Journal of Economics, Finance and Management Studies

ISSN (print): 2644-0490, ISSN (online): 2644-0504

Volume 07 Issue 07 July 2024

Article DOI: 10.47191/jefms/v7-i7-67, Impact Factor: 8.044

Page No: 4498-4508

The Effect of Profitability and Ownership Structure on Firm Value with the Mediation of Capital Structure in Banking Companies in Indonesia

Khusnul Chotimah[1], Prihat Assih[2], Retna Safriliana[3]

[1,2,3] University of Merdeka Malang, Indonesia

ABSTRACT: This study aims to analyze the effect of profitability on the capital structure of banking companies, analyze the effect of ownership structure on the capital structure of banking companies, analyze the effect of profitability on the value of banking companies, analyze the effect of ownership structure on the value of banking companies, analyze the effect of profitability on firm value through the capital structure of banking companies, analyze the effect of ownership structure on firm value through the capital structure of banking companies. The population in this study are banking companies that have been listed on the Indonesia Stock Exchange in the period 2021 to 2023. The sampling technique used in this study is purposive sampling technique. Based on these criteria, a sample size of 11 banks was obtained, so that the number of observations was 11 x 3 years = 33 observations. The data analysis technique uses path analysis. The analysis shows that profitability affects the capital structure. Ownership structure has no effect on capital structure. Profitability has a significant influence on firm value. Institutional ownership structure has a significant influence on the value of banking companies. Capital structure has no effect on banking value, which means that the high and low capital structure has no impact on firm value. Capital structure fails to mediate the effect of profitability on banking value. Capital structure fails to mediate the effect of institutional ownership structure on banking firm value.

KEYWORDS: Profitability, Ownership Structure, Capital Structure, Firm Value

I. INTRODUCTION

A banking company is a company that has a large role in the economic development of the Indonesian nation. A bank is a financial institution business entity aimed at providing credit to the public using a means of payment in the form of demand deposits circulated by the bank. The main function of banks is to collect data and distribute these funds to the community for various joint purposes between debtors and creditors or as a financial intermediary (Purnamawati, 2014). Considering the important role of banking companies, banks are required to have good performance in order to gain public trust in using bank services. Apart from that, it is also possible to increase competitiveness in facing increasingly sharp competition with other banking companies. Banking companies with better financial performance from year to year mean that company value also increases. Company value is an important thing because it is an indicator that shows the market assessment of banking companies as a whole.

The fluctuating company value shows that the share prices of banking companies listed on the IDX from 2017 to 2020 are unstable. A high stock price index is one of the goals the company wants to achieve. A high stock price index means the company value is also high, which shows that investors believe that the company has good performance and prospects in the future. The company's value is reflected in the financial reports, providing information or signals to investors regarding the company's condition

One way to measure company value is the price to book value (PBV) ratio. Price to book value (PBV) is a comparison between the share price and the book value per share (Brigham and Houston, 2015). The higher the PBV ratio indicates the higher the level of prosperity of shareholders, and also indicates the company's more prospective performance in the future. The higher company value becomes an attraction for investors to invest in the company because investors believe in the company's performance. The company's value is said to be good when the PBV value is above one (overvalued), conversely, if the PBV is below one (undervalued), it reflects the company's value is not good.

The high and low value of a company is influenced by several factors, including profitability (Fasridon and Angraini, 2021: Amrullah and Amalia, 2020; Pujiati, 2019; Amelia and Anhar, 2019) and ownership structure (Sembiring and Trisnawati, 2018;

Pujiati, 2019; Fasridon and Angraini, 2021 and Marsinah, 2021). Profitability is the company's ability to generate profits in managing assets, equity and sales in a certain period. According to Muslichah and Bahri (2021:282) profitability describes an entity's ability to generate profits from all assets used and from sales activities in one period. In this research, the profitability ratio is measured by return on equity (ROE) because it will relate to the profits obtained from equity investments in carrying out its activities. ROE is part of the net profit after tax that the company obtains each year from the company's capital participation. ROE measures a company's ability to generate net profit after tax based on its own capital (Sutrisno, 2009:267). Profitability reflects profits from financial investments and has an influence on company value due to increased internal resources. A strong increase in profitability indicates positive prospects for the company in the future, so investors will value the company higher. If the company's performance in generating profits increases, the value of its shares will also increase (Husnan, 2001:317).

Empirical research regarding the relationship between profitability and company value has been widely explored, but in banking companies it is still limited. Research by Fasridon and Angraini (2021) and Oktaviani, et al (2018) proves that profitability has a positive effect on company value. Research conducted by Ernawati and Widyawati (2015) also proves that profitability has a positive effect on company value. Other research conducted by Pujiati (2019) and Amelia and Anhar (2019) found that profitability has a negative effect on company value.

Another factor that plays a role in influencing company value is the ownership structure. The ownership structure describes how large the proportion of company shares is owned by several parties (Pujiati, 2109). Ownership structure can influence company performance which also impacts the company's efforts to maximize company value due to the control possessed by shareholders. The share ownership structure plays a role in the company's operational system because share ownership is part of the capital that the company will use in carrying out its activities. Company activities that run smoothly can affect company value. The value of the company is seen from the prosperity of the share owners. The more shares invested, the more shareholder contributions (Nurkhin et al, 2017).

Research related to the influence of ownership structure on company value was conducted by Sembiring and Trisnawati (2018); and Pujiati (2019) found that ownership structure has a positive effect on company value. Different results were found in research by Fasridon and Angraini (2021) and Marsinah (2021) who found that ownership structure had a negative effect on company value.

Based on the explanation and empirical studies, it is known that there is a research gap in the form of inconsistencies in research results regarding the influence of profitability and ownership structure on company value, which is interesting to research using other variables, namely capital structure, in order to better explain the influence of profitability and ownership structure on company value.

Research conducted by Fasridon and Angraini (2021) found that there is a positive and significant influence of capital structure on company value. This research is strengthened by the findings of Amrullah and Amalia (2020) who also found that capital structure has a positive effect on company value.

In connection with profitability, one of the factors that companies consider when making decisions regarding capital structure is profitability. According to Brigham (2001) that companies with high profitability and greater use of internal financing can reduce the use of debt (debt ratio). Its higher rate of return allows companies to finance the majority of their funding needs with internally generated funds. Research conducted by Sari et al (2015) found that profitability has a significant influence on capital structure. This finding is strengthened by research conducted by Ryando (2021) that profitability affects capital structure.

Ownership structure also influences the company's capital structure. The share ownership structure has an impact on determining the capital structure. The greater the concentration of share ownership, the company tends to reduce debt because its management can be monitored more effectively. Management will be more careful in making loans because of the controlling influence of shareholders (Morck et al, 1988). So it can be stated that the capital structure will involve share owners or company owners (principals) as part of the ownership structure.

Based on the explanation above, it can be stated that profitability and ownership structure have an influence on capital structure and company value. Therefore, this research analyzes further profitability and ownership structure in influencing capital structure which has an impact on company value. Based on this, the researcher wants to research further with the research title "The Influence of Profitability and Ownership Structure on Company Value Mediated by Capital Structure in Banking Companies Listed on the Indonesia Stock Exchange (BEI)".

The selection of banking companies listed on the Indonesian Stock Exchange as research objects was based on two main reasons. First, there are Financial Services Authority regulations which require these companies to provide more transparent financial information compared to unregistered companies. Banks must report financial reports to the OJK and publish them to the public. Second, the banking sector has a larger number of registered companies than other sectors, allowing for more comprehensive analysis and more accurate comparisons between companies within a sector. This choice is supported by the opinion of Jensen and Meckling (1976) who state that industries that are tightly regulated, such as public companies or banks, tend to have a higher debt to equity ratio at an equivalent level of risk, compared to companies that are less regulated.

Capital structure is used as a mediating variable in this research because it has an important role in linking profitability and ownership structure with company value in the banking sector in Indonesia. Capital structure, which reflects the composition of banking funding between debt and equity, can be influenced by the level of profitability and company ownership patterns. At the same time, capital structure can also affect company value. Companies with high profitability tend to have more choices in determining their capital structure, which in turn can affect company value. Meanwhile, ownership structure can influence funding decisions and company capital structure policies. By placing capital structure as a mediating variable, this research aims to reveal the indirect mechanisms of profitability and ownership structure in influencing company value through capital structure decisions taken by management of banking companies in Indonesia.

II. LITERATURE REVIEW

A. Signaling Theory

Signaling theory or signal theory put forward by Michael Spence in 1973 is a key concept in information economics which explains how parties in economic transactions overcome information asymmetry. This theory argues that in situations where one party has more information than the other party, the party with more information can provide signals to reduce the information gap. Effective signals should reflect actual quality or condition and have different costs between high and low quality entities. Under ideal conditions, a balance occurs in which high-quality entities provide signals, while low-quality ones do not. Although initially developed in the context of the labor market, this theory has been widely applied in various fields of economics and finance, including to explain how companies communicate information to investors through various policies such as capital structure, dividend policy, and information disclosure (Spence, 1973).

B. The value of the company

Company value is an important concept in the world of business and investment. Gitman (2006: 352) defines company value as the actual value per share that would be received if the company's assets were sold at that share price. This definition highlights the importance of a company's liquidation value as reflected in its share price. Meanwhile, Sartono (2010: 487) views company value from a broader perspective. In his view, company value is the selling price of a company operating as a business. Sartono also added that the premium of market value above liquidation value reflects the value of the management running the company. In addition, company value is often linked to market value. This is because the value of the company can provide optimal returns to shareholders when the value of the company's shares increases. In other words, an increase in share prices on the capital market is considered an indicator of an increase in company value. This combination of definitions shows that company value is not only related to physical assets, but also includes growth potential, management quality, and market perception of the company's future prospects.

C. Profitability Ratio

Profitability ratios are a tool to measure an entity's ability to earn profits in relation to sales, assets, profits and own capital. The profitability ratio is also called profitability. Referring to Muslichah and Bahri (2021:310) profitability ratio indicators are as follows: Gross Profit Margin, Net Profit Margin, Return On Investment, Return On Equity, Return On Assets.

D. Capital Structure

In Fahmi's view (2015: 184), capital structure is a representation of the proportion of a company's finances which describes the comparison between capital obtained from long-term debt and its own capital as a source of funding. Halim (2015:81), stated that capital structure is the comparison between total debt and total own capital. The ideal capital structure is a capital structure that optimizes share prices.

E. Ownership Structure

It is believed that ownership structure can have an impact on a company's capacity to achieve its goals of maximizing value. This ownership structure can be categorized into two types: ownership by institutions and ownership by company management (Fasridon and Angraini (2021). The ownership structure in a company will improve performance monitoring and make the company value higher. With a majority ownership percentage, it is often known as blockholders can influence decisions made by the company. Companies that have majority ownership (blockholders) can increase 1) the profitability and efficiency of the company by forming coalitions to control, 2) monitoring the performance of company management, and 3). reducing agency problems, where this condition is likely to be appreciated positively by investors. Investors' positive appreciation will increase company value. Research conducted by Mak and Kusnadi (2001) and Seifert et al. (2002) found a positive relationship between majority ownership structure (blockholders) and company value using different research areas.

F. Research Hypothesis

H1: Profitability has a positive effect on capital structure.
H2: Ownership structure has a positive effect on capital structure.
H3: Profitability has a positive effect on company value.
H4: Ownership structure has a positive effect on company value.
H5: Capital structure has a positive effect on company value.
H6: Profitability influences company value through capital structure.
H7: Ownership structure influences company value through capital structure.

III. RESEARCH METHODS

A. Research design

This research is a type of explanatory research with a quantitative approach. This research was carried out to verify and test whether there is an influence from the variables being studied, with a focus on testing hypotheses in structural equations (Sekaran and Bougie, 2013). The aim of this research is to examine and analyze the impact of profitability and ownership structure on company value through direct and indirect influence using capital structure as mediation.

B. Population and Sample

The population in this research is banking companies that have been listed on the Indonesia Stock Exchange in the period 2021 to 2023. The sampling technique used in this research is purposive sampling technique, namely sampling based on certain criteria or considerations tailored to the research objectives (Cooper and Emory, 1999:245), using data pooling techniques between cross sections and time series. Based on the company population, a saturated sample was taken that met the following criteria:

1) Banking companies that are listed on the Indonesian Stock Exchange and have published financial reports as of December 31 consecutively during the research period from 2021 to 2023.
2) Banking companies that distribute dividends continuously during the research period from 2021 to 2023.
3) Number of banking companies that have continuous managerial ownership during the period 2021 to 2023.

Based on these criteria, a sample size of 11 banks was obtained, so the number of observations was 11 x 3 years = 33 observations.

C. Data analysis technique

The data analysis technique in this research uses descriptive statistical analysis and path analysis. The analysis in this research uses path analysis to test the hypothesis regarding the influence of profitability and ownership structure on company value through capital structure in banking companies listed on the Indonesia Stock Exchange (BEI).

IV. RESULTS AND DISCUSSION

A. Hypothesis Test

The hypothesis testing procedure is carried out using path analysis, namely by using multiple regression and then filtering based on statistical tests and significance. This statistical test can be carried out using the standardized beta coefficient (standard β). If the β value is significant, then the path coefficient is significant. While the path coefficient obtained was not significant, it was discarded. Significance testing can be done by comparing the significance of the paths. If the significance value of the path coefficient is less than 0.05, the coefficient is considered significant. Conversely, if the significance value of the coefficient exceeds 0.05, it is considered insignificant. The results of the influence of profitability and ownership structure on company value through capital structure are presented in table 1.

Table 1. Summary of Results of Direct, Indirect, and Total Effect Analysis from Path Analysis

Variable	Direct Effects	Prob	Indirect Effects	Total Effects
Profitability→Capital structure	0.559	0.006*	-	-
Ownership structure→Capital structure	0.145	0.451	-	-
Profitability→The value of the company	0.640	0,000*	-	-
Ownership structure→The value of the company	-0.282	0.025*	-	-

Capital structure?The value of the company	0.037	0.751	-	-
Profitability?Capital structure?The value of the company	0.640	-	0.559 X -0.037 = 0.021	0.661
Ownership structure?Capital structure?The value of the company	-0.282	-	0.145 X 0.037 = 0.005	-0.277

* significant on?5%.

Based on table 1 it can be explained as follows:

a. Hypothesis Test 1

Based on Table 1, the profitability beta coefficient value is 0.559 and the p value is 0.000, less than p = 0.05 (?= 5%), which means that profitability significantly influence the capital structure. Thus, the first hypothesis which states that profitability has an effect on capital structure is statistically accepted.

b. Hypothesis Test 2

The beta coefficient value of ownership structure is 0.145 and the p value is 0.451, which is greater than p = 0.05 (?= 5%), which means that the ownership structure does not significantly influence the capital structure. Thus, the second hypothesis which states that ownership structure has an effect on capital structure is not statistically accepted.

c. Hypothesis Test 3

Based on Table 1, the profitability beta coefficient value is 0.640 and the p value is 0.000, which is smaller than p = 0.05 (?= 5%), which means that profitability affect company value. Thus, the third hypothesis which states that profitability has an effect on company value is statistically accepted.

d. Hypothesis Test 4

The beta coefficient value of ownership structure with a value of -0.282 and a p value of 0.025 is less than p = 0.05 (?= 5%), which means that the ownership structure significantly influence the value of the company. Thus, the fourth hypothesis which states that ownership structure influences company value is statistically accepted.

e. Hypothesis Test 5

Based on Table 1, the capital structure beta coefficient value is 0.037 and the p value is 0.751, which is smaller than p = 0.05 (?= 5%), which means that the capital structure does not affect company value, thus the fifth hypothesis which states that capital structure has an effect on company value is not statistically accepted.

f. Hypothesis Test 6

Based on Table 1, the analysis results show that capital structure cannot be considered as a mediating variable between profitability and company value. This is because the significance value between capital structure and company value does not show a significant relationship and the indirect influence value is smaller than the direct influence (0.021 < 0.661). In this way, the sixth hypothesis which states that profitability influences company value through capital structure is not statistically accepted.

g. Hypothesis Test 7

Based on Table 1, the results of the analysis show that capital structure cannot be considered as a mediating variable between ownership structure and company value. This is because the significance value between capital structure and company value does not show a significant relationship and the value of the indirect influence is smaller than the direct influence (0.005 < 0.277). In this way, the seventh hypothesis which states that ownership structure influences company value through capital structure is not statistically accepted.

B. Discussion

1) The Effect of Profitability on Capital Structure

Profitability influences capital structure. High profitability tends to have a positive influence on the equity ratio in the bank's capital structure. When a bank is able to generate substantial profits, they have more options to increase internal capital through retained earnings. This retained earnings directly increases the equity component in the bank's capital structure, thereby reducing dependence on external funding sources such as debt. Highly profitable banks often have lower debt-to-equity ratios than less profitable banks.

Pecking order theory, developed by Stewart Myers and Nicholas Majluf, provides a useful framework for understanding the funding preferences of companies, including banks. According to this theory, companies tend to prioritize internal funding sources (such as retained earnings) before turning to external sources. When external financing is required, companies usually prefer debt to issuing new equity. In a banking context, highly profitable banks have a greater capacity to follow this funding hierarchy, relying on retained earnings as the main source of banking capital growth.

High profitability can also cause an increase in the use of debt in the bank's capital structure. This happens because profitable banks are often considered more credible and lower risk by potential creditors. In this way, banks have easier access to the debt market and can obtain loans at more favorable interest rates. These favorable conditions could encourage profitable banks to increase leverage to take advantage of the tax benefits of interest payments and the potential for higher returns for shareholders.

Additionally, banks with high profitability are more likely to take risks in an effort to maintain or increase their returns. This may lead to increased use of debt, as debt allows banks to increase their assets without issuing additional equity. However, this approach must be balanced with careful consideration of the financial risks associated with high leverage, especially considering the vulnerable nature of banking to systemic shocks and liquidity crises.

Regulation also plays an important role in shaping the relationship between profitability and capital structure in the banking sector. Regulatory capital requirements, such as those set out in the Basel accords, limit banks' flexibility in determining their capital structure. Banks are required to maintain certain minimum capital ratios, which may limit their ability to fully exploit high profitability for capital restructuring purposes. Even highly profitable banks may need to maintain higher levels of equity than they would choose in an unregulated environment. The findings of this research support Octavia and Brown (2010), Ahmad et al. (2011), Sari et al (2015) and Ryando (2021) who found that profitability influences capital structure.

2) The Influence of Ownership Structure on Capital Structure

Ownership structure has no effect on capital structure, which means that the level of ownership structure has no effect on capital structure. Institutional ownership, involving investments by institutions such as insurance companies, pension funds, or investment companies, is often considered to have a significant influence on a company's governance and strategic decisions, including capital structure. However, in the case of banking, it seems that other factors may be more dominant in determining capital structure. Its insignificance is due to the strict regulatory framework that governs the banking industry. Regulatory capital requirements, as set by Basel III, set minimum standards for bank capital ratios. These regulations could result in uniformity in capital structures across industries, regardless of ownership patterns. In other words, the need to meet regulatory requirements may trump the preferences or influence of institutional owners in determining a bank's capital structure.

The unique characteristics of the banking industry may also contribute to the lack of influence of institutional ownership on capital structure. The Bank operates in a highly risk-sensitive environment, where depositor confidence and financial system stability are top priorities. The need to maintain stability and manage risk may have more influence on capital structure decisions than the preferences of institutional owners. Institutional ownership functions as a monitoring agent that monitors management behavior optimally, so that management will be more careful in making decisions (Fasridon and Angraini, 2021).

Additionally, although institutional owners are typically considered sophisticated investors with the ability to influence management, in the banking context, they may be more likely to rely on the expertise of bank management in making capital structure decisions. The complexity of banking operations and the importance of effective risk management may encourage institutional owners to grant greater autonomy to bank management in this regard.

Market factors can also play an important role. Banks, regardless of ownership structure, may tend to adopt capital structures similar to other banks in the industry to meet market expectations and maintain competitiveness. These market pressures are stronger than the influence of institutional owners in shaping capital structure decisions.

Institutional owners focus more on other aspects of bank performance, such as profitability, risk management, or corporate governance, rather than actively influencing capital structure. Capital structure as an operational decision is best left to bank management, as long as the bank meets overall performance goals. The results of this study do not support Çağlayan and Şak (2010), Li et al. (2015) who found that ownership structure influences leverage.

3) The Influence of Profitability on Company Value

Profitability has a significant influence on company value. High bank profitability shows operational efficiency and good management capabilities in managing assets and liabilities. This reflects the bank's expertise in extending credit, managing risk, and generating income from various sources such as interest, fees, and commissions. Banks that consistently generate strong profits tend to be valued more highly by investors because they demonstrate a sustainable business model and the ability to survive various economic cycles.

Profitability is also closely related to asset quality. Banks that are able to maintain high profitability while maintaining good asset quality (for example, low levels of non-performing loans) are considered more valuable because they demonstrate a good balance between growth and risk management. A bank's profitability also affects its ability to meet regulatory requirements. More profitable banks generally find it easier to meet and even exceed the minimum capital adequacy ratios set by regulators. This provides greater flexibility in operations and growth strategies, which can increase company value.

A bank's ability to pay dividends, which is an important factor for many investors, depends largely on its profitability. Banks that consistently generate strong profits and are able to pay dividends regularly tend to be more attractive to investors, especially institutional investors and investors seeking income. This can increase demand for a bank's shares and, in turn, its corporate value. Profitable banks can reinvest profits into business expansion, technology development, or customer service improvements without relying too much on external funding. This ability to fund growth internally can increase company value because it reduces the risk of dilution for existing shareholders. Profitability is also closely related to market confidence. Banks that consistently generate strong profits tend to be considered more stable and trustworthy by customers, regulators and the market in general. This trust is important in attracting and retaining customers, as well as in obtaining funding at lower costs, all of which contribute to company value. The results of this research support Amrullah and Amalia (2020), Fasridon and Angraini (2021), Ernawati and Widyawati (2015), Oktaviani, et al (2018), Indasari and Yadnyana (2018), Haslinda, et al (2020), Sembiring and Trisnawati (2020). 2018) which explains that profitability affects company value. However, the findings of this research do not support Wijaya, et al (2021), Tiasrini and Utiyati (2020), Pujiati (2019) who found that profitability has a negative effect on company value. The results of this research do not support Repi, et al (2016) and Marsinah (2021) who found that ROE does not affect company value.

4) *The Influence of Ownership Structure on Company Value*

Institutional ownership structure has a significant influence on banking company value. Ownership by institutions such as insurance companies, pension funds, and mutual funds can influence bank value through a variety of interrelated mechanisms. One of the main impacts of institutional ownership is increased supervision of bank management. Institutional investors, with the resources and expertise they have, are able to more effectively monitor bank performance and strategic decisions. This can reduce agency problems and drive operational efficiency, ultimately contributing to increased company value.

The presence of institutional investors is also often associated with better corporate governance practices, and tends to encourage greater transparency, higher management accountability, and stronger protection of minority shareholder rights. This strengthened governance can increase market confidence in banks, which is reflected in higher valuations. Additionally, institutional investors, especially those with long-term investment horizons, tend to encourage strategies that focus on long-term value creation rather than short-term returns. This approach can encourage banks to make more sustainable and prudent decisions, which in turn can increase company value in the long term.

In a banking industry that relies heavily on effective risk management, institutional investors' emphasis on rigorous risk management practices can provide significant benefits. Institutional investors often push for the implementation of more comprehensive risk management systems, which can increase bank stability and reduce earnings volatility. The market generally appreciates this prudent risk management approach, which can be reflected in higher valuations.

Banks with significant institutional ownership may have better access to capital markets, which can lower funding costs and increase financial flexibility. This access to better capital can provide a competitive advantage and potentially increase company value. Additionally, the presence of institutional investors can increase the liquidity of bank shares in the secondary market, which can also contribute to higher valuations.

Institutional investors can also influence a bank's strategic decisions, such as mergers and acquisitions, and dividend policy. Their influence in this regard can have a significant impact on company value, both positive and negative, depending on the alignment of the decision with long-term value creation. Furthermore, changes in institutional ownership patterns themselves can send signals to the market about a bank's prospects, with increases in institutional ownership often seen as a positive indicator that can increase share prices. The results of this research support Amrullah and Amalia (2020) who explain that ownership structure influences company value. The results of this research do not support Fasridon and Angraini (2021), Sembiring and Trisnawati (2018) who found that ownership structure does not affect company value.

5) *The Influence of Capital Structure on Company Value*

Capital structure has no effect on banking value, which means that the level of capital structure has no impact on company value. The banking industry has unique characteristics that differentiate it from other sectors, and this can explain why capital structure does not significantly influence company value. One of the main factors is strict regulation in the banking industry. Banks are required to meet minimum capital requirements set by regulators, such as the Basel III capital adequacy ratio. These regulatory requirements can limit banks' flexibility in optimizing their capital structures, thereby reducing their impact on firm value.

In addition, the unique nature of the banking business, where debt (in the form of customer deposits) is an integral part of the business model, can change the dynamics of the relationship between capital structure and company value. Unlike companies in other sectors, banks use debt (deposits) as raw material to generate income through lending. Therefore, the concept of a trade-off between debt and equity may not apply in the same way as in other industries.

Capital structure trade-off theory, which postulates an optimal balance between the tax-saving benefits of debt and the costs of financial distress, may be less relevant in the banking context. Banks already have naturally high levels of leverage, and the additional tax savings benefits of debt may be minimal compared to the risks they pose.

The market may focus more on other factors in assessing banks, such as asset quality, operational efficiency, risk management, and ability to generate interest and non-interest income. A bank's performance in these respects may have more influence on a company's value than its capital structure. The pecking order theory, which explains a firm's preference for internal rather than external funding, may also be less relevant for banks. Banks routinely access capital markets and use a variety of funding instruments as part of their normal operations, so strict funding hierarchies may not apply.

Government guarantees, whether explicit or implicit, on bank deposits and in some cases on the banks themselves (especially for large banks deemed "too big to fail"), can reduce the sensitivity of firm value to capital structure. Investors may be less concerned about bank leverage levels if they believe there is a government safety net.

A bank's ability to manage risk through various financial instruments and hedging strategies may be more important to a company's value than the capital structure itself. Banks with effective risk management may be able to overcome potential problems associated with high levels of leverage. Transparency and complexity of bank financial reports can also influence the relationship between capital structure and company value. Investors may find it difficult to accurately assess the risks associated with a bank's capital structure due to the complexity of their balance sheets, so they may rely more heavily on other performance indicators. The findings of this study support Syardiana et al. (2019) who found that capital structure does not affect company value. However, the findings of this research do not support Amrullah and Amalia (2020), Ariyanti (2019), Fasridon and Angraini (2021), Indasari and Yadnyana (2018), Amelia and Anhar (2019), Sembiring and Trisnawati (2018), Marsinah (2021) which explains that capital structure influences company value.

6) The Effect of Profitability on Company Value through Capital Structure

Capital structure fails to mediate the effect of profitability on banking value. This means that changes in bank profitability affect banking value directly, without having to go through changes in the debt to equity ratio or other aspects of capital structure. These findings suggest that investors and the market are focusing more attention on profitability itself as an indicator of bank performance and value, rather than how profitability interacts with capital structure in forming company value. However, it is important to remember that these conclusions may be specific to a particular context or sample and do not diminish the importance of capital structure in other aspects of banking financial management.

The failure of capital structure to mediate the relationship between profitability and banking firm value indicates that the expected mechanism, where profitability influences capital structure which then influences firm value, does not function as anticipated in the context of the banking industry. This is due to the uniqueness of the banking industry compared to other sectors. In the banking industry, the relationship between profitability, capital structure, and firm value is more complex and nonlinear than is generally assumed in traditional financial theory.

Strict banking regulations may limit banks' flexibility in adjusting their capital structure based on profitability levels. Regulatory capital requirements, such as those set out in Basel III, may require banks to maintain certain capital ratios regardless of their level of profitability. As a result, the relationship between profitability and capital structure may not be as strong as expected.

In addition, the unique nature of the banking business, where debt (in the form of customer deposits) is an integral part of the business model, can change the dynamics of the relationship between profitability, capital structure and company value. Highly profitable banks may not always choose to significantly change their capital structure, as they need to maintain a certain level of deposits to support lending operations. The results of this research are Octavia and Brown (2010), Ahmad et al. (2011), Sari et al (2015) and Ryando (2021) who explain that profitability influences capital structure.

7) The Influence of Ownership Structure on Banking Value through Capital Structure

Capital structure fails to mediate the influence of institutional ownership structure on banking company value, indicating the complexity of the relationship between financial and structural variables in the banking industry. Institutional ownership, which is generally considered an effective monitoring mechanism in corporate governance, appears to influence firm value through channels that are not directly related to capital structure. The special characteristics of the banking industry, such as strict regulations and minimum capital requirements, may limit banks' flexibility in optimizing their capital structure, reducing their role as a transmission mechanism. The unique nature of the banking business, where high leverage is the norm, may also make capital structure less relevant as a signal of corporate value compared to other industries. Investors may focus more on factors such as asset quality, risk management and operational efficiency in assessing banks. Institutional ownership increases firm value through other mechanisms, such as increased oversight, improved governance, strategic influence, increased stock liquidity, or as a signal of confidence in the firm's prospects. However, the complexity of these relationships can also be caused by factors such as potential conflicts of interest, differences in investment horizons, regulatory constraints, and the complexity of the banking industry itself. These findings have significant implications for bank managers, institutional investors, regulators, and researchers, encouraging a more holistic approach in understanding and managing the factors that drive firm value in the banking sector. Although capital structure fails as a mediator, this does not diminish its importance in the banking industry, but rather indicates the need for a more contextual understanding of its role. The signaling theory proposed by Spence (1973) can provide important insights in understanding this phenomenon. According to this theory, institutional ownership can serve as a direct positive signal to the market, indicating good governance and the potential for better performance, without having to go through changes in capital structure. In the highly regulated banking industry, capital structure is less effective as a signaling tool because it is often constrained by capital regulations.

V. CONCLUSIONS

Profitability influences capital structure, which means that profitability can improve banking capital structure by increasing the banking ability to repay debt, increasing investor confidence in banking. Ownership structure has no effect on capital structure. This shows that the level of banking ownership structure does not affect the capital structure used by banks. Profitability influences banking value. This shows that banks that are able to generate consistent and high profits tend to have better company value in the eyes of investors and the market. Institutional ownership structure influences company value. This shows that the existence of institutional shareholders, such as investment companies, pension funds, or other financial institutions, can have an impact on the performance and market perception of banks. Institutional investors generally have greater resources and expertise in supervising bank management, which can encourage better and more efficient decision making. This can improve corporate governance, reduce agency conflicts, and ultimately increase bank value. Capital structure has no effect on banking value. This shows that the level of banking capital structure has no impact on company value. Profitability has no effect on banking value through capital structure. This shows that the relationship between a bank's ability to generate profits and its company value is not significantly mediated or influenced by the composition of the bank's capital structure. Ownership structure has no effect on banking value through capital structure. This shows that shareholders do not influence capital structure decisions in a way that directly impacts bank value.

REFERENCES

1) Abor, J. (2005). The effect of capital structure on profitability: an empirical analysis of listed firms in Ghana. *The Journal of Risk Finance, 6*(5), 438-445.
2) Ahmad, Q. R., Allen, R. C., Andersen, T. C., Anglin, J. D., Barton, J. C., Beier, E. W., ... & Smith, A. R. (2002). Direct evidence for neutrino flavor transformation from neutral-current interactions in the Sudbury Neutrino Observatory. *Physical review letters*, *89*(1), 011301.Sekaran dan Bougie, 2013
3) Ahmad, R., Ariff, M., & Skully, M. J. (2011). The determinants of bank capital ratios in a developing economy. *Asia-Pacific Financial Markets, 18*(3), 255-272.
4) Amelia F dan Anhar. (2019). Pengaruh Struktur Modal dan Pertumbuhan Perusahaan terhadap Nilai Perusahan dengan Profitabilitas sebagai Variabel Intervening (Studi Empiris pada Perusahaan Pertambangan yang Terdaftar di Bursa Efek Indonesia 2013-2017). Jurnal STEI Ekonomi Vol 28 No. 01. Hlm 44-70
5) Amrullah, Amri dan Ajeng Dwita Amalia (2020). Pengaruh Profitabilitas, Struktur Modal, Likuiditas, Ukuran Perusahaan, Dan Kebijakan Deviden Terhadap Nilai Perusahaan (Studi Empiris pada Perusahaan Perbankan yang Terdaftar Di Bursa Efek Indonesia Periode Tahun 2015-2019*). Jurnal akuntansi dan Keuangan*. Vol 9 No.2.
6) Ariyanti, Rizka. (2019). Pengaruh Tangible Asset, ROE, Firm Size, Liquidity Terhadap Price Book Value Dengan Struktur Modal Sebagai Variable Intervening Pada Perusahaan Perbankan.*Jurnal Balance*.Vol XVI No.1.
7) Berger, A. N. (1995). The relationship between capital and earnings in banking. *Journal of Money, Credit and Banking, 27*(2), 432-456.
8) Brigham, Eugene F. dan Joel F. Houston. 2015. *Fundamentals of Financial management*. Dodo Suharto dan Herman Wibowo (penerjemah). Manajemen Keuangan. Erlangga, Jakarta.

9) Çağlayan, E., & Şak, N. (2010). The determinants of capital structure: Evidence from the Turkish banks. *Journal of Money, Investment and Banking, 15*, 57-65.
10) Cooper, R. Donald dan William C. Emory. 1995. Business Research Methods. 5th edition. Washington: Ricard D. Irwin, Inc.
11) Ernawati, Dewi dan Dini Widyawati. 2015. Pengaruh Profitabilitas, Leverage, Dan Ukuran Perusahaan Terhadap Nilai Perusahaan.*Jurnal Ilmu & Riset Akuntansi.* Vol.4 No.4
12) Fahmi, Irham. 2015. *Pengantar Manajemen Keuangan Teori dan Soal Jawab* Alfabeta: Bandung
13) Fasridon F dan Angraini Y. 2021. Pengaruh Struktur Kepemilikan Profitabilitas dan Struktur Modal terhadap Nilai Perusahaan pada Perusahaan Property and Real Estate yang Terdaftar di Bursa Efek Indonesia. Jurnal Ilmiah Komputerisasi Akuntansi. Vol. 14. No. 1. Juli 2021. Pp 205-218
14) Gitman, L. J. (2006). *Principles of Managerial Finance* (10th Edition). Pearson Education. Boston.
15) Halim, Abdul. 2015 *Auditing* (*Dasar-Dasar Audit Laporan Keuangan*) *Jilid 1.* Edisi 5. UPP STIM YKPN: Yogyakarta
16) Haslinda, Mardani dan Budi Wahono. 2020. Pengaruh Ukuran Perusahaan, Leverage dan Profitabilitas Terhadap Nilai Perusahaan (Studi Kasus pada Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia Tahun 2015-2017*). e – Jurnal Riset Manajemen*
17) Hermuningsih S. (2013). Pengaruh Profitabilitas, *Growth Opportunity,* Struktur Modal terhadap Nilai Perusahaan pada Perusahaan Publik di Indonesia. Buletin Ekonimi Moneter dan Perbankan.
18) Husnan, Suad (2001). Manajemen Keuangan Teori dan Penerapan (Keputusan Jangka Pendek). Buku 2 Edisi 4 Cetakan Pertama. Yogyakarta: BPFE.
19) Indasari, Ade Pratiwi dan I Ketut Yadnyana. 2018. Pengaruh Profitabilitas, Growth Opportunity, Likuiditas, Dan Struktur Modal Pada Nilai Perusahaan.*E-Jurnal Akuntansi Universitas Udayana.* Vol.22.1.
20) Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review, 76*(2), 323-329.
21) Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305-360.
22) Jensen, Michael C. 2001. Value Maximization, Stakeholder Theory, And the Corporate Objective Function. *Journal of Applied Corporate Finance*, Morgan Stanley, vol. 14(3), pages 8-21.
23) Marsinah. (2021). Pengaruh Struktur Kepemilikan Saham, Struktur Modal dan Profitabilitas terhadap Nilai Perusahaan pada Perusahaan Manufaktur Sub Sektor Properti dan Real Estate yang Terdaftar di Bursa Efek Indonesia. Ekonomia Sharia: Jurnal Pemikiran dan Pengembangan Ekonomi Syariah. Vol. 7. No. 1. Pp 47-65
24) Muslichah dan Syaiful Bahri. 2021. *Akuntansi Manajemen Teori dan Aplikasi.* Mitra Wacana Media: Jakarta.
25) Myers, S. C., and N. S. Majluf. (1984). Corporate Financing and Investment Decision When Firm Have Information That Investor do not Have. *Journal of Financial Economic*, Vol. 13 (2): 187-221.
26) Nurkhin, A., Novanty, I., Muhsin, M., & Sumiadji, S. (2018). The Influence of Tax Understanding, Tax Awareness and Tax Amnesty toward Taxpayer Compliance. Jurnal Keuangan Dan Perbankan, 22(2), 240–255.
27) Octavia, M., & Brown, R. (2010). Determinants of bank capital structure in developing countries: regulatory capital requirement versus the standard determinants of capital structure. *Journal of Emerging Markets, 15*(1), 50-62.
28) Pujiati H. (2019). Pengaruh Struktur Kepemilikan dan profitabilitas terhadap Nilai Perusahaan pada Perusahaan Manufaktur Sektor Aneka Industri yang Terdaftar di Bursa Efek Indonesia tahun 2012-2016. Managerial-Jurnal Penelitian Ilmu Manajemen. Vol. 2. No. 1. Pp 125-133
29) Purnamawati, I Gusti Ayu., Gede Adi Yuniarta., dan Ni Luh Gede Erni Sulindawati. 2014*. Akuntansi Perbankan; Teori dan Soal Latihan*. Graha Ilmu: Yogyakarta
30) Putri, A., Djazuli, A. and Riyah, C. (2019) 'Pengaruh Ukuran, Pertumbuhan Dan Risiko Perusahaan Terhadap Nilai Perusahaan Yang Tergabung Dalam Indeks LQ 45 Di Bursa Efek Indonesia', Balance : Jurnal Akuntansi Dan Bisnis, 4(2), p. 607.
31) Repi, Swithi., Sri Murni., dan Decky Adare. 2016. Faktor-Faktor Yang Mempengaruhi Nilai Perusahaan Subsektor Perbankan Pada BEI Dalam Menghadapi MEA.*Jurnal EMBA.* Vol.4No.1
32) Ryando. (2021). Pengaruh profitabilitas terhadap Struktur Modal Perusahaan Pertambangan Subsektor Batubara yang Terdaftar di Bursa Efek Indonesia Tahun 2012-2017. Jurnal Ilmiah Manajemen Surya Pasca Scientia. Vol. 10. No. 1. Pp 32-42
33) Sari E. P, Jonathan R dan Yoga A.T. (2015). Pengaruh Profitabilitas dan Ukuran Perusahaan terhadap Struktur Modal (Pada Perusahaan Manufaktur yang terdaftar pada Bursa Efek Indonesia Periode 2015). Artikel Skripsi Universitas 17 Agustus 1945 Samarinda
34) Sartono, Agus 2016. *Manajemen Keuangan Teori dan Aplikasi*. BPFE. Yogyakarta

35) Sekaran, U., & Bougie, R. (2013). Edisi 6. *Research Methods for Business*.Sembiring dan Trisnawati, 2019
36) Shleifer, A., & Vishny, R. W. (1986). Large shareholders and corporate control. *Journal of Political Economy, 94*(3), 461-488.
37) Spence, M. (1973). Job Market Signaling. *The Quarterly Journal of Economics, 87*(3), 355–374.
38) Sutrisno, H. E. (2010). Pengaruh budaya organisasi, stres kerja dan komitmen terhadap kinerja karyawan CV. Bintang karya putra di Surabaya. *EKUITAS (Jurnal Ekonomi dan Keuangan)*, *14*(4), 460-477.
39) Syardiana, G., Rodoni, A., & Putri, Z. E. (2015). Pengaruh investment opportunity set, struktur modal, pertumbuhan perusahaan, dan return on asset terhadap nilai perusahaan. *Akuntabilitas*, *8*(1), 39-46.
40) Tiasrini, Sulita dan Sri Utiyati. 2020. Pengaruh Ukuran Perusahaan, Profitabilitas, dan Laverage Terhadap Nilai Perusahaan Pada Perbankan.*Jurnal Ilmu dan Riset Manajemen*. Vol 9 No.1.
41) Wijaya, Alvina., Aurellia, Stella., Ivana, Melliany., Uli Tiurma, Tetty dan Sipahutar. 2021. Pengaruh Ukuran Perusahaan, Struktur Modal, Dan Likuiditas Terhadap Profitabilitas Dan Implikasinya Terhadap Nilai Perusahaan Perbankan Di BEI.*Jurnal Perbankan.* Vol 15 No.1.