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# DETERMINANTS OF FIRM VALUE WITH CAPITAL STRUCTURE AS AN INTERVENING VARIABLE IN MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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**ABSTRACT**
The main objective of this study is to evaluate and analyze the determinants of firm value, as well as to examine the mediating role of capital structure in the relationship between business risk, growth opportunities, and institutional ownership on firm value. The study focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period from 2019 to 2023. The research sample comprises 104 companies selected purposively based on specific criteria relevant to the objectives of the study. To analyze both the direct and indirect relationships among the examined variables, the study employs path analysis as the analytical method. The findings of the study indicate that business risk has a negative effect on firm value. Conversely, growth opportunities and institutional ownership are found to have a positive impact on firm value. In addition, capital structure exhibits a significant positive effect on firm value. A key contribution of this study is the identification of capital structure as a significant mediating variable that strengthens the influence of business risk, growth opportunities, and institutional ownership on firm value. This study reveals that capital structure plays a dominant mediating role in the relationship between business risk, growth opportunities, and institutional ownership and firm value. The integrative model proposed in this research offers a novel perspective by positioning capital structure as a strategic mechanism for value creation. These findings contribute to the theoretical understanding of firm value determination, particularly within the context of emerging markets during the post-crisis period of 2019–2023



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## 1. INTRODUCTION

High-quality financial statements reflect a company's financial condition and operational performance in a reliable and transparent manner. The quality of financial reporting serves as a critical indicator for investors in assessing a firm's intrinsic value. A high firm value is generally associated with sound financial health, promising growth prospects, and the management's ability to efficiently manage resources. Companies with high firm value tend to attract greater interest from both domestic and international investors to invest their capital. This increase in investment directly contributes to the company's capital base, which can then be utilized for business expansion, increased production capacity, or product innovation.

Theoretically, the higher the firm value, the greater the level of prosperity that can be attained by shareholders. This can be achieved if the company meets its profit targets. The profits earned enable the company to distribute

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dividends to shareholders, enhance investor confidence, and strengthen the company's foundation in facing future business challenges. Therefore, success in increasing firm value not only reflects financial performance but also serves as a key determinant in ensuring the company's long-term sustainability and competitiveness. (Sulistiyowati, Anggraini, and Utaminingtyas 2019).

Firm value represents the perception and confidence of the public, particularly investors, regarding a company's performance and future prospects. This value is reflected in the company's stock price in the capital market, which encapsulates public evaluation of various managerial, operational, and financial aspects of the firm. The higher the firm value, the greater the level of shareholder welfare, making it a key indicator of a company's success and achievement in effectively managing its business. Accordingly, firms are required to maintain the stability and growth of their value in order to remain competitive and sustainable amidst market dynamics. A strong firm value enhances investor confidence, which, in turn, encourages greater financial support for the company's business development. Typically, before deciding to invest, investors conduct in-depth analysis of a company's financial condition, sales growth, and business prospects through regularly published and publicly available financial statements.

In principle, all companies share a common ultimate goal: to create sustainable value. However, the strategic approaches employed to achieve this goal may vary, depending on each company's management policies. Generally, corporate objectives can be classified into short-term and long-term goals. Short-term goals typically focus on achieving optimal operational profit, whereas long-term goals emphasize increasing shareholder wealth through the sustainable growth of firm value. In pursuit of such long-term objectives, many companies choose to go public by initiating an Initial Public Offering (IPO). This strategic move enables companies to secure external funding, expand their shareholder base, and enhance their visibility and reputation in the market. In Indonesia, a significant number of companies are listed on the Indonesia Stock Exchange (IDX), including those operating in the manufacturing sector. This sector plays a vital role in supporting national economic growth and makes a significant contribution to attracting investor interest in the capital market.

**Table 1. Firm Value of Manufacturing Companies for the Period 2019–2023**

| Manufacturing Subsector | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Basic and Chemical Industry | 0.42 | 0.39 | 0.42 | 0.44 | 0.40 |
| Miscellaneous Industry | 0.46 | 0.45 | 0.42 | 0.41 | 0.47 |
| Consumer Goods Industry | 0.45 | 0.44 | 0.45 | 0.44 | 0.45 |

Source: www.idx.co.id (Processed, 2024)

Manufacturing companies are business entities engaged in production activities, specifically the transformation of raw materials into finished goods that possess added value. In Indonesia, manufacturing firms are categorized into three main subsectors: (1) the basic and chemical industry, (2) the consumer goods industry, and (3) the miscellaneous industry. Each of these subsectors is characterized by unique market dynamics and operational traits, which ultimately influence the fluctuation of firm value over time.

Based on the data presented in Table 1, it is evident that the firm value across different subsectors of the manufacturing industry experienced fluctuations during the 2019–2023 period. Firm value is measured using the Price-to-Book Value (PBV) ratio, which compares a company's market share price to its book value. The findings show that in 2020, all subsectors recorded a decline in firm value compared to the previous year. This downturn was most likely driven by the economic and operational disruptions caused by the COVID-19 pandemic, which had a broad impact on the manufacturing sector as a whole.

More specifically, the consumer goods industry subsector displayed an inconsistent pattern, where firm value rose and fell alternately each year, indicating the absence of a stable growth trend. Meanwhile, the basic and chemical industry subsector showed a positive trend from 2020 to 2022, before registering a significant decline in 2023. In contrast, the miscellaneous industry subsector experienced a steady decline in firm value from 2019 to 2022, but witnessed a robust recovery in 2023, outperforming the other two subsectors in terms of firm value growth.

This fluctuation raises critical questions regarding the determinants that influence changes in firm value within the manufacturing sector. These may include internal factors, such as financial performance and managerial policies, as well as external factors, including macroeconomic conditions, capital market regulations, and market responses to industrial outlooks. Gaining a deeper understanding of these dynamics is essential to identify effective strategies that firms can adopt to maintain and enhance their value in a sustainable manner amidst market uncertainties.

The market value of a firm refers to the stock price established through the interaction of buyers and sellers in the capital market during trading. This market price is considered a real-time reflection of the company's asset value, as it incorporates investor expectations regarding the firm's future performance and prospects. (Brigham & Daves,

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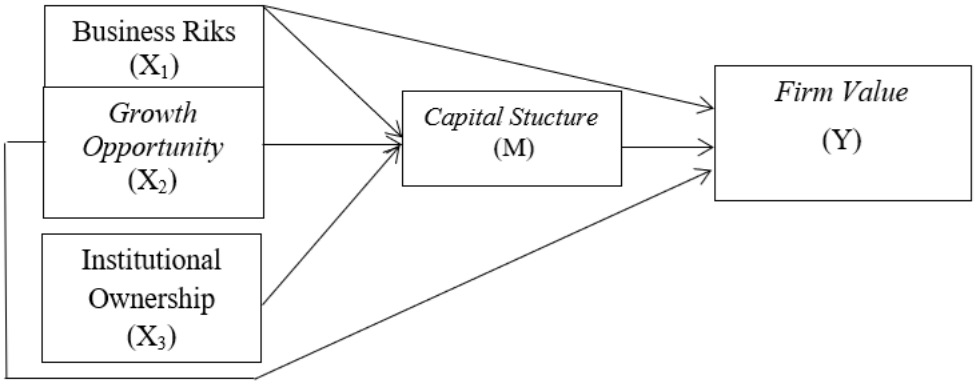
2021). Thus, market value serves as a crucial indicator in assessing the extent to which a company is valued by the public and stakeholders (Prastuti and Sudiartha 2019).

Firm value plays a crucial role in reflecting a company's performance and long-term prospects. This value directly influences investor perceptions and their investment decisions. The higher the firm value, the greater the investor confidence in the sustainability and profitability of the business entity (Gitman & Zutter, 2015). **Therefore, value creation has become one of the primary objectives of financial management in a strategic context. One of the fundamental factors influencing firm value is capital structure, which refers to the composition of internal and external financing used by a firm to support its operational and investment activities. Determining the optimal capital structure is not merely a technical decision; rather, it reflects the firm's strategic planning that takes into account several aspects, such as the owner's vision, access to financing sources, risk profile, and a comprehensive analysis of the costs and benefits associated with each source of capital.** (Myers, 2001; Frank & Goyal, 2009).

In general, corporate financing sources can be classified into two major categories: internal and external. Internal sources include equity capital contributed by owners and retained earnings accumulated from prior profits. On the other hand, external sources originate from third parties, such as creditors (through loans) and investors (via the issuance of shares or debt instruments) (Kusna and Setijani 2018a). When internal funds are insufficient to support operational or expansion needs, firms tend to seek external financing alternatives. In this context, the use of debt emerges as a strategic option, although it carries financial risks in the form of interest and principal repayment obligations that must be managed carefully to maintain financial stability (Modigliani & Miller, 1963).

This study examines four main variables presumed to influence firm value: business risk, growth opportunity, institutional ownership, and capital structure, which serves as a mediating variable. The selection of these variables is grounded in modern financial theory and supported by previous empirical findings, indicating that firm value is influenced not only by internal corporate factors but also by investors' perceptions of growth prospects, income stability, ownership structure, and financing composition (Jensen & Meckling, 1976; Myers, 2001). The objective of this research is to evaluate and analyze the effects of business risk, growth opportunities, institutional ownership, and capital structure on firm value. Additionally, it aims to assess the mediating role of capital structure in the relationship between business risk, growth opportunities, and institutional ownership with firm value.

## 2. RESEARCH MODEL




**Source: Processed by the author, 2024**

### Population and Sample

The population consists of companies in the manufacturing sector listed on the Indonesia Stock Exchange (IDX) during the period 2019 to 2023, totaling 195 companies. The sampling method employed was purposive sampling. The selected sample comprised 104 companies. The total number of research observations amounted to 520 data points. The documents, in the form of annual financial reports, were obtained from the official website of the Indonesia Stock Exchange (IDX) at www.idx.co.id or from the official websites of the respective companies.

**Table 1. Descriptive Statistics Results**

| | | N | Minimum | Maximum | Mean | Deviation |
|---|---|---|---|---|---|---|
| Risiko | Business Risk | 520 | -,31 | 1,99 | ,6074 | ,47887 |
| | Growth Opportunity | 520 | -,21 | ,99 | ,3142 | ,16698 |
| | Institutional Ownership | 520 | ,20 | ,77 | ,4049 | ,13777 |

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| | | | | | | |
|---|---|---|---|---|---|---|
| S | Capital Structure | 520 | ,25 | ,75 | ,4515 | ,12694 |
| | Firm Value | 520 | ,25 | ,75 | ,4337 | ,12459 |
| | Valid N (listwise) | 520 | | | | |

Source: Output SPSS 26.0

The descriptive statistics show that the number of observations in this study is 520 firm-year data points. The mean value of Business Risk is 0.6074, with a standard deviation of 0.47887 and a maximum value of 1.99. A high level of business risk indicates that the companies are taking steps to expand and develop their businesses. Growth Opportunity has a mean value of 0.3142, a standard deviation of 0.16698, and a maximum value of 0.99. Institutional Ownership shows a mean value of 0.4049, with a standard deviation of 0.13777 and a maximum value of 0.77. Capital Structure has a mean value of 0.4514, a standard deviation of 0.12694, and a maximum value of 0.75. The Firm Value has a mean of 0.4337, a standard deviation of 0.12459, and a maximum value of 0.75.

**t-Test of Hypotheses**

The t-test was used to determine the extent to which each independent variable individually influences the dependent variable. This test was conducted using a significance level of 0.05 (α = 5%). If the significance value (sig.) is less than 0.05, it can be concluded that the independent variable has a significant effect on the dependent variable. Conversely, if the significance value is ≥ 0.05, there is no significant partial effect. (Ghozali, 2017).

**t-Test Results – Y1**

**Table 2. t-Test Results – Y1**

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | t | Sig. |
|---|---|---|---|---|---|
| | | B | Std. Error | | |
| 1 | (Constant) | ,119 | ,007 | 16,040 | ,000 |
| | Business Risk | -,015 | ,005 | -3,317 | ,001 |
| | Growth Opportunity | ,041 | ,018 | 2,258 | ,024 |
| | Institutional Ownership | ,811 | ,022 | 36,847 | ,000 |

Source: Output SPSS 26.0

**t-Test Results – Y2**

**Table 3. t-Test Results – Y2**

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | t | Sig. |
|---|---|---|---|---|---|
| | | B | Std. Error | | |
| 1 | (Constant) | ,038 | ,005 | 7,296 | ,000 |
| | Business Risk | -,005 | ,003 | -2,037 | ,042 |
| | Growth Opportunity | ,037 | ,011 | 3,471 | ,001 |
| | Institutional Ownership | ,432 | ,024 | 17,822 | ,000 |
| | Capital Structure | ,469 | ,025 | 18,429 | ,000 |

Source: Output SPSS 26.0

**t-Test Results – Y1 on Y2**

**Table 4. t-Test Results – Y1 on Y2**

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | t | Sig. |
|---|---|---|---|---|---|
| | | B | Std. Error | | |
| 1 | (Constant) | ,011 | ,006 | 1,798 | ,073 |
| | *Capital Structure* | ,936 | ,013 | 72,522 | ,000 |

Source: Output SPSS 26.0

**$H_1$: Business Risk Has a Negative Effect on Firm Value**

Based on the data analysis results, the Business Risk variable has a significance value of 0.042, which is less than the 0.05 significance level. This indicates that Business Risk has a statistically significant negative effect on Firm Value. In other words, the lower the level of Business Risk faced by a firm, the higher the Firm Value tends to be. Conversely, an increase in Business Risk reduces Firm Value. This finding highlights the importance of effective risk management in sustaining and enhancing firm value in the eyes of investors and other stakeholders.

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**H2: Business Risk Negatively Affects Firm Value through Capital Structure as an Intervening Variable**

The direct effect of Business Risk (X1) on Firm Value (Y) is −0.021. The indirect effect of X1 on Y through Capital Structure (M) is calculated as the product of the beta coefficient of X1 on M and the beta coefficient of M on Y, i.e., −0.057 × 0.013 = −0.000741. Thus, the total effect of X1 on Y is the sum of the direct and indirect effects: −0.021 + (−0.000741) = −0.021741. These results indicate that the absolute value of the direct effect (−0.021) is greater than the indirect effect (−0.000741). Nevertheless, since both effects are in the same direction (negative) and the indirect effect remains substantively meaningful, it can be concluded that Capital Structure (M) acts as a mediating variable in the relationship between Business Risk (X1) and Firm Value (Y). Therefore, Capital Structure significantly mediates the negative influence of Business Risk on Firm Value.

**H3: Growth Opportunity Has a Positive Effect on Firm Value**

The Growth Opportunity variable has a significance value of 0.001, which is below the 0.05 threshold. This suggests that Growth Opportunity has a statistically significant positive effect on Firm Value. The greater the growth opportunities available to a firm, the higher its value in the eyes of investors and the market. This finding supports the notion that strong growth prospects reflect future profit potential, which ultimately enhances firm valuation and investor perception.

**H4: Growth Opportunity Positively Affects Firm Value through Capital Structure as an Intervening Variable**

The direct effect of Growth Opportunity (X2) on Firm Value (Y) is 0.049. The indirect effect is obtained by multiplying the beta coefficient of X2 on M by the beta coefficient of M on Y: 0.054 × 0.013 = 0.00070. Therefore, the total effect of X2 on Y is 0.049 + 0.00070 = 0.04970. It is important to note an inconsistency in the initial statement, where the direct effect was mentioned as 0.294, conflicting with the calculated value of 0.049. If the correct value is indeed 0.049, then the direct effect is greater than the indirect one. Nonetheless, as the indirect effect remains positive and consistent in direction, it can be concluded that Capital Structure (M) serves as a mediating variable in the relationship between Growth Opportunity (X2) and Firm Value (Y). Thus, the fourth hypothesis (H4) is accepted, indicating that Capital Structure significantly mediates the positive effect of Growth Opportunity on Firm Value.

**H5: Institutional Ownership Has a Positive Effect on Firm Value**

Institutional Ownership shows a significance value of 0.000, which is below the 0.05 level, indicating a significant positive effect on Firm Value. This finding suggests that a higher proportion of institutional ownership enhances monitoring and control, which improves managerial efficiency and leads to increased firm value. This result is consistent with agency theory, which posits that institutional ownership can mitigate conflicts of interest between managers and shareholders through more effective oversight mechanisms.

**H6: Institutional Ownership Positively Affects Firm Value through Capital Structure as an Intervening Variable**

The direct effect of Institutional Ownership (X3) on Firm Value (Y) is 0.478. The indirect effect via Capital Structure (M) is calculated by multiplying the beta coefficient of X3 on M by the beta coefficient of M on Y: 0.880 × 0.013 = 0.01144. Hence, the total effect of X3 on Y is 0.478 + 0.01144 = 0.48944. However, it is worth noting a discrepancy in the initial statement which incorrectly indicated that the indirect effect was greater than the direct effect. In fact, the direct effect remains dominant. Nonetheless, the existence of a positive and consistent indirect effect confirms that Capital Structure (M) serves as a partial mediator in the relationship between Institutional Ownership (X3) and Firm Value (Y). Therefore, the sixth hypothesis (H6) is supported, indicating that Capital Structure partially mediates the effect of Institutional Ownership on Firm Value.

**H7: Capital Structure Has a Positive Effect on Firm Value**

Capital Structure has a significance value of 0.000, which is below the 0.05 significance level, indicating a statistically significant effect on Firm Value. However, there is an inconsistency in the initial statement referring to environmental auditing in relation to H7. If the intended variable is indeed Capital Structure, then the proper conclusion is that effective capital structure management contributes to increasing firm value. This finding is consistent with capital structure theory (Modigliani & Miller, 1958; Myers, 1984), which suggests that selecting an optimal mix of debt and equity can enhance firm value by lowering the cost of capital and reducing bankruptcy risk.

**Coefficient of Determination ($R^2$) Test Results**

The coefficient of determination ($R^2$) reflects the proportion of variance in the dependent variable that can be explained by the independent variables, both individually and jointly. A higher $R^2$ value indicates a stronger explanatory power of the independent variables. The following table presents the results of the coefficient of determination in this study's model:

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**Table 5. Results of the Coefficient of Determination Test**

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,974[a] | ,949 | ,949 | ,02814 |

Source: Output SPSS 26.0

In the table above, the Adjusted R Square value is 0.949. This indicates that 94.9% of the variation in Firm Value (Y), which is influenced by the variables Business Risk (X1), Growth Opportunity (X2), and Institutional Ownership (X3) through Capital Structure (M) as an intervening variable, can be explained by this model. Meanwhile, the remaining 5.1% is influenced by other factors not included in this study.

## 4. DISCUSSION OF RESEARCH RESULTS

### a. Business Risk on Firm Value

Business risk has a negative impact on firm value. This indicates that the higher the business risk faced by a company, the lower its firm value, which is reflected in the uncertainty arising from the elevated level of risk. This occurs due to the uncertainty caused by fluctuations in projected future earnings or returns, leading investors and creditors to hesitate in investing in or financing the company. If business risk decreases, firm value tends to increase, as lower levels of uncertainty provide greater security for the company's stakeholders, including both investors and creditors.

This phenomenon can be explained through agency theory, which posits that high levels of uncertainty can create conflicts between the owners of a company and external parties such as creditors or investors. When risk increases, external stakeholders perceive the company as more risky and less stable, which in turn reduces its market value. Furthermore, according to capital structure theory, companies facing higher levels of risk experience greater difficulty in accessing external financing, owing to concerns regarding their ability to meet financial obligations.

This study aligns with the findings reported by (T. Dewi and Sujana 2019), who concluded that business risk exerts a negative influence on firm value. They found that the greater the risks undertaken by a company, the more its firm value declines, as investors tend to avoid investing in high-risk firms. This view is also supported by earlier research conducted by Smith and Stulz (1985), which demonstrated that uncertainty associated with corporate risk can significantly influence investment and financing decisions, ultimately impacting a company's performance and value.

### b. Business Risk on Firm Value through Capital Structure as an Intervening Variable

Struktur modal mampu memediasi pengaruh Risiko Bisnis terhadap Nilai Perusahaan. Dalam dunia bisnis, perusahaan tidak hanya menghadapi potensi keuntungan atau kerCapital structure is capable of mediating the influence of business risk on firm value. In the business world, companies not only face potential profits or losses but also various business risks that must be managed by business actors. Business risk refers to the uncertainty associated with the level of EBIT (Earnings Before Interest and Taxes) that a company can generate. Every company, regardless of its type or scale of operations, inevitably faces risks in its operational activities. Business risk arises when a company is unable to cover its operational costs (Sjahrial 2017).

In this context, business actors must build public trust by demonstrating the company's ability to manage and fulfill its debt obligations, thus ensuring better business continuity and growth. However, the results of this study found a negative relationship between business risk and firm value through capital structure as an intervening variable. This suggests that investors tend to consider business risk as a critical factor in their investment decisions. When a company faces high business risk, investors become less confident in the firm's ability to generate sufficient earnings to meet debt obligations, which subsequently affects the firm's value.

These findings contrast with the research conducted by (Arifin 2021), who found that business risk has a positive influence on firm value through capital structure as an intervening variable. Arifin's study suggests that an increase in business risk can actually enhance firm value, possibly due to other factors such as investors' willingness to take greater risks or the potential for higher returns. This discrepancy highlights the importance of specific contexts and conditions in determining the relationship between business risk, capital structure, and firm value. Capital structure theory explains that decisions regarding a firm's capital structure — specifically, the balance between debt and equity in financing — can influence how a company manages risks and optimizes its value. A capital structure heavily weighted toward debt can increase the risk of financial distress, ultimately harming firm value. Conversely, a more conservative capital structure can enhance financial stability and lower the firm's overall risk exposure, thereby potentially increasing firm value.

### c. Growth Opportunity on Firm Value

Growth opportunity has a positive influence on firm value. This indicates that when a company effectively manages its growth opportunities, its value will increase. Therefore, business practitioners must focus on maintaining

and maximizing their business growth, as this will attract investors to invest in the company. This study is consistent with the findings of Adhitya Ananda & Nugraha Ardana P (2022), who found that growth opportunity positively affects firm value. Their findings support the view that investors are generally attracted to companies that demonstrate strong growth potential, as these companies are perceived to have favorable future prospects. Investors anticipate high returns on their investments; thus, the greater a firm's growth opportunity, the higher its perceived value.

Growth theory explains that companies with strong growth potential tend to attract investors, who view such firms as having substantial opportunities for expansion and greater profitability in the future. Furthermore, agency theory supports this perspective by suggesting that firms with clear growth opportunities can improve the relationship between management and shareholders, thereby reducing potential agency conflicts and enhancing overall corporate performance. Thus, stable and sustainable growth can significantly enhance a company's market value.

**d. Growth Opportunity on Firm Value through Capital Structure as an Intervening Variable**

Capital structure is able to mediate the influence of growth opportunity on firm value. The growth rate of a company has a significant impact on both its capital structure and its firm value. This is supported by the agency cost theory as proposed by (Hermuningsih 2017), which states that the higher the company's growth rate, the greater the tendency to optimize the use of equity financing. Conversely, if a company's growth rate is low, its firm value will decline, which in turn will affect its capital structure. When the capital structure deteriorates, the company tends to rely more heavily on debt as a source of financing.

In this context, investors will carefully observe the company's growth prospects and the associated business risks to assess whether the company's growth strategies are sufficiently effective in enhancing performance and managing risks. This study is consistent with the findings of (Kusna and Setijani 2022), which demonstrate that growth opportunity affects firm value through capital structure as an intervening variable. These findings reinforce the argument that effective management of corporate growth can improve capital structure, which in turn can enhance firm value.

**e. Institutional Ownership on Firm Value**

Institutional ownership has a positive influence on firm value. Institutional ownership tends to exert control over the company, which can prevent unnecessary costs or inefficiencies in company management. This control enhances the effectiveness and efficiency of financial management, ultimately attracting the attention of both current and prospective investors. For instance, research conducted by (Siddik and Chabachib 2021) indicates that institutional ownership can improve corporate governance through tighter monitoring functions, making firms more transparent and more responsive to market demands. As a result, companies that are well-managed and strongly controlled by institutional shareholders tend to perform better, positively impacting firm value.

This finding is consistent with the study by Lestari (2017), which shows that institutional ownership has a positive effect on firm value. The research highlights that the higher the level of institutional ownership, the greater the firm's value. This occurs because greater control from institutional owners helps guide strategic decisions that can enhance performance and optimize firm value.

**f. Institutional Ownership on Firm Value through Capital Structure as an Intervening Variable**

Capital structure is capable of mediating the influence of institutional ownership on firm value. A high level of institutional ownership provides significant advantages in corporate governance, as control exercised by institutional shareholders tends to be more structured and systematic. Higher institutional ownership fosters tighter supervision, which, in turn, can deter opportunistic behavior by corporate managers, and enhance the transparency and accountability of the firm.

This study aligns with the findings of Atiqoh & Asyik (2016), which demonstrated that institutional ownership positively affects a company's capital structure. This can be explained through Agency Theory (Jensen & Meckling, 1976), which argues that institutional ownership aims to reduce agency costs arising from conflicts between managers and shareholders. In this regard, larger institutional ownership diminishes the likelihood of asymmetric information problems, leading to more efficient and effective capital structure decisions.

Furthermore, under the framework of Signaling Theory (Spence, 1973), companies with high institutional ownership are able to send positive signals to investors and creditors regarding the quality of their management. Significant institutional ownership indicates strict monitoring and wiser capital structure usage, thereby enhancing credibility and lowering a firm's cost of capital. Additionally, Stakeholder Theory (Freeman, 1984) suggests that institutional shareholders not only prioritize the interests of shareholders but also consider the interests of other stakeholders involved with the company, such as employees, customers, and the wider community. Consequently, institutional investors tend to maintain a balance between risk and return in capital structure decisions to ensure stable and sustainable long-term value for all stakeholders. Overall, these theories collectively support the assertion that institutional ownership not only influences the firm's capital structure decisions but also plays a crucial role in

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enhancing firm value in a more controlled and efficient manner.

**g. Capital Structure on Firm Value**

Capital structure has a significant impact on firm value when tested as an intervening variable. The results of the test show that the hypothesis regarding the influence of capital structure on firm value can be accepted. This indicates that the more precisely the capital structure is managed, the greater its contribution to enhancing firm value. Capital structure plays a vital role in influencing firm value, particularly through the use of debt financing. A relatively high use of debt suggests the company's efforts to strengthen its financing structure to support future growth. This funding structure reflects managerial policies regarding the extent to which the firm utilizes external financing through debt, as explained by (Isnawati and Widjajanti 2023). Firm value also represents the company's performance and its ability to manage operations efficiently while meeting investor expectations. A firm's ability to maintain smooth dividend payments is an important indicator that strengthens investor confidence. If the company consistently maintains its reputation in this regard, investors are more likely to invest.

Thus, a good company must be capable of analyzing and managing financial risks and responsibilities optimally. The findings of this study align with the research by (Hamidy et al. 2019), which states that increased capital to support business expansion positively affects stock prices and firm value. However, these results differ from the findings of (Sutrisno 2020), who concluded that capital structure negatively impacts firm value. According to Sutrisno, a high level of debt indicates an increased interest burden, which could potentially reduce the overall firm value. Furthermore, the Pecking Order Theory proposed by Myers and Majluf (1984) explains that firms have a hierarchical preference for financing: beginning with internal sources (retained earnings), followed by debt, and lastly, the issuance of new equity. In practice, companies tend to avoid issuing new shares because of asymmetric information between management and investors, which could send negative signals regarding the firm's value. Therefore, the appropriate use of debt is often seen as a more efficient method to support investment and expansion financing.

This study also shows that the capital structure set by a company influences investor perceptions of the firm's performance and prospects. In this context, firm value reflects not only the value of its assets and profitability but also market trust in the company's ability to meet obligations and generate future cash flows. This is consistent with the Signaling Theory (Ross, 1977), where capital structure acts as a signal to investors about the firm's quality. Companies that use debt in reasonable proportions often send positive signals indicating confidence in future cash flow prospects sufficient to cover debt obligations. Moreover, firm value can be seen through the company's ability to efficiently carry out operational activities and meet shareholder expectations, particularly regarding dividend payments. Companies that consistently pay dividends tend to enhance investor trust, which in turn drives stock prices higher and strengthens the company's market position. Therefore, careful management in determining capital structure enables a company to maintain its reputation in the eyes of investors.

## 5. CONCLUSION

Based on the results of the analysis and discussion, the following conclusions can be drawn:

1. Business risk has a significant negative effect on firm value. This finding indicates that the lower the business risk faced by a company, the higher the firm value it can achieve. Companies must effectively manage business risks to gain legitimacy from stakeholders and to enhance their firm value.
2. Capital structure mediates the effect of business risk on firm value. The indirect influence through capital structure is greater than the direct effect. This suggests that companies capable of effectively managing business risks are more likely to design an optimal capital structure, which, in turn, positively impacts the increase in firm value.
3. Growth opportunity has a positive effect on firm value. The higher the growth opportunities available to a company, the greater the responsibility and market expectations placed upon it to create higher firm value.
4. Capital structure also mediates the influence of growth opportunity on firm value. The indirect influence through capital structure is stronger than the direct effect. Companies that recognize their growth opportunities tend to adjust their capital structure to secure additional financing to support business expansion, ultimately enhancing firm value.
5. Institutional ownership has a positive effect on firm value. An increased proportion of institutional ownership reflects greater investor confidence in the company's management and performance, leading to an increase in firm value.
6. Capital structure mediates the influence of institutional ownership on firm value. The indirect influence is stronger than the direct effect, indicating that institutional investor confidence enables the company to design a more efficient capital structure, thereby supporting value creation.
7. Capital structure has a proven significant impact on firm value. These findings demonstrate that an

optimal capital structure directly contributes to enhancing firm value. A well-balanced capital structure reflects financing efficiency, strengthens financial positioning, and increases investor trust. Therefore, companies that are capable of balancing debt and equity in their capital structure have a greater opportunity to operate effectively and achieve higher firm value.

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