of 0.0064, which means that capital structure has a positive effect on firm value. The institutional ownership variable has a negative coefficient of -3759.706 with a probability value of 0.2758, which means that institutional ownership does not influence firm value. The profitability variable has a negative coefficient of -9978.862 with a probability value of 0.32125, indicating that profitability does not have a significant effect on firm value. Profitability does not strengthen the effect of capital structure on firm value with a coefficient of 2727.002 with a probability value of 0.4575. Profitability does not strengthen the effect of institutional ownership on firm value with a coefficient of 2694.226 with a probability value of 0.3391. This indicates that financial sector investors during 2022-2024 will prioritize asset security and solvency over short-term profits. This is in line with the OJK's strict post-pandemic supervision, which emphasizes capital adequacy (CAR) and liquidity rather than simply pursuing high ROA.

Coefficient of Determination Test

Tabel 7. Coefficient of Determination Test

R-Squared	0.269237
Adjusted R-Squared	0.251326
F-Statistic	15.03202
Prob (F-Statistic)	0.000000

Source: Data processed using EViews9 (2025)

Based on the test results, R-Square value of 0.269237 indicates that the model's ability to explain changes in company value is 26.92%. The t-test results show that the capital structure variable has a coefficient of 342.8324 with a probability of 0.0064, which indicates a significant positive influence. However, the interaction of CP*PRO has a probability value of 0.4575 and IO*PRO has a probability value of 0.3391, which means that probability cannot moderate the relationship between independent variables and company value at a significance level of 5%. R-Squared shows a value of 0.269237, which means that 26,92% of the variation on firm value can be explained by the independent variables used in the model, while the remining 73,08% is influenced by other factors outside the research model. This value indicates that the model's ability to explain the variation in company value is still moderate.

Partial Test (T-Test)

Tabel 8. Partial Test (T-Test)

Variable	Prediction	Coefficient	t- Statistic	Prob.
C		12803.60	1.495337	0.1364

Journal of Applied Accounting and Sustainable Finance
https://ojs.azzukhrufcendikia.or.id/index.php/aasf
VOL. 2. ISSUE. 2 ; August (2026)
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CP	+	342.8324	2.510677	0.0064
IO	+	-3759.706	-0.596417	0.2758
PRO	+	-9978.862	-0.464830	0.32125
CP*PRO	+	2727.002	0.106922	0.4575
IO*PRO	+	2694.226	0.415449	0.3391

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 0.0128/2 = 0.0064, which is smaller than the significance level of 0.05 (5%). This means that there is a significant effect of capital structure on firm value.
2. Institutional ownership with a probability value of -0.5516/2 = 0.2758, which is bigger than the significance level of 0.05 (5%). This means that there is not a significant effect of institutional ownership on firm value.
3. Profitability with a probability value of 0.6425/2 = 0.32125, which is bigger than the significance level of 0.05 (5%). This means that there is not a significant effect of profitability on firm value.
4. Profitability does not reinforce the influence of capital structure on firm value with probability value of 0.9150/2 = 0.4575, which is bigger than the significance level of 0.05 (5%).
5. Profitability does not reinforce the influence of institutional ownership on firm value with probability value of 0.6782/2 = 0.3391, which is bigger than the significance level of 0.05 (5%).

DISCUSSIONS

The Effect of Capital Structure on Firm Value

The results of the study show that capital structure affects firm value, which means that the composition of a company's funding can influence market perception. These findings indicate that the use of debt in certain proportions can send a positive signal to investors. In financial sector companies, debt is often used as a productive intermediation instrument that can increase operational activities. This condition leads the market to assess that the company has good financial management capabilities. As a result, an improvement in capital structure is responded to positively by investors through an increase in company value. These results are in line with the view that optimally managed capital structure can increase company value.

The findings are consistent with predictions and the basis of trade-off theory, which states that the use of debt provides tax benefits as long as the risks remain controllable. In the context of the financial sector, the risks of using debt are relatively more controllable because the nature of the business is based on third-party funds. Investors view the right capital structure as an indication of management's efficiency and courage in making funding decisions. Therefore, capital structure can increase market confidence. The results of this study are also consistent with some previous studies that found the effect of capital structure on firm value. Thus, the hypothesis proposed in this study can be accepted empirically.

ISSN 3090-6326

Journal of Applied Accounting and Sustainable Finance
https://ojs.azzukhrufcendikia.or.id/index.php/aasf
VOL. 2. ISSUE. 2 ; Agust (2026)

The Effect of Institutional Ownership on Firm Value

The test results show that institutional ownership has no effect on firm value. This indicates that the presence of institutional investors does not necessarily improve market perception of financial sector companies. Institutional ownership in this study tends to be passive and not directly involved in managerial decision making. As a result, the monitoring function expected of institutional investors does not function optimally. This condition causes the market to not respond to the existence of institutional ownership as a signal of an increase in company value. Therefore, institutional ownership has not become a determining factor in firm value.

These results are not in line with initial predictions and the foundations of stakeholder theory, which emphasizes the important role of institutional investors in management oversight. This difference may be due to the characteristics of institutions that are more oriented towards short-term investment than long-term oversight. In addition, the financial sector is generally under strict regulatory oversight, so the role of institutional ownership becomes less significant. Investors also tend to pay more attention to financial performance indicators than ownership structure. This causes institutional ownership to have no real influence on firm value. Thus, the inconsistency of these results can be explained by the empirical conditions of the research sector.

The Effect of Profitability on Firm Value

The results of the study indicate that profitability has no effect on firm value. This finding suggests that the profits generated by a company are not necessarily immediately responded to by the market. In the financial sector, profitability is often volatile and influenced by macroeconomic conditions. Investors tend to be more cautious in assessing short-term profits. As a result, profitability is not a major factor in determining company value. This shows that the market does not focus solely on profit levels.

These results are inconsistent with predictions and most theories that state that profitability increases company value. This discrepancy may be due to investors' greater focus on stability, risk, and long-term prospects. In addition, strict regulations in the financial sector mean that profits do not fully reflect the company's overall performance. Investors also consider other factors such as credit risk and liquidity. Therefore, profitability alone cannot influence company value. These findings explain why the fifth hypothesis is not in line with the theoretical basis.

Profitability strengthens the influence of Capital Structure on Firm Value

The result of the study indicate that profitability does not strengthen the influence of capital structure on firm value. The finding that profitability does not strengthen the relationship between capital structure and firm value indicates a unique phenomenon in the Indonesian financial sector in the 2022-2024 period. Investors in this sector tend to view capital structure as a more important signal of credit expansion capacity than short-term returns (ROA). The low moderating effect of profitability is thought to be due to the highly reactive nature of the Indonesian capital market, which is highly responsive to monetary policy and

Journal of Applied Accounting and Sustainable Finance
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VOL. 2. ISSUE. 2 ; August (2026)
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OJK regulations. Therefore, a company's net profit performance has not been a primary consideration for investors in assessing market valuation (PBV) compared to capital stability.

These results are not in line with prediction and contradict the theory that profitability can reinforce the positive signals of debt use. This discrepancy may be due to the characteristics of the financial sector, which naturally has a high level of leverage. In such conditions, increased profitability does not necessarily reduce investors' perception of risk associated with debt. In addition, investors focus more on long-term stability than on short-term profit performance. Profitability can also be influenced by temporary external factors. Therefore, profitability has not been proven to strengthen the influence of capital structure on value.

Profitability strengthens the influence of Institutional Ownership on Firm Value

The test results show that profitability is unable to strengthen the influence of institutional ownership on firm value. This finding indicates that a company's profit performance does not necessarily make the role of institutional ownership more effective. Institutional investors in this study tend to be passive and are not always actively involved in monitoring management. As a result, even though profitability has increased, the market does not respond significantly to the existence of institutional ownership. This condition causes company value to not increase due to the interaction between profitability and institutional ownership. Thus, profitability does not function as a variable that strengthens this relationship.

These results are not in line with initial predictions and the stakeholder theory, which emphasizes the importance of the role of institutional investors. This difference in results may be due to the orientation of institutional investors, who focus more on investment returns than on monitoring functions. In addition, the financial sector is under strict regulatory supervision, so the role of institutional ownership is less dominant. Investors also pay more attention to risk and stability indicators than to profit alone. This causes profitability to be unable to increase the effectiveness of institutional ownership. Therefore, the hypothesis stating that there is a moderating effect of profitability cannot be accepted.

CONCLUSIONS

1. Capital structure affects firm value.
2. Institutional ownership does not affect firm value.
3. Profitability does not affect firm value.
4. Profitability does not strengthen the effect of Capital Structure on Firm Value.
5. Profitability does not strengthen the effect of Institutional Ownership on Firm Value.

The main conclusion of this study shows that in the financial sector, capital structure remains the main instrument in increasing market confidence.

SUGGESTION

For financial sector company management, it is recommended to maintain the debt-to-earnings ratio (DER) at an optimal level because the market positively appreciates capital structure as a growth signal. For investors, company assessments should not only focus on short-term profitability figures but should also pay attention to ownership governance. Further researchers are advised to use macroeconomic variables such as the BI-Rate or inflation, considering that this model is only able to explain 26.92% of the variation in company value. For banking management, it's recommended to maintain the debt ratio at an optimal level that supports the intermediation function without ignoring the risk profile, because investors currently tend to be conservative in assessing high profitability if it is not accompanied by a solid capital structure.

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