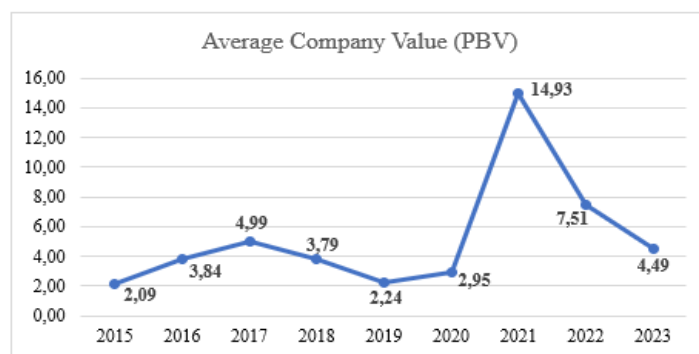


converts invested capital into value. A higher PBV indicates that the company has been more effective at creating wealth for its shareholders.

Efforts to sustain and enhance firm value within a short period present significant challenges, as this is shaped by various internal elements such as capital structure and profitability (Pasaribu et al., 2019), along with external influences. One prominent external factor was the COVID-19 pandemic, which significantly impacted firm values across multiple sectors. According to M. Nafan Aji, an analyst at Bina Artha Sekuritas, the Indonesia Composite Index (JCI) declined throughout 2020, driven by the weakening performance of major indices like LQ45, IDX30, and IDX80. Nearly all sectors, including the basic industry, financial, and trade sectors, faced substantial pressure during this period (Fadillah, 2020).

While many sectors have been affected by the pandemic, the technology sector has performed positively. Based on Idx.co.id (2025), this sector includes companies that provide technology products and services such as non-ISP internet services, IT consultants, software developers, manufacturers of network devices, computers, electronic components, and semiconductors. Indonesia is seen as a promising country in the development of the digital economy in Southeast Asia, as reflected by the strong interest in investment, particularly from multinational corporations. In the period from 2020 to 2022, Indonesia attracted digital infrastructure investments amounting to USD 454 million, which was the second largest after Malaysia, with most of the funds focused on the development of data centers (Ahdiat, 2020).

The ongoing digitalisation trend presents optimistic prospects for consistent growth in the technology sector. Nevertheless, the price-to-book value (PBV) of technology companies from 2015 to 2023 displayed notable volatility. PBV reached its peak in 2021, followed by a considerable decline in the period between 2022 and 2023. It shows that despite promising prospects, companies' value in the technology sector is still influenced by other factors such as business strategy, market dynamics, and investor perceptions. The chart below illustrates the average firm value in the technology sector from 2015 to 2023:



Source: idx.co.id (2025)

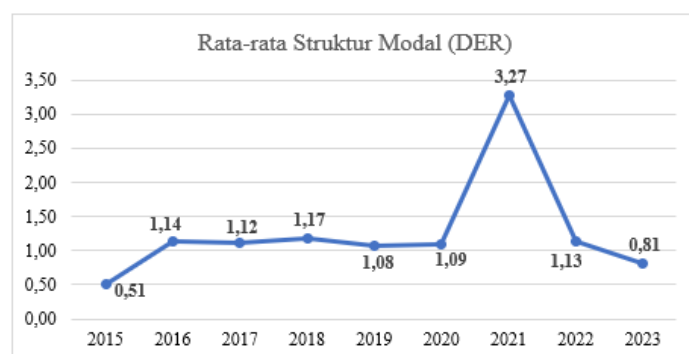
Figure 1. Average Firm Value (PBV) of the Technology Sector in 2015–2023

The graph illustrates the changing valuation of technology companies listed on the IDX as reflected through PBV from 2015 to 2023. Between 2015 and 2020, PBV remained relatively steady, ranging between 3 and 5. However, in 2021, there was a spike to 14.93 due to the acceleration of technology adoption during the COVID-19 pandemic, such as e-commerce and cloud computing. In 2022, PBV fell to 7.51 as the pandemic subsided and market expectations declined. According to Paulus Jimmy Tan, this pressure is influenced by the Fed's interest rate hike trend, which increases

the cost of funds and reduces the valuation of technology companies (Abigail, 2022; Handayani et al., 2023). In 2023, PBV fell back to 4.49, showing the continued impact of macroeconomic conditions. Rivan Kurniawan (indopremier.com, 2024) added that the technology sector is highly sensitive to interest rates, and valuations overvalued during the pandemic are now adjusting to fair prices. Therefore, despite its potential, the sector needs adjustments to stabilise in changing economic conditions.

The value of a company is likewise affected by elements like its capital structure, in line with the principles of the pecking order theory. Therefore, companies must carefully consider the use of debt, as it has implications for their overall value. Firm value will increase if it uses internal funds or debt within reasonable limits. Conversely, if the use of debt exceeds internal funds, this can lead to negative perceptions from investors (Handayani et al., 2023). Excessive use of debt causes agency, bankruptcy, and interest costs to increase, thereby reducing firm value (Alwan & Risman, 2023). Investors generally avoid companies with substantial debt burdens due to the higher level of risk involved. Therefore, the company's performance must be strong to generate high returns on the cost of capital spent (Sudiyatno et al., 2023).

The debt-to-equity Ratio (DER) is utilized in this research to represent capital structure. As defined by Julius & Safri (2023), DER measures the extent of a company's financial leverage by comparing its debt to its equity, which, in turn, reveals its solvency. The debt-to-equity ratio is further categorized as a solvency ratio, showcasing an organization's aptitude for discharging its financial obligations through its internal funds. A rise in the DER, however, signals an amplification of the company's financial hazards (Gusmiarni & Manalu, 2023).



Source: idx.co.id (2025)

Figure 2. Average Capital Structure (DER) of technology sector companies in 2015-2023

The chart shows fluctuations in the average capital structure (DER) of the technology sector on the IDX during 2015-2023. In 2015-2020, DER was stable in the range of 1.0-1.2. In 2021, a notable rise to 3.27 occurred, primarily influenced by the heightened demand for technology throughout the pandemic. As a result, companies were prompted to seek growth through external debt, given that their internal capital sources proved insufficient. In 2022, DER dropped dramatically to 1.13 as external funding needs declined and operating conditions began to recover. Economic recovery, rising interest rates, and market uncertainty made companies more cautious and led them to turn to internal financing.

Based on the data presented in the two graphs, it can be observed that, with the exception of 2017 and 2018, every increase in the debt-to-equity ratio from 2015 to 2023 was accompanied by a rise in firm value (PBV) within the technology sector. This finding contradicts the pecking order

theory, which argues that a high level of debt indicates limited internal funding and can lower firm value due to increased financial risk. Such risk may lead to negative investor sentiment. Conversely, an elevated level of indebtedness might still elicit a positive assessment from investors, provided they are convinced of the company's promising future and its competence in diligently handling its financial liabilities.

Empirical literature examining the correlation between capital structure and firm value presents mixed results. However, various studies, including those by Lisda & Kusmayanti (2021 and Nurazi et al. (2020), highlight the influence of capital structure on firm valuation. Nurwulandari, A. (2021) found a negative and significant effect, in line with (Fatima et al., 2023; T. D. Dang & Do, 2021; Doorasamy, 2021; Ramirez & Ferrer, 2021). Conversely, several empirical studies (Amarudin et al., 2019; Nurazi et al., 2020; Liong et al., 2023; Mahirun et al., 2024). However, divergent evidence from Wijayaningsih & Yulianto (2021 and Adamu & Hamidah (2023) suggests that capital structure does not influence firm value.

Given the preceding discussion and its incongruence with the pecking order theory, a significant research gap becomes apparent: capital structure may not consistently exert a direct influence on firm value. To bridge this gap, the current investigation introduces profitability as a mediating variable, positing that it elucidates the indirect relationship between capital structure and firm value. Profitability intrinsically reflects an entity's capacity to generate revenue from its existing resources, thereby illustrating the efficiency with which assets and capital are deployed to secure optimal returns (Christine & Winarti, 2022). Among the widely employed metrics for assessing profitability is return on equity (ROE), which quantifies after-tax net income relative to total equity. ROE specifically indicates a company's adeptness in managing its proprietary capital and the magnitude of returns disbursed to its shareholders (Ermaini et al., 2021). Consequently, ROE is frequently adopted by researchers as an indicator of corporate profitability.

In accordance with the pecking order theory, a capital structure heavily weighted towards debt is frequently perceived by investors as indicative of substantial financial risk. Nevertheless, when debt is utilized to boost profitability, it aligns with the signalling theory proposed by Ross (1977), which suggests that financially sound companies are capable of managing their debt efficiently. By looking at the capital structure through profitability first, investors will assume that debt is used to support performance, so that increased profitability will strengthen the perception of firm value. As noted by Paramitha (2020), a capital structure heavily reliant on debt signifies management's proactive efforts to enhance organizational performance, thereby ensuring the fulfillment of financial commitments. Strong performance sends a positive signal to investors, particularly in terms of profit generation. Therefore, a capital structure that contributes to increased profitability can serve as a strategy to enhance firm value. An optimal balance between debt and equity can drive profitability, which in turn may lead to higher stock prices and greater firm value (Purwani & Santoso, 2022).

The relationship between profitability and firm value has been extensively examined in empirical research. Some studies indicate that profitability affects firm value (Heliani et al., 2023; Inayah, 2022; Linawaty & Ekadjaja, 2017). Additionally, other researchers have documented a positive and significant influence of profitability on firm value (Amarudin et al., 2019; H. N. Dang et al., 2019; Fatima et al., 2023; Mahirun et al., 2024; Nurwulandari, 2021). Meanwhile, according to Himawan (2022), Himawan (2022) reported a significant negative effect of profitability on firm value, while Anggraini & MY (2021) and Mispianiti & Wicaksono (2020) found that profitability does not impact firm value.



Pecking Order Theory. According to Myers and Majluf (1984), the pecking order theory elucidates a company's hierarchy of preferences when funding investments. Firms tend to prioritize internal funding sources, such as retained earnings. If internal funds are insufficient, companies will seek external financing in stages, starting with debt, then bonds, and finally equity issuance. This sequence is chosen to reduce the impact of information asymmetry, which tends to be more costly when raising capital through issuing shares.

Signaling Theory. Signaling theory, introduced by Ross in 1977, explains the reasons companies feel the need to disclose financial information to external stakeholders. This theory is based on the existence of information asymmetry between company management and shareholders. Signaling theory outlines how firms can convey credible signals to users of financial statements to reduce uncertainty and demonstrate their financial quality.

Firm Value. How investors perceive a company's ability to enhance shareholder prosperity is reflected in its firm value, which is typically evidenced by rising stock prices (Indasari & Yadnyana, 2018). Firm value illustrates investor views on the company's effectiveness in increasing shareholder wealth, which is commonly indicated by an upward trend in stock prices.

$$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

Capital Structure. The proportion of funding sources utilized by a company, known as capital structure, illustrates how a firm manages financial resources acquired from both its internal operations and external financing (Savitri et al., 2021). This financial composition can be measured using the following formula:

$$DER = \frac{\text{Total Debt}}{\text{Total Capital}}$$

Profitability. A company's ability to generate earnings through the optimal utilization of its available assets and capabilities is fundamentally illustrated by its profitability (Jirwanto et al., 2024). This particular financial measurement is quantifiable through the following formula:

$$ROE = \frac{\text{Earning after interest and tax}}{\text{Total Equity}}$$

The Effect of Capital Structure on Firm Value. Pecking Order Theory suggests that firms favour internal funds over external financing, such as debt or equity, because managers and investors do not share the same information. Debt is only used when internal resources are inadequate, yet relying too heavily on borrowed capital can elevate bankruptcy risk and diminish firm value. Dang & Do (2021) found a significant negative link between capital structure and firm value. Similarly, Linawati et al. (2022) showed that a greater debt-to-equity ratio harms firm value. As debt levels rise, interest obligations increase, reducing liquidity and heightening the chance of financial distress. Ramirez & Ferrer (2021) further highlighted that while debt can provide tax advantages, excessive leverage reduces firm value if not properly managed alongside operational risks and resource allocation. Sudiyatno et al. (2023) also observed that the market tends to respond unfavorably to companies with high debt levels, as investors become less interested due to the

associated financial risks. Therefore, strong financial performance is essential to generate returns that outweigh the cost of capital. In this regard, Almahadin & Oroud (2020) pointed out that higher levels of borrowed funds increase financial leverage and the risk of insolvency, which sends a negative signal to lenders and investors. Consequently, current and prospective investors may be discouraged from investing in highly leveraged firms, resulting in declining stock prices. Thus, although debt can support business operations, it must be used judiciously to avoid harming the firm's value.

H1: Capital structure has a negative effect on firm value.

The Effect of Capital Structure on Profitability. Based on the signalling theory proposed by Ross (1977), managers can convey positive information to investors by utilizing debt within the capital structure. Elevated debt levels signal management's confidence in the company's prospects, since an inability to meet debt obligations would harm their professional standing. As such, increased leverage may be interpreted as a sign of a strong financial outlook and managerial confidence in the firm's capabilities (Hasiara, 2015). Capital structure has a positive and significant effect on profitability, as demonstrated by the influence of the Debt-to-Equity Ratio (DER) on a company's Return on Equity (ROE). (Faidah, 2018) further explains that debt can be a more beneficial financing option than equity when its cost is lower, thereby increasing profit potential. In line with this, Astivasari & Siswanto (2018) argue that external funding through debt can boost profitability, assuming the company is able to manage the funds effectively and efficiently.

H2: Capital structure has a positive effect on profitability

The Effect of Profitability on Company Value. A company's capability to generate earnings and its overall financial health can be measured through its level of profitability. Within the framework of Signaling Theory, strong financial results serve as a positive indicator to investors, highlighting effective management and promising growth potential (Paramitha, 2020). As earnings rise, investor confidence increases, which typically drives up demand for the company's stock and elevates both share price and overall firm value (Rachmawati & Pinem, 2015). A higher ROE signals the firm's efficiency in generating profits under optimal conditions, which in turn can enhance investor confidence and attract greater investment interest (Lubis et al., 2017). Pradanimas & Sucipto (2022) firms that consistently achieve substantial net income demonstrate strong business prospects, making them more appealing to investors. Supporting this view, Amarudin et al. (2019) also add that high profits reflect good long-term performance and attract investor interest, thereby increasing demand and stock prices.

H3: Profitability affects company value

The Effect of Capital Structure on Firm Value with Profitability as a Mediating Variable. Capital structure is a key factor in investment decision-making because investors assess both risk and return by analyzing a company's financial statements. An effective capital structure is expected to bolster profitability, which reflects efficient management of assets and funding and enhances investor confidence. The use of debt also demonstrates management's commitment to maximizing performance. This commitment is reflected in the company's ability to generate profits, which sends a positive signal to the market (Paramitha, 2020). Moreover, profitability serves as a mediator between capital structure and firm value (Santosa et al., 2022). When debt levels are maintained within prudent limits, companies can achieve higher earnings compared to those that rely solely on equity, making them more attractive to investors (Putri & Rahyuda, 2020). A properly managed capital structure can increase profits, enhance return on equity, and ultimately raise the stock price as an indicator of improved firm value (Suzulia et al., 2020).

H4: Profitability can mediate the influence of capital structure on company value



METHODS

This research examines firms in the technology sector listed on the Indonesia Stock Exchange over the 2015–2023 period. A purposive sampling method was applied to select only those companies with complete data for all study variables throughout the observation period, resulting in a sample of six firms and 58 observations. The data used in this study are secondary, sourced from financial statements and annual reports available on the official IDX website (www.idx.co.id) as well as each company's respective site. The objective is to analyze the influence of the independent variables on the dependent variable and to explore any mediating relationships. Data analysis was conducted using IBM SPSS 25, which facilitated descriptive statistics, classical assumption testing, path analysis, and t-tests.

RESULT AND DISCUSSION

Descriptive Statistical Analysis.

Table 1. Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
DER	54	,11	78,61	3,3178	11,14186
ROE	54	-4,86	,89	,0206	,73665
PBV	54	,16	35,83	3,3393	5,30636

Based on the descriptive statistical analysis of 54 observations, the capital structure variable, as indicated by the DER, shows a minimum value of 0.11 and a maximum of 78.61, with a mean of 3.3178 and a standard deviation of 11.14186. These figures suggest a considerable variation among firms in their use of debt financing, with the high maximum value contributing to a skewed distribution. The profitability variable, measured through ROE, ranges from -4.86 to 0.89, with an average of 0.0208 and a standard deviation of 0.73865, implying that overall profitability is relatively low across the sample, and several firms have experienced financial losses. In contrast, firm value, represented by the PBV, has a minimum of 0.16 and a maximum of 35.83, with a mean value of 3.3383 and a standard deviation of 5.30388. These figures indicate that most companies are valued by the market above their book value, although the wide range reflects significant differences in how investors assess individual firms.

Classical Assumption Test, Normality Test.

Table 2. Normality Test Result

		Unstandardized Residual
N		48
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	1,61268257
Most Extreme Differences	Absolute	,173
	Positive	,173
	Negative	-,129
Test Statistic		,173
Asymp. Sig. (2-tailed)		,001 ^c
Monte Carlo Sig. (2-tailed) Sig.		,103 ^d



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99% Confidence Interval	Lower Bound	,095
	Upper Bound	,111

Following the removal of six outlier observations identified through boxplot analysis, a normality test was conducted using the Kolmogorov-Smirnov method. The test yielded a Monte Carlo Sig. (2-tailed) value of 0.103. According to (Ghozali, 2018), if the significance level exceeds 0.05, the data can be considered normally distributed. Given that the obtained value is greater than 0.05, it can be concluded that the dataset used in this research satisfies the assumption of normality.

Multicollinearity Test.

Table 3. Multicollinearity Test Result

Coefficients ^a		
Model	Collinearity Statistics	
	Tolerance	VIF
1 DER	,872	1,147
ROE	,872	1,147

To determine whether a high degree of correlation exists between the independent variables in a regression model, the multicollinearity test is conducted, as a good model should be free from such issues (Ghozali, 2018). This test involves evaluating the tolerance and Variance Inflation Factor (VIF) values. A tolerance value greater than 0.10 and a VIF value less than 10 suggest that multicollinearity is not a concern. Based on the test results, the capital structure and profitability variables show tolerance values of 0.872 and VIF values of 1.147, respectively. These results fall within acceptable thresholds, indicating that multicollinearity does not exist in the model. Therefore, the independent variables are not highly correlated, and the regression model is deemed suitable for further analysis.

Heteroscedasticity Test.

Table 4. Heteroscedasticity Test Result

Correlations				
		DER	ROE	Unstandardized Residual
Spearman's rho DER	Correlation Coefficient	1,000	,398**	-,033
	Sig. (2-tailed)	.	,005	,822
	N	48	48	48
ROE	Correlation Coefficient	,398**	1,000	-,025
	Sig. (2-tailed)	,005	.	,867
	N	48	48	48
Unstandardized Residual	Correlation Coefficient	-,033	-,025	1,000
	Sig. (2-tailed)	,822	,867	.
	N	48	48	48

This study utilized the Spearman Rank method to ensure the regression model was free from heteroscedasticity. The technique involves evaluating the Spearman Rho correlation coefficient by assessing the relationship between the absolute residuals of the regression and each independent variable (Gujarati, 2015). A significance value (Sig. 2-tailed) below 0.05 indicates the presence of heteroscedasticity, while a value above 0.05 suggests that the model is homoscedastic or free from heteroscedasticity. In this case, the significance values for capital structure and profitability are 0.822 and 0.867, respectively. Since both values exceed the 0.05 threshold, it can be concluded that the regression model does not show signs of heteroscedasticity.

Linearity Test. The linearity test is conducted to confirm whether the regression model is appropriately specified by assessing whether the relationship between the independent and dependent variables follows a linear pattern (Ghozali, 2018). In this study, the test was carried out using the ANOVA table in SPSS. A relationship between variables can be considered linear when the significance value for Deviation from Linearity exceeds 0.05.

Linearity Test of DER and PBV Variables.

Table 5. Linearity Test Results of DER and PBV

			Sum of Squares	df	Mean Square	F	Sig.
PBV *	Between	(Combined)	137,325	40	3,433	1,953	,180
DER	Groups	Linearity	2,178	1	2,178	1,239	,302
		Deviation from Linearity	135,146	39	3,465	1,971	,177
	Within Groups		12,307	7	1,758		
	Total		149,632	47			

Based on the outcomes of the linearity test, the Sig. Deviation from Linearity value for the DER variable is 0.177, which is greater than 0.05. It suggests that the relationship between DER and PBV is not statistically linear. Consequently, the interaction between these variables may not align with a linear model and could be better represented through a non-linear approach.

Linearity Test of ROE and PBV Variables.

Table 6. Linearity Test Results of ROE and PBV

			ANOVA				
			Sum of Squares	df	Mean Square	F	Sig.
PBV *	Between	(Combined)	109,245	28	3,902	1,836	,086
ROE	Groups	Linearity	27,221	1	27,221	12,806	,002
		Deviation from Linearity	82,024	27	3,038	1,429	,212
	Within Groups		40,386	19	2,126		
	Total		149,632	47			

Based on the linearity test results for the ROE variable in relation to PBV, the Deviation from Linearity significance value is 0.212, exceeding the threshold of 0.05. This result suggests that the relationship between ROE and PBV follows a linear pattern, supporting the use of linear regression in examining the connection between profitability and firm value.



Hypothesis Testing (t). The t-test is applied to assess the individual influence of each independent variable on the dependent variable (Ghozali, 2018). It involves comparing the calculated t-value against the critical t-table value and analyzing the significance level. An effect is considered significant if the t-value surpasses the t-table value and the significance level is less than 0.05. Conversely, if the t-value is lower and its significance exceeds 0.05, the effect is deemed not significant. The results from this study's t-test are presented in the following table.

Hypothesis Testing of the Effect of Capital Structure on Company Value.

Table 7. Results of Hypothesis Test 1

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1,961	,380		5,165	,000
DER	,213	,259	,121	,824	,414

a. Dependent: PBV

Referring to the results table, it is shown that the capital structure variable has a significant value of 0.414, which exceeds the standard threshold of 0.05. The obtained t-statistic is 0.824, while the regression coefficient (β) is 0.213, indicating a directionally positive relationship between capital structure and firm value. Nonetheless, considering the degrees of freedom of 46 and a significance level set at 0.05, the critical t-value from the distribution table is 2.0129. Because the computed t-statistic falls below this critical value, it can be interpreted that the influence of capital structure on firm value is not statistically significant. Consequently, the hypothesis (H1) stating that capital structure negatively affects firm value cannot be empirically supported within this study.

Hypothesis Testing of the Effect of Capital Structure on Profitability.

Table 8. Results of Hypothesis Test 2

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	,059	,027		2,194	,033
DER	,048	,018	,358	2,600	,013

a. Dependent: ROE

Referring to the table above, the capital structure variable has a significance value of 0.013, which is below 0.05, a t-statistic value of 2.600, and a β coefficient of 0.048. With degrees of freedom (df) = $48 - 2 = 46$ and a significance level of $\alpha = 0.05$, the corresponding t-table value is 2.0129. Since the t-statistic exceeds the t-table value and the associated significance level is below 0.05, these results indicate that capital structure exerts a statistically significant and positive influence on profitability. This finding suggests that companies with higher leverage tend to exhibit greater profitability, possibly due to the efficient use of debt in financing activities that generate returns exceeding the cost of capital. Therefore, hypothesis 2, which proposes that capital structure positively affects profitability, is supported by the empirical evidence in this study.

Hypothesis Testing of the Effect of Profitability on Company Value.



Table 9. Results of Hypothesis Test 3

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,566	,306		5,121	,000
	ROE	5,643	1,764	,427	3,198	,003

a. Dependent: PBV

Based on the data presented in the table, the profitability variable displays a significance value of 0.003, which is lower than the 0.05 threshold, indicating strong statistical significance. The corresponding t-statistic is 3.198, and the regression coefficient (β) is 5.643, reflecting a positive relationship between profitability and firm value. With degrees of freedom (df) = $48 - 2 = 46$ and a significance level of $\alpha = 0.05$, the critical value from the t-distribution table is 2.0129. Since the t-statistic of 3.198 exceeds this critical value and the p-value is well below the defined significance level, it can be concluded that profitability has a statistically significant and positive effect on firm value. This result implies that firms with higher profitability are more likely to be valued favorably by the market, possibly due to their greater capacity to generate returns for shareholders. Accordingly, hypothesis 3, which posits that profitability positively affects firm value, is supported by the empirical evidence presented in this study.

Path Analysis Test. To evaluate the impact of the intervening variable, this research employed path analysis. As outlined by (Ghozali, 2018), path analysis serves as a development of multiple linear regression designed to assess the causal links among variables. A variable functions as a mediator when it influences the relationship between the independent and dependent variables. In this study, the mediating role of profitability was examined by analyzing both the direct and indirect effects within the proposed model. The results of this analysis are presented as follows:

1. Structural Regression Equation 1:

Table 10. Test Results of Structural Regression Model 1

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,059	,027		2,194	,033
	DER	,048	,018	,358	2,600	,013

a. Dependent: ROE

The results presented in the table indicate that the path coefficient (ρ_{2XZ}) is 0.048, which implies that a 1% rise in capital structure debt is associated with a 4.8% improvement in profitability.

Table 11. R² Value for Structural Equation 1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,358 ^a	,128	,109	,12729

a. Predictors: (Constant), DER



Referring to the table above, the R Square value of 0.128 indicates that capital structure explains 12.8% of the variation in profitability. The remaining 87.2% is influenced by other factors not included in this study. Additionally, an error term (ϵ) is incorporated into each equation involving the dependent variable to account for unexplained variance. This residual component can be calculated using the following formula:

$$\epsilon_1 = \sqrt{1 - R^2} = \sqrt{1 - 0,128} = \sqrt{0,872} = 0,9338$$

From the results of the calculation, the error term (ϵ_1) is found to be 0.9338. Thus, the substructural path equation 1 can be formulated as follows:

$$ROE = -0,048 DER + 0,9338$$

2. Structural Regression Equation 2:

Table 12. Test Results of Structural Regression Model 2

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1,617	,367		4,401	,000
DER	-,065	,255	-,037	-,254	,800
ROE	5,817	1,909	,440	3,047	,004

a. Dependent: PBV

Referring to the table, the path coefficient (ρ_{1XY}) is recorded at -0.065, suggesting that a 1% increase in the proportion of debt within the capital structure is associated with a 6.5% decrease in firm value. Conversely, the path coefficient (ρ_{3ZY}) stands at 5.817, indicating that a 1% increase in profitability corresponds to a substantial 581.7% increase in firm value, highlighting the strong positive influence of profitability on firm valuation.

Table 13. R² Value for Structural Equation 2

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,428 ^a	,183	,147	1,64813

a. Predictors: (Constant), ROE, DER

According to the table, the R Square value is 0.183, indicating that capital structure and profitability together account for 18.3% of the variation in firm value. The remaining 81.7% is explained by other factors not included in this research. Furthermore, the error term (ϵ_2) reflects the proportion of variation in the dependent variable that is not captured by the independent variables. The calculation of ϵ_2 is as follows:

$$\epsilon_1 = \sqrt{1 - R^2} = \sqrt{1 - 0,183} = \sqrt{0,817} = 0,9038$$



From the calculation, the value of ε_2 is obtained as 0.9038. Thus, the substructural path equation 2 can be expressed as follows:

$$Y = -0,065 \text{ DER} + 5,817 \text{ ROE} + 0,0938$$

Referring to the causal connections identified in substructure 1 and substructure 2, the resulting diagram illustrates the overall path of influence among the variables.

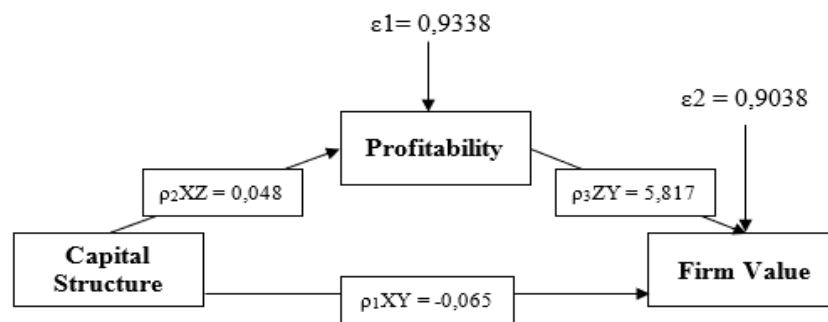


Figure 3. Path Analysis Diagram

The coefficients shown in the path diagram indicate a causal connection between capital structure, profitability, and firm value. The direct impact of capital structure on firm value is -0.065, while the indirect impact, mediated by profitability, is $0.048 \times 5.817 = 0.2792$. As a result, the total effect of capital structure on firm value amounts to $-0.065 + 0.2792 = 0.2142$. It suggests that the indirect effect through profitability is greater than the direct effect ($0.279 > -0.065$). Therefore, profitability serves as a mediator in the relationship between capital structure and firm value. It aligns with the concept of indirect-only mediation (Full Mediation), where the indirect path is significant, but the direct path is not (Hair et al., 2021).

Sobel test. The Sobel test is applied to evaluate the effect of the mediating variable, namely profitability. A mediating variable influences the relationship between the independent and dependent variables. The following formula is used in this study to perform the Sobel test:

$$\begin{aligned}
 Sab &= \sqrt{b^2 Sa^2 + a^2 Sb^2 + Sa^2 Sb^2} \\
 Sab &= \sqrt{5.817^2 0.018^2 + 0.048^2 1.909^2 + 0.018^2 1.909^2} \\
 Sab &= \sqrt{0.011 + 0.008 + 0.001} \\
 Sab &= \sqrt{0.021} \\
 Sab &= 0.143
 \end{aligned}$$

Based on the calculation above, the Sab value is found to be 0.143. The next step involves determining the t-statistic using the formula below:

$$t = \frac{ab}{Sab}$$

$$t = \frac{0.048 \times 5.817}{0.143}$$

$$t = 1,948$$

With a t-table value of 1.948, the calculated t-value of 2.0141 is lower, indicating that profitability does not mediate the relationship between capital structure and firm value at the 5% significance level. However, at the 10% significance level, where the t-table value is 1.6794, the t-statistic exceeds the threshold. Therefore, profitability is considered to mediate the relationship between capital structure and firm value at the 10% level of significance, supporting Hypothesis 4.

The findings of this study indicate that capital structure does not affect firm value. It implies that while an increase in the proportion of debt may coincide with an increase in firm value, the relationship is not strong enough to be considered significant. In the technology sector, this finding is understandable, as investors tend to focus more on factors such as innovation, growth prospects, and market share than on a company's capital structure. Technology companies are often in a phase of rapid expansion, where high debt levels may be acceptable as long as the company demonstrates strong future potential. This finding aligns with previous research by Natalia & Eka Bertuah (2022), Paramitha (2020), and Wijayaningsih & Yulianto (2021), which also found no significant impact of capital structure on firm value. These studies emphasize that capital structure decisions may have a limited impact in industries driven by innovation and intangible assets, where investor confidence is more closely linked to a company's ability to grow and generate profits in the future.

Capital structure has a positive and significant influence on company profitability. Properly managed debt allows firms to access additional funds to support business expansion and boost earnings. The success of this approach depends on the company's ability to manage financial risk effectively. In line with signaling theory, the use of debt conveys management's confidence in the firm's future performance, which can strengthen investor trust. Conversely, ineffective debt use may create negative perceptions. These findings are consistent with prior research by which also found that capital structure plays a key role in enhancing profitability. Ayalew (2021), Habibniya et al. (2022), Nguyen (2020), Purwani & Santoso (2022), and Suzulia et al (2020), which also found that capital structure plays a key role in enhancing profitability.

Profitability has a significant and positive influence on firm value. When a company consistently achieves high profits, it reflects strong financial performance, which enhances investor trust and leads to better market perceptions. Firms with steady earnings are often seen as having good prospects, increasing their attractiveness to investors. Based on signaling theory, profitability acts as a positive message to the market, suggesting effective management and growth potential. As a result, investors are more inclined to value such companies highly. It aligns with previous studies that also found profitability to be a key factor in improving firm value (Amarudin et al., 2019; Fatima et al., 2023; Kammagi & Veny, 2023; Linawati et al., 2022; and Mahirun et al., 2024).

The results of this study reveal that capital structure does not directly influence firm value but instead affects it indirectly through profitability, which acts as a full mediator. It means that an increase in debt proportion will only contribute to firm value if it successfully increases profitability. In this context, profitability serves as the key link that explains how capital structure can generate value. When debt is managed effectively to produce earnings, capital structure can positively shape market perception and, consequently, increase firm value. These findings are consistent with



signaling theory, which suggests that strong profitability signals positive prospects to investors, builds market confidence, and supports a higher company valuation.

These results are consistent with prior research, which demonstrates that profitability plays a mediating role in the link between capital structure and firm value, as evidenced in the works of Faidah (2018), Mutiara et al. (2024), Paramitha (2020), Puri et al. (2024), Santosa et al. (2022), and Suzulia et al. (2020).

CONCLUSION

The results indicate that firm value is not directly affected by capital structure. Although a positive association exists, the effect is not statistically strong enough to conclude that increasing the level of capital structure, such as taking on more debt, will automatically enhance firm value. It indicates that investors do not rely solely on debt levels when evaluating companies but also consider other crucial elements such as profitability and long-term growth potential. On the other hand, capital structure is found to have a positive and significant impact on profitability, implying that a well-managed capital structure, especially one that incorporates debt wisely, can improve a company's ability to generate profit, provided that the debt does not create excessive financial pressure. Profitability is a key determinant of firm value because companies that regularly achieve high earnings often attract favorable market reactions, with investors interpreting those profits as evidence of financial stability and strong prospects. Additionally, the research demonstrates that profitability serves as an intermediary between capital structure and firm value, indicating that capital structure's impact on firm value is indirect and operates through its effect on profitability. In this context, high profitability acts as a favorable signal to the market, enhancing investor confidence and ultimately contributing to the improvement of firm value.

This study still has limitations, namely the number of variables and the sample used. This study only used one dependent variable, one intervening variable, and one independent variable: capital structure, profitability, and firm value. The sample used was limited to technology sector companies listed on the Indonesia Stock Exchange (IDX) with an observation period from 2015 to 2023. Therefore, in future research, it is recommended to increase the number of variables and expand the research object to include other industrial sectors or extend the observation period to obtain more general and representative results.

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