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PROFITABILITY AS A MEDIATING MECHANISM IN THE FORMATION OF FIRM VALUE

PROFITABILITAS SEBAGAI MEKANISME MEDIASI DALAM PEMBENTUKAN NILAI PERUSAHAAN

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ABSTRACT
This research aims to determine the influence of firm size and capital structure on company value, as well as whether profitability can mediate the relationship between firm size and capital structure on company value. The sample used in this research is companies listed on the Indonesia Stock Exchange. The analytical method used is the structural equation model with partial least square analysis techniques. This research shows the results that capital structure has no effect on profitability. Firm size has a significant negative effect on profitability. Capital structure has a significant negative influence on company value. Firm size has a significant negative effect on company value. Profitability does not have a significant influence on company value. Profitability cannot mediate the relationship between capital structure and company value. Profitability does not mediate the relationship between firm size and company value.
Keywords: *Capital Structure, Company Value, Firm Size, Profitability*

ABSTRAK
Penelitian ini bertujuan untuk mengetahui pengaruh ukuran perusahaan dan struktur modal terhadap nilai perusahaan, serta menguji apakah profitabilitas dapat memediasi hubungan antara ukuran perusahaan dan struktur modal terhadap nilai perusahaan. Sampel yang digunakan dalam penelitian ini adalah perusahaan yang terdaftar di Bursa Efek Indonesia. Metode analisis yang digunakan adalah Structural Equation Model (SEM) dengan teknik analisis Partial Least Squares (PLS). Hasil penelitian menunjukkan bahwa struktur modal tidak berpengaruh terhadap profitabilitas. Ukuran perusahaan berpengaruh negatif dan signifikan terhadap profitabilitas. Struktur modal berpengaruh negatif dan signifikan terhadap nilai perusahaan. Ukuran perusahaan berpengaruh negatif dan signifikan terhadap nilai perusahaan. Profitabilitas tidak berpengaruh signifikan terhadap nilai perusahaan. Selain itu, profitabilitas tidak mampu memediasi hubungan antara struktur modal dan nilai perusahaan, serta tidak mampu memediasi hubungan antara ukuran perusahaan dan nilai perusahaan.
KataKunci: Nilai Perusahaan, Profitabilitas, Struktur Modal, Ukuran Perusahaan

INTRODUCTION

Indonesian people's awareness of stock investment has increased significantly in recent years, driven by easier access to information and growing financial education. According to data from the Financial Services Authority, the number of investors in the Indonesian capital market has continued to increase since last year. For investors, understanding company value is an important step in making smart and potentially profitable investment decisions. Company value reflects an estimate of a company's fair price or intrinsic value based on various fundamental factors. Company value is the main aspect that investors consider before making investment decisions. Company value is seen as an assessment and decision-making factor with several factors including capital structure and firm size. Capital structure is important for a company because it involves and influences the risks borne by shareholders as well as the expected level of return. Capital structure theory explains a company's financial policy by determining the capital structure for the purpose of optimizing company value (Sihombing et al., 2021). On the other hand, firm size is the size of the company which can be measured from the company's total assets, income or capital

(Khoirunnisa, 2022). Firm size is used as a benchmark to show that a company is doing well to create good value, so that firm size has a positive influence on company value (Prakoso, et al., 2022). In this case, profitability is considered to be able to mitigate this influence. Profitability is the ability of a business to generate profits and is a balance of income, thus reflecting the efficiency and success of the entire management team. Profitability is very important to pay attention to see how well an investment will do to produce the returns needed by investors. So later this research will examine further how profitability mediates in analyzing the influence of capital structure and firm size on company value in companies listed on the Indonesia Stock Exchange.

REVIEW OF LITERATURE

1. Signalling Theory

Signaling theory is a theory that explains the signals that investors will use as a support for decision making in various company policies, especially public companies. Signaling theory is how companies act to communicate information that is relevant to management's view of the company's prospects, both financial and non-financial information, then investors will use it to make investment decisions. The aim of this theory is to increase the value of the company when selling shares. Good quality companies will deliberately provide signals to the market, so that the market will be able to distinguish the best companies.

2. Trade off Theory

Trade off theory is a capital structure theory based on the costs of capital and the benefits of debt, especially between bankruptcy costs and tax benefits. The higher the debt structure, the greater the benefits from using debt. However, the greater the risk of the company experiencing financial difficulties because it has to pay too much fixed interest every year in conditions of uncertain net profit. Trade-off theory assumes that companies set debt-to-equity targets, which then aim to maximize market value. This debt goal is known as the bankruptcy trade-off and tax benefits. This theory states that increasing the value of debt will increase the value of the company. However, this can be reduced again if the debt level is at an optimal point. Companies that use debt beyond the optimal point will bear the costs of bankruptcy due to default and interest.

3. Company Value

Financial ratio comparison of share price with book value per share. According to this ratio, a well-valued business is one with a ratio greater than one, indicating greater market value than book value. The advantage of the price to book value ratio is that the book value is stable and comparable to market prices. In addition, it is a consistent accounting standard for all companies so that companies that are overvalued or undervalued can be compared and companies with negative profits can be assessed.

4. Capital Structure

Capital structure is a management policy aimed at obtaining funds for company activities. The optimal capital structure is a capital structure that can optimize risk and maximize share prices at a certain cost. Capital structure determines the company's financial resources and operating costs. Several capital structure decision factors include the higher the business risk, the lower the optimal debt ratio, as well as the company's tax situation and financial flexibility for capital. A good amount of capital is required for stable operations in determining long-term success.

5. Firm Size

Firm Size is a measure considered based on the company's total assets at the end of the year. A business with large assets indicates that the business has reached a maturity stage characterized by positive operating cash flow and good prospects over a relatively long period of time. Companies with larger assets are also considered more likely to generate profits. The ratio used for firm size is the natural logarithm of total assets.

6. Profitability

Profitability measures the efficiency of using resources or the ability to generate profits during a certain period. Profitability can be measured by return on assets, the ratio of profit after tax to total assets, this ratio also takes into account a company's ability to generate profits beyond its financial resources.

RESEARCH METHOD

This research uses a quantitative data documentation method, with a sample of companies listed on the Indonesia Stock Exchange. The analysis uses a structural equation model with partial least square analysis techniques to see whether there is an influence of the mediating variable on the independent and dependent variables. The variables in this research are capital structure and firm size as independent variables, company value as the dependent variable, and profitability as the mediating variable.

The external model in the Partial Least Squares (PLS) method analysis to produce the validity and reliability of the constructs in the model. Outer model refers to the relationship between observed variables or indicators and the construct being measured. Establishing an external model to ascertain the extent to which the indicators can describe the construct. This involves several testing steps, namely convergent validity test, discriminant validity test, and reliability test.

RESULT AND DISCUSSION

Convergent Validity

Convergent validity test to see the accuracy of variables through the average variant extracted (AVE) value. Variables and research aspects can be said to be valid when the AVE value is > 0.5, then this research is valid because the AVE value of all variables and aspects meets the convergent validity test > 0.5.

Table 1. **Average Variant Extracted (AVE)**

Variable	Average Variance Extracted (AVE)
Capital Structure	1.000
Firm Size	1.000
Profitability	1.000
Company Value	1.000

Discriminant Validity

The discriminant validity test measures the extent to which constructs can be differentiated, the results look at the cross loading factor value to test the relationship between indicators of a construct and the construct in question, compared to other constructs in the model. The research shows that the indicators used are appropriate or adequate, because the cross loading of the variables and indicators is higher than the factor loadings on other constructs for each indicator. In this case, higher factor loadings indicate the indicator is more strongly related to the construct in question than to other constructs in the model.

Table 2. Cross Loading Factor

Firm Size	Capital Structure	Profitability	Company Value
-0.115	-0.455	-0.081	1.000
1.000	-0.142	-0.248	-0.115
-0.142	1.000	0.188	-0.455
-0.248	0.188	1.000	-0.081

Reliability

Reliability testing measures the extent to which indicators are consistent and reliable using Cronbach's alpha or composite reliability (CR) to test the internal consistency of indicators. In this research, the value of Cronbach's alpha or composite reliability (CR) shows a value of > 0.7, which means the variable is reliable.

Table 3. Cronbach's Alpha dan Composite Reliability

Variable	Cronbach's Alpha	Composite Reliability
Capital Structure	1.000	1.000
Firm Size	1.000	1.000
Profitability	1.000	1.000
Company Value	1.000	1.000

Inner Model Testing

In testing the inner model, a series of statistical analyzes are used to evaluate the relationship between latent variables (constructs) in the structural path model. The purpose of testing the inner model is to test the validity and reliability of the constructs, as well as the relationship between these constructs. This test includes testing the dependence construct looking at the value R-square, the higher the value, the stronger the suspicion of the research model, and there is significance testing between constructs looking at the path coefficient value, namely the T-Statistic value and P-Values.

The R-square value in SmartPLS measures how well the research model explains variations in the dependent variable. The R-square value is between 0 and 1, the higher the value, the greater the proportion of variation in the dependent variable that can be explained by the independent variables in the model.

Table 4. R-Square Value

	R-Square
Company Value	0.256
Profitability	0.074

Based on the results of the table, the value of the 2 company value variables is 0.256, meaning that 25.6% of the company value can be explained by independent variables, while the remaining 74.4% is explained by other factors. And the profitability variable is lower, namely 0.074, this value shows that profitability can be explained by 7.4% by independent variables, and the remainder is explained by other factors.

Hypothesis Testing

Hypothesis testing to test the applicability or significance of variable relationships in a structural model. PLS-SEM analysis hypothesis testing tests the truth of the hypothesis proposed by the research. Testing the construct relationship of path coefficients values in SmartPLS consists of original samples, T-Statistics, and P-Values. The original sample value shows a positive or negative relationship between variables. The T-Statistics value shows whether or not there is a relationship between the dependent variable and the independent variable. When the T-Statistics value is > 1.96 then it has a high influence and if the value is < 1.96 then the influence between variables is low. Meanwhile, the P-Values show the significance value of the relationship with the condition <0.05.

Table 5. Path Coefficients

Hypothesis	Original Sample	T-Statistics	P-Values
Capital Structure – Profitability	0.111	0.743	0.458
Capital Structure – Company Value	0.466	5.842	0.000

Firm Size – Profitability	0.261	3.921	0.000
Firm Size – Company Value	0.169	2.009	0.045
Profitability – Company Value	0.109	0.867	0.387

In the path coefficients table, the results from the original sample show a negative value for the variable relationship. If the T-Statistics and P-Values are significant, it means that the statistical test rejects the null hypothesis or supports the hypothesis of a relationship between significant variables. When T-Statistics are significant, there is a strong and consistent relationship between the variables in the model and can provide an indication of the importance of the relationship in the research. Meanwhile, if the T-Statistics value is not significant, it means accepting the null hypothesis in statistical testing.

Table 6. Indirect Effect

Hypothesis	Original Sample	T-Statistics	P-Values
Capital Structure – Profitability – Company Value	-0.012	0.407	0.684
Firm Size – Profitability – Company Value	-0.028	0.790	0.430

In the table, ROA as a mediating variable, which is shown from the T-Statistics and P-Values, is not significant, namely rejecting Ha and accepting H0, which means that profitability does not mediate the relationship between firm size and capital structure on company value.

Based on the results of data processing, firm size has a significant negative effect on profitability. These results are in line with Widyakto & Ariefiantoro (2020) that firm size has a significant negative effect on profitability as measured by ROA. This means that the larger the firm size, the company profitability tends to be lower. In signal theory, the relationship is negative. Significant firm size and profitability are interpreted as signals that larger companies have challenges or factors that influence profitability. So that investors will still think about investing. In this case, when the size of the company increases, the bureaucracy becomes more complex, resulting in additional costs and inefficiencies that can suppress profitability. Then larger companies may have more complex agency problems. Conflicts of interest and failures in oversight can also affect profitability. Additionally larger firm size may provide advantages in terms of economies of scale, but is offset by the additional costs of complex management and coordination. As well as facing tougher competition, both from domestic and international competitors. This can reduce profitability due to efforts to maintain market share (Widyakto & Ariefiantoro, 2020).

The results of capital structure data processing have no effect on profitability. In line with Wahyuni et al. (2020), in trade-off theory companies consider the trade-off between financial costs and tax benefits in determining their capital structure. This theory says companies will try to balance interest costs with the tax benefits obtained from reducing taxable income. So when the capital structure on profitability is not significant, this means that the company does not really consider its capital structure in an effort to increase profitability. A company may not feel a significant impact on its profitability when changing its capital structure. This can occur due to the effect of financial costs, that costs related to the capital structure do not have a significant impact on profitability. The company may manage interest costs and finance charges efficiently, so that changes in capital structure do not significantly affect profitability. The presence of other more dominant factors, such as operational efficiency, effective management, or strong market conditions may have a greater influence on profitability than capital structure. The insignificant results also reflect the company, each sector has different dynamics and challenges, and the influence of capital structure on profitability can vary. Thus, the company's capital structure may not necessarily describe the company's profitability well (Wahyuni et al., 2020).

The results of data processing show that firm size has a significant negative effect on company value. These results are in line with research by Hirdinis (2019) who stated that firm size has a significant negative effect on company value as measured by PBV, so that firm size can be a consideration factor or benchmark for performance, whether performance influences the value of the company for investment. In signaling theory, firm size can be a signal to investors or the market regarding the quality or potential of the company. Larger companies may face challenges or factors that affect company value. This could be because larger companies tend to have complex bureaucratic structures. This leads to additional costs, difficult coordination, or slow decisions, which in turn negatively affects company value. Larger companies will also tend to cover multiple business lines or be broadly diversified. This can lead to a lack of strategic focus or ineffective deployment of resources. The existence of larger, hierarchical organizational structures in larger companies can also hinder quick and efficient decision making. This can impact a company's ability to respond quickly to market changes or business opportunities. Similarly there are more complex agency problems. Companies tend to have more complex agency relationships between owners and management. Conflicts of interest or agency problems that are not resolved properly can influence management decisions and ultimately affect company value (Hirdinis, 2019).

Based on the results of capital structure data processing, it has a significant negative effect on company value. The research results are in line with Lukman et al. (2021), DER has a significant negative effect on company value, meaning that the higher the DER, the higher the tendency for company value to decrease. This shows that the greater the debt, the greater the investor's risk, which can reduce the value of the company. In signaling theory, a company's inability to fulfill its financial obligations when it has a capital structure that is not optimal, for example with a high debt to equity ratio, this can be a market signal that the company has a higher financial risk or is unable to fulfill its financial obligations properly. This causes a decrease in company value. A poor or unbalanced capital structure can be a sign that the company has negative information or does not fully disclose relevant information to the market. Investors perceive this as a signal that the company has problems or weaknesses that affect the company's value. And capital structure decisions that are not optimal give a signal that company management does not have strong skills or strategies to manage financial aspects. This can influence the market's perception of company value. So if the company can maintain DER to remain stable, it will have a significant positive effect on increasing company value (Khoirunnisa, 2022).

The results of data processing show that profitability has no effect on company value. The results of this research are in line with Sondakh (2021), profitability as measured by ROA has no influence on company value. In signaling theory, profitability is a signal to the market or investors regarding the quality or value of the company, thereby influencing the market's or investors' perception of the company's value. Which means that in this research there is no influence of profitability on company value related to other factors more dominant in determining company value, such as brand reputation, market growth, or competitive advantage may have a greater influence on company value than the level of profitability. In addition, the level of industry performance is relative to competitors in the same industry. If the company's financial performance or profitability is in line with general industry performance, then the direct influence of profitability on company value will be insignificant. Nonsignificant results may also reflect industry or company-specific characteristics. Each sector has different dynamics and factors that influence company value. Therefore, the influence of profitability on company value may be more important or significant in some other industries (Sondakh, 2021).

Based on the results of data processing, profitability does not mediate firm size on company value. The results of this research are in line with Hirdinis (2019) and Khoirunnisa (2020), profitability cannot be a mediating variable for firm size on company value, which means firm size does not influence company value through its influence on profitability. Other factors not identified in this research are more dominant in influencing firm size and company value so that profitability has no effect on firm size on company value and the amount of company assets has nothing to do with the amount of capital in increasing PBV. This can happen because the number of company assets does not operate well in increasing profits. Apart from that, it can also show that firm size directly influences company value without going through profitability. In signaling theory, certain decisions or characteristics of a company can be a signal to the market or investors regarding the quality or value of the company. The results of this research show that firm size has a strong or informative signal directly to the market or investors, without using profitability as a mediator. Some possible relationships between firm size and company value that are not mediated by profitability are due to operational scale and reputation. Firm size large ones can provide a signal to the market or investors regarding the larger operational scale and the company's ability to manage risk. This can increase market perception of company value directly, without going through profitability intermediaries. In addition, a company's trustworthiness and credibility can signal that the company has survived for a long time, has access to sufficient resources, and has a strong reputation. These signals can provide trust and credibility to the market or investors, which in turn increases the perception of company value. There is growth potential and investment opportunities. The market or investors may perceive that the company has the capacity for better expansion or diversification, thereby increasing the company's value directly (Khoirunnisa, 2022).

Based on the results of data processing, profitability does not mediate the relationship between capital structure and company value. These results are in line with research by Wahyuni et al., (2020). Changes in capital structure have no effect on company value through profitability. There are other factors that are more dominant in influencing this relationship. The influence of capital structure can be the cause of a direct influence on company value, without the influence of profitability. Optimal capital composition or selecting the right source of funds can directly provide additional benefits or value to the company. The presence of factors such as brand reputation, product innovation, risk management, or market conditions may have a direct impact on a company's value. The trade off theory in making capital structure decisions states that companies must consider the balance between the profits obtained from a particular capital structure and the associated costs. If firms prioritize selecting a capital structure that minimizes financial costs, then profitability may not be a significant mediating factor in the relationship between capital structure and firm value. Thus, profitability does not mediate firm size on company value (Wahyuni et al., 2020).

CONCLUSION

This research uses a sample of companies listed on the Indonesia Stock Exchange. The conclusion of this research is that capital structure has no effect on profitability. Firm size has a significant negative effect on profitability. Capital structure has a significant negative influence on company value. Firm size has a significant negative effect on company value. Profitability does not have a significant influence on company value. Profitability cannot mediate the relationship between capital structure and company value.

The limitation of this research is that the scope of the research can still be expanded by adding samples and a longer period of years. Future research can use other variables that are not yet in this research to find other factors that influence them significantly, for example liability variables, growth, or external factors such as market conditions and so on. Consider the research context, methodology used, and data limitations.

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