

The Impact of Profitability and Capital Structure on Firm Value of KBMI 4 Banks during 2020–2024

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Abstract

This study aims to analyze the effect of profitability and capital structure on firm value in KBMI 4 banks during the 2020-2024 period. The study uses a quantitative explanatory approach with panel data derived from the annual financial statements of PT Bank Central Asia Tbk, PT Bank Rakyat Indonesia (Persero) Tbk, PT Bank Mandiri (Persero) Tbk, and PT Bank Negara Indonesia (Persero) Tbk. Profitability is proxied by Return on Assets (ROA), capital structure is proxied by Debt to Equity Ratio (DER), and firm value is proxied by Price to Book Value (PBV). Data collection techniques use documentation and literature study. The planned data analysis includes descriptive statistics, classical assumption tests, multiple linear regression, t test, F test, and coefficient of determination. The background of this study is the inconsistency between theory and empirical phenomena in KBMI 4 banks, where an increase in profitability is not always followed by an increase in firm value, and changes in capital structure receive different responses from the market. This study is expected to provide empirical evidence regarding the role of profitability and capital structure in shaping firm value in large banking companies in Indonesia.

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1. INTRODUCTION

The banking sector plays a strategic role in maintaining financial system stability and supporting national economic growth through its intermediation function. Banks act as financial intermediaries that collect funds from the public and distribute them in the form of credit to support economic activities. In Indonesia, the Financial Services Authority (OJK) classifies banks based on core capital through the Kelompok Bank Berdasarkan Modal Inti (KBMI) framework. The highest category is KBMI 4, which consists of banks with core capital above IDR 70 trillion, including PT Bank Central Asia Tbk (BCA), PT Bank Rakyat Indonesia (Persero) Tbk (BRI), PT Bank Mandiri (Persero) Tbk, and PT Bank Negara Indonesia (Persero) Tbk (BNI). These banks play an important role in maintaining financial stability and are considered attractive investment instruments in the capital market.

Firm value reflects the level of investor confidence in the company's performance and future prospects. Companies with high firm value tend to attract investors because they indicate good financial performance and promising growth opportunities. One indicator commonly used to measure firm value is Price to Book Value (PBV). PBV compares the market price of shares with the book value of equity and reflects how the market values a company relative to its accounting value (Hery, 2021).

Profitability is one of the main factors that can influence firm value. Profitability reflects the company's ability to generate profit from its operational activities. In the banking industry, profitability is commonly measured using Return on Assets (ROA) because it indicates how efficiently a bank utilizes its assets to generate earnings (Kasmir, 2021). According to signaling theory, profitability provides important information to investors regarding the company's financial performance and future prospects (Spence, 2020)

However, empirical phenomena in KBMI 4 banks during the 2020–2024 period show that the relationship between profitability and firm value does not always follow theoretical expectations. Several banks experienced significant increases in profitability after the economic recovery period following the COVID-19 pandemic.

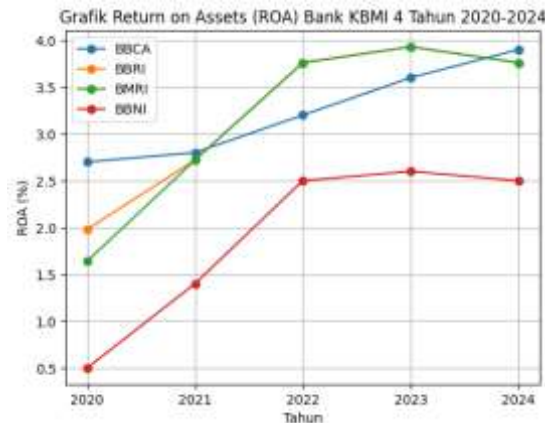


Figure 1. ROA Movement of KBMI 4 Banks 2020–2024

Source: Secondary data processed by researcher

Based on Figure 1, the profitability of KBMI 4 banks generally shows an increasing trend during the observation period. For example, Bank Central Asia (BCA) recorded an increase in ROA from approximately 2.7% in 2020 to around 3.9% in 2024. Similar conditions were also experienced by Bank Rakyat Indonesia (BRI) and Bank Mandiri, which showed significant improvements in profitability during the same period. This increase reflects the recovery of banking performance after the economic slowdown caused by the COVID-19 pandemic.

Another factor that may influence firm value is capital structure. Capital structure refers to the proportion of debt and equity used by companies to finance their operational activities. One indicator used to measure capital structure is the Debt to Equity Ratio (DER). According to Hery (2021), DER shows the extent to which a company uses debt relative to its equity in financing business operations. The trade-off theory explains that companies attempt to achieve an optimal capital structure by balancing the benefits of debt with the potential risks of financial distress (Myers, 2020).



Figure 2. DER Movement of KBMI 4 Banks 2020–2024

Source: Secondary data processed by researcher

Based on Figure 2, the capital structure of KBMI 4 banks shows fluctuations during the observation period. Bank Rakyat Indonesia (BRI) recorded a DER of 6.39 in 2020, which decreased to 4.75 in 2021, and later increased again to 5.17 in 2024. Meanwhile, Bank Mandiri experienced fluctuations from 5.80 in 2020 to 6.12 in 2022, before declining to 5.94 in 2024. In contrast, Bank Central Asia (BCA) adopted a more conservative capital structure strategy, reducing DER from 4.82 in 2020 to 4.50 in 2024. These variations indicate that each bank adopts different financial strategies in managing leverage and responding to economic conditions.

Previous studies examining the relationship between profitability, capital structure, and firm value have produced inconsistent results. Some studies show that profitability and capital structure positively influence firm value, while others indicate that capital structure does not significantly affect firm value. These inconsistent findings create a research gap, particularly when applied to large banking institutions such as KBMI 4 banks that operate under strict financial regulations and have different financial characteristics compared to other industries.

Therefore, this study aims to analyze the effect of profitability (ROA) and capital structure (DER) on firm value (PBV) in KBMI 4 banks during the 2020–2024 period. The results of this study are expected to provide empirical evidence regarding how profitability and capital structure influence firm value in the Indonesian banking sector.

2. METHOD

This study uses a quantitative research approach with descriptive and verificative methods to analyze the effect of profitability and capital structure on firm value in KBMI 4 banks listed on the Indonesia Stock Exchange during the 2020–2024 period. According to Sugiyono (2019), research design is a scientific way to obtain data with specific purposes and uses. The quantitative approach is applied because the data analyzed are numerical data derived from financial statements and processed statistically to test the proposed hypotheses. The descriptive method is used to describe the characteristics of the research variables, while the verificative method is used to examine the relationship and influence between variables.

The population in this study consists of all banking companies included in the KBMI 4 category listed on the Indonesia Stock Exchange during the observation period. KBMI 4 banks represent banks with the largest core capital and play an important role in

maintaining financial system stability. The sampling technique used is purposive sampling, which, according to Sugiyono (2019), is a technique based on certain criteria determined by the researcher. The sample selection is based on banks classified as KBMI 4, consistently listed on the Indonesia Stock Exchange from 2020 to 2024, and having complete financial statements. Based on these criteria, four banks were selected as research samples, namely PT Bank Central Asia Tbk, PT Bank Rakyat Indonesia (Persero) Tbk, PT Bank Mandiri (Persero) Tbk, and PT Bank Negara Indonesia (Persero) Tbk, with a total of 20 observations derived from five years of data.

The type of data used in this study is secondary data obtained indirectly through intermediary sources. According to Sugiyono (2018), secondary data are data sources that do not directly provide data to data collectors. The data consist of annual financial statements of KBMI 4 banks obtained from the official websites of the Indonesia Stock Exchange and each respective bank. Data collection was carried out using documentation techniques, which involve collecting, recording, and reviewing relevant documents. The use of secondary data is considered appropriate because the data are publicly available, reliable, and have been audited.

The variables used in this study consist of profitability as measured by Return on Assets (ROA), capital structure as measured by Debt to Equity Ratio (DER), and firm value as measured by Price to Book Value (PBV). According to Kasmir (2019), profitability is a ratio used to assess a company's ability to generate profit from its assets. Meanwhile, Brigham and Houston (2021) state that capital structure reflects the comparison between debt and equity used in financing company operations, and Tandelilin (2017) explains that firm value reflects market perception of company performance.

The data analysis technique used in this study includes descriptive and verificative analysis. Descriptive analysis is used to describe the characteristics of the data through statistical measures such as mean, minimum, maximum, and standard deviation. According to Sugiyono (2018), descriptive analysis is used to analyze data by describing the collected data as it is. Meanwhile, verificative analysis is used to test hypotheses and determine the relationship between variables using statistical methods.

This study employs multiple linear regression analysis to examine the effect of independent variables on the dependent variable. According to Ghozali (2018), multiple linear regression is used to measure the relationship and influence between two or more independent variables on a dependent variable. The regression model used is $PBV = \alpha + \beta_1ROA + \beta_2DER + \varepsilon$, where PBV represents firm value, ROA represents profitability, DER represents capital structure, α is a constant, β_1 and β_2 are regression coefficients, and ε is the error term.

Before conducting regression analysis, classical assumption tests are performed to ensure that the model meets statistical requirements. According to Ghozali (2018), a good regression model must meet several assumptions, including normality, multicollinearity, heteroscedasticity, and autocorrelation. These tests are conducted to ensure that the model produces unbiased and reliable results.

Hypothesis testing is conducted to determine whether the independent variables have a significant effect on the dependent variable. According to Sugiyono (2018), hypothesis testing is used to determine whether the proposed hypothesis is accepted or rejected based on statistical testing. The testing includes the t-test to examine the partial effect of each independent variable, the F-test to examine the simultaneous effect of all independent variables, and the coefficient of determination (R^2) to measure how much the independent variables explain the variation in the dependent variable. According to Ghozali (2018), the

value of R^2 ranges between 0 and 1, where a higher value indicates better explanatory power of the model.

3. RESULTS AND DISCUSSION.

3.1 Research Results

According to Sugiyono (2019), the unit of analysis is an object or entity that becomes the focus of research and is used to obtain relevant data. In this study, the selected banks are considered representative because they dominate the banking sector in Indonesia. This section presents the results of data processing and analysis used in this study, both descriptively and verificatively. The research results were obtained through panel data processing derived from the financial statements of banks included in the KBMI 4 group during the 2020–2024 period. All data were processed using EViews software to ensure the accuracy and consistency of the analysis results.

The research results are presented systematically starting from the overview of the unit of analysis, descriptive statistical analysis, classical assumption testing, selection of the panel data regression model, and hypothesis testing. This presentation aims to provide a comprehensive overview of the effect of profitability and capital structure on firm value. According to Sugiyono (2019), the unit of analysis is an object or entity that becomes the focus of research and is used to obtain relevant data. In this study, the selected banks are considered representative because they dominate the banking sector in Indonesia.

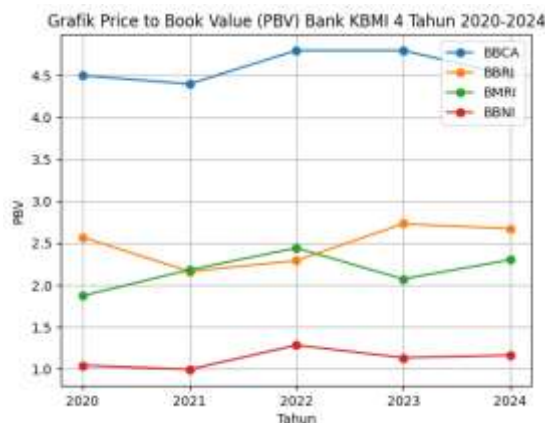


Figure 3. Movement of KBMI 4 Banks 2020–2024

The firm value variable (Y) in this study is proxied by Price to Book Value (PBV), which reflects investor perception of a company's performance and future prospects. A higher PBV indicates stronger market confidence in the company. Based on the descriptive statistical results, PBV has an average value of 2.5940, indicating that KBMI 4 banks generally have relatively good market valuation during the research period.

This is consistent with the PBV trend in the graph, where BCA shows the highest and most stable PBV, reflecting strong investor confidence, while BRI and Mandiri show moderate values with some fluctuations, and BNI records the lowest PBV, indicating relatively lower market valuation. These differences reflect variations in investor assessment of each bank's performance and growth potential.

In line with this, profitability (ROA) has an average value of 2.8830, indicating that banks are generally able to generate profits efficiently, while capital structure (DER) has an average value of 5.5885, showing a high reliance on external funding. Overall, these conditions indicate that KBMI 4 banks have relatively good financial performance, although fluctuations in profitability and capital structure still occur.

According to Kasmir (2019), profitability reflects the company's ability to generate profit, while capital structure shows how companies finance their operation

3.1.1 Descriptive Research Results

Below are the results of the descriptive statistical analysis which include the mean value, median, maximum value, minimum value, standard deviation, and distribution measures of variables Y, X1, and X2 during the research period. This analysis aims to provide a general overview of the data characteristics before further testing is conducted.

Table 3.1 Descriptive Statistical Test Results

Statistics	Y	X1	X2
Mean	2,594000	2,883000	5,588500
Median	2,295000	2,760000	5,770000
Maximum	4,800000	3,930000	6,630000
Minimum	0,990000	0,500000	4,510000
Std. Dev.	1,309079	0,963088	0,666177
Skewness	0,583576	-0,795213	0,007270
Kurtosis	2,057886	2,981681	1,685845
Jarque-Bera	1,874855	2,108159	1,439346
Probability	0,391634	0,348513	0,486911
Sum	51,88000	57,66000	111,7700
Sum Sq. Dev.	32,56008	17,62322	8,432055
Observations	20	20	20

Source: Secondary data processed with Eviews 12

According to Sugiyono (2018), descriptive analysis is used to analyze data by describing the data as it is without making general conclusions. In addition, Ghozali (2018) states that descriptive statistics provide an overview of data through mean, minimum, maximum, and standard deviation values. Based on Table 4.1, the variable Y has an average value of 2.5940, which indicates that the firm value of KBMI 4 banks during the research period is categorized as relatively good. The variable X1 has an average value of 2.8830, which reflects the bank's ability to generate profit from the assets it owns. Meanwhile, the variable X2 has an average value of 5.5885, which indicates a relatively high level of debt usage in the bank's capital structure.

The standard deviation values of each variable indicate moderate data variation during the research period. In addition, the skewness and kurtosis values indicate that the data distribution is relatively normal, which is strengthened by the Jarque-Bera probability values greater than 0.05. Therefore, the research data can be used for further analysis.

3.1.2 Verificative Research Results

The classical assumption test was conducted to ensure that the regression model used in this study meets statistical requirements so that the estimation results obtained are unbiased, efficient, and reliable. The classical assumption tests carried out in this study include the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. All tests were conducted using EViews software as the basis for evaluating the feasibility of the regression model.

Table 3.2 Normality Test Results

Statistics	Value
Jarque-Bera	1,402924
Probability	0,495860

Source: Secondary data processed with Eviews 12

According to Ghozali (2018), the normality test aims to determine whether the residuals in a regression model are normally distributed. A good regression model is one that has normally distributed residuals. Based on the results of the normality test in the table above, the Jarque-Bera probability value is greater than the significance level of **0.05**. This indicates that the residuals in the regression model are normally distributed. Thus, the normality assumption has been fulfilled and the model can be used for further analysis.

Table 3.3 Multicollinearity Test Results

Variable	Centered VIF
X1	1,529355
X2	1,529355

Source: Secondary data processed with Eviews 12

According to Ghozali (2018), multicollinearity occurs when there is a high correlation between independent variables. A good regression model should not have multicollinearity. Based on the results of the multicollinearity test, the Centered VIF value of all independent variables is below the tolerance limit of **10**. This indicates that there is no strong linear relationship between the independent variables. Therefore, the regression model is free from multicollinearity problems.

Table 3.4 Heteroscedasticity Test Results

Indicator	Value
Prob. Chi-Square(2)	0,0675

Source: Secondary data processed with Eviews 12

According to Ghozali (2018), heteroscedasticity occurs when the variance of residuals is not constant. A good regression model should be free from heteroscedasticity. Based on the heteroscedasticity test results, the Chi-Square probability value is greater than the significance level of **0.05**. This indicates that the residual variance is constant. Therefore, the regression model does not experience heteroscedasticity

Table 3.5 Autocorrelation Test Results

Indicator	Value
Prob. Chi-Square(2)	0,0956

Source: Secondary data processed with Eviews 12

According to Ghozali (2018), autocorrelation occurs when there is a correlation between residuals in different periods. A good model should be free from autocorrelation. Based on the autocorrelation test results, the Chi-Square probability value is greater than the significance level of **0.05**. This indicates that there is no correlation between residuals in different periods. Therefore, the regression model is free from autocorrelation problems.

Table 3.6 Model Selection Test Result

Test Model	Probability	Explanation
Chow Test	0.0000	Random Effect Model

Hausman Test	0.0064	Fixed Effect Model
L-M Test	0.0454	Fixed Effect Model

Source: Secondary data processed with Eviews 12

Therefore, based on the results of model selection tests using the Chow Test, Hausman Test, and Lagrange Multiplier Test, the selected model in this study is the Fixed Effect Model (FEM). This result is determined because the Chow test shows a probability value of $0.0000 < 0.05$, indicating that FEM is more appropriate than the Pooled Least Square model. Furthermore, the Hausman test shows a probability value of $0.0064 < 0.05$, which confirms that FEM is more appropriate than the Random Effect Model. Although the Lagrange Multiplier test shows a probability value of $0.0454 < 0.05$ indicating that the Random Effect Model. The Fixed Effect Model is selected as the final estimation model.

Based on the regression estimation results using the Fixed Effect Model, the regression equation describing the relationship between profitability (X1), capital structure (X2), and firm value (Y) is obtained.

From the output:

$$Y = 0.2687 + 0.1864X1 + 0.3199X2$$

Meaning:

- Constant = 0,2687
- Coefficient X1 = 0,1864
- Coefficient X2 = 0,3199

The regression equation indicates that variables X1 and X2 have positive coefficients, meaning that an increase in profitability and capital structure will be followed by an increase in firm value. This indicates that both independent variables have a positive contribution in shaping the firm value of KBMI 4 banks during the research period.

3.1.3 Hypothesis Testing

The partial test is conducted to determine the effect of each independent variable, namely X1 and X2, on the dependent variable Y individually while assuming other variables remain constant. This test aims to identify which variables have a significant influence on firm value.

Table 3.7 Partial Test Results (t-test)

Variable	Coefficient	t-Statistics	Prob	Decision
X1	0.186364	3,744422	0,0022	Signifikan
X2	0.319943	2,941907	0,0107	Signifikan

Source: Secondary data processed with Eviews 12

Based on the results of the partial test in the table above, variables **X1 and X2** have probability values smaller than the significance level of **0.05**. This indicates that individually both independent variables have a significant effect on the dependent variable. Thus, profitability and capital structure each have an important role in increasing firm value. According to Ghozali (2018), the t-test is used to determine the effect of each independent variable on the dependent variable partially

The simultaneous test is conducted to determine the effect of the independent variables **X1 and X2** on the dependent variable **Y** simultaneously. This test aims to evaluate the feasibility of the regression model in explaining the relationship between the research variables.

Table 3.8 Simultaneous Test Results (F-test)

Description	Value
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F-statistic	305,9340
Prob(F-statistic)	0,0000

Source: Secondary data processed with Eviews 12

Based on the simultaneous test results in the table above, the F probability value is smaller than the significance level of 0.05. This indicates that variables X1 and X2 simultaneously have a significant effect on the dependent variable. Thus, the regression model used in this study is considered appropriate for further analysis. According to Ghazali (2018), the F-test is used to determine whether all independent variables jointly affect the dependent variable.

The coefficient of determination is used to determine how much the independent variables X1 and X2 can explain the variation of the dependent variable Y in the regression model used. The coefficient of determination value indicates the strength of the model in explaining the phenomenon being studied.

Table 3.9 Coefficient Of Determination

Indicator	Value
R-squared	0,990931
Adjusted R-squared	0,987692

Source: Secondary data processed with Eviews 12

Based on the table above, the R-squared and adjusted R-squared values indicate that most of the variation in firm value can be explained by variables X1 and X2. This shows that the research model has a very strong explanatory power and is able to accurately represent empirical conditions. According to Ghazali (2018), the coefficient of determination measures how far the model explains the variation of the dependent variable.

3.2 Discussion

This section discusses and interprets the research results obtained in the previous section. The discussion links the statistical analysis results with relevant theories and previous research findings in order to better understand the effect of profitability and capital structure on firm value in KBMI 4 banks during the 2020–2024 period.

3.2.1 Discussion of Verificative Results

3.2.1.1 Effect of Profitability (X1) on Firm Value (Y)

The regression results show that profitability (ROA) has a positive and significant effect on firm value. This is indicated by the coefficient value of 0.1864 and a probability value of 0.0022, which is smaller than the significance level of 0.05.

This result indicates that higher profitability increases investor confidence and positively affects firm value. High ROA reflects efficient asset management and strong financial performance, which sends a positive signal to investors.

This finding is in line with signaling theory, which states that financial information, particularly profitability, provides important signals to investors regarding company performance and future prospects. According to Spence (2020), signals conveyed by companies through financial performance can influence investor decisions in the capital market.

Furthermore, research by Sari and Dewi (2021) states that profitability has a positive and significant effect on firm value because investors tend to prefer companies with stable and increasing profits

3.2.1.2 Effect of Capital Structure (X2) on Firm Value (Y)

The regression results also show that capital structure (DER) has a positive and significant effect on firm value. This is shown by the coefficient value of 0.3199 and a probability value of 0.0107, which is smaller than 0.05. This result indicates that the use of external funding can increase firm value when managed properly. In the banking industry, the use of third-party funds and debt is a common financing strategy that supports operational expansion and increases company performance.

This finding supports the trade-off theory, which explains that companies seek an optimal balance between the benefits and risks of using debt. According to Brigham and Houston (2021), the use of debt can increase firm value as long as it remains within an optimal level and does not increase financial risk excessively. In addition, research by Putri and Rahmawati (2020) shows that capital structure has a significant effect on firm value, indicating that proper financial management can improve company performance and investor confidence.

3.2.1.3 Effect of Profitability (X1) and Capital Structure (X2) on Firm Value (Y) Simultaneously

The simultaneous test results show that profitability and capital structure jointly have a significant effect on firm value, as indicated by the probability value of 0.0000, which is smaller than 0.05. This result indicates that firm value is influenced by both profitability performance and funding policies implemented by the company. Companies with high profitability and optimal capital structure tend to have higher firm value.

The coefficient of determination value of 0.9909 indicates that most of the variation in firm value can be explained by profitability and capital structure variables. This shows that the research model has very strong explanatory power. According to Gitman and Zutter (2021), firm value is determined by financial decisions, including profitability performance and capital structure decisions. Companies that are able to generate high profits while maintaining an optimal capital structure tend to have higher firm value. Furthermore, research by Wulandari (2022) states that profitability and capital structure simultaneously have a significant effect on firm value, indicating that both variables are important factors considered by investors in making investment decisions.

4. CONCLUSION

This study aims to analyze the effect of profitability and capital structure on firm value in KBMI 4 banks listed on the Indonesia Stock Exchange during the 2020–2024 period. Based on the panel data regression analysis using the Fixed Effect Model, the results show that profitability, proxied by Return on Assets (ROA), has a positive and significant effect on firm value measured by Price to Book Value (PBV). This finding indicates that banks with higher profitability tend to have higher firm value because profitability reflects the efficiency of management in utilizing company assets to generate profits. High profitability also provides a positive signal to investors regarding the company's financial performance and future prospects, which increases investor confidence and ultimately enhances firm value.

In addition, the results of the study show that capital structure, proxied by the Debt to Equity Ratio (DER), also has a positive and significant effect on firm value. This indicates that the use of external funding in the form of debt or third-party funds can contribute positively to company value when managed effectively. In the banking industry, the use of external funds is a common financing strategy used to support operational expansion and improve financial performance. Therefore, maintaining an optimal capital structure is important for banks in order to balance the benefits of leverage and the risks associated with financial obligations.

Furthermore, the simultaneous test results indicate that profitability and capital structure jointly have a significant effect on firm value. This finding suggests that firm value is influenced not only by profitability performance but also by funding policies implemented by the company. Banks that are able to generate high profits while maintaining a balanced capital structure tend to have stronger investor confidence and higher market valuation. The high coefficient of determination also indicates that the research model has strong explanatory power in explaining variations in firm value in KBMI 4 banks during the research period.

From a managerial perspective, the results of this study imply that bank management should focus on improving profitability through efficient asset management, innovation in banking services, and effective operational strategies. At the same time, banks must maintain a balanced capital structure by managing debt and third-party funds carefully to minimize financial risks. By maintaining strong profitability and optimal capital structure, banks can enhance investor confidence and strengthen their position in the capital market.

Despite these findings, this study has several limitations. The research only focuses on KBMI 4 banks with a limited observation period from 2020 to 2024, which may not fully represent the overall conditions of the banking industry in Indonesia. In addition, this study only examines profitability and capital structure as determinants of firm value, while other factors such as liquidity, credit risk, corporate governance, and macroeconomic conditions may also influence firm value.

Therefore, future research is recommended to include additional variables that may affect firm value, extend the research period, and examine different groups of banks or other industry sectors. Such studies are expected to provide a more comprehensive understanding of the factors influencing firm value in the financial sector.

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