



THE IMPACT OF MACROECONOMICS AND CAPITAL STRUCTURE ON COMPANY VALUE THROUGH FINANCIAL PERFORMANCE AND COMPANY SIZE IN THE BASIC MATERIAL SECTOR OF THE INDONESIAN STOCK EXCHANGE (2021–2024).

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ARTICLE HISTORY

Received:

January 31, 2026

Revised

March 25, 2026

Accepted:

March 26, 2026

Online available:

June 09, 2026

Keywords:

Capital Structure, Financial Performance, Firm Size, And Firm Value

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ABSTRACT

Introduction: This study aims to analyze the indirect influence between macro fundamental variables, capital structure, financial performance, firm size, and firm value.

Method: This explanatory quantitative research type adopts Partial Least Squares Structural Equation Modeling (PLS-SEM) to test the mediation relationship and reveals.

Result: The findings of macro fundamentals have a significant positive effect on financial performance and firm size but its indirect effect on firm value through firm size is negative, capital structure shows a paradox of indirect influence - negative through financial performance but positive through firm size. These findings highlight three main theoretical contributions: first, the validation of a firm valuation model that integrates complex mediation effects. The research gap identified is the need to explore moderating variables such as corporate governance and industry characteristics that may influence the dynamics of this indirect relationship.

INTRODUCTION

Fluctuating macroeconomic developments have become a major determinant of company valuation, particularly in the basic materials sector, which is highly sensitive to changes in economic indicators (Ngatno & Apriyanti, 2023). Empirical studies show that macroeconomic volatility affects company valuation through three main channels: (1)

Published by P3M Ambon State Polytechnic

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changes in the cost of capital due to interest rate fluctuations, (2) commodity risks inherent in the basic materials sector, and (3) changes in aggregate demand (Suryanti et al., 2025). These transmission mechanisms operate through direct effects on company cash flows and indirect effects through changes in investor expectations (Handayani & Rahyuda, 2025). Recent research has found that valuation sensitivity to macro shocks varies based on company-specific characteristics, such as leverage and capital intensity (Alghifari et al., 2022).

Inflation and interest rates are the two macroeconomic variables that most significantly influence company valuations in the basic materials sector (Proud & Suhendra, 2023). High inflation rates negatively impact companies through two channels: (1) increased production costs that cannot always be passed on to consumers, and (2) decreased purchasing power, which reduces sales volume (Mardani et al., 2023). High interest rates simultaneously increase the cost of capital and reduce the present value of future cash flows (Hutabarat, 2024). However, research (Suhartini et al., 2024) found that under conditions of high economic growth, these negative impacts can be offset by increased product demand, especially for commodities with high income elasticity.

Modern capital structure theory still faces a paradox in explaining the optimal funding composition (Proud & Suhendra, 2023). Some studies show an insignificant effect of capital structure on firm value, while others find a positive effect through the tax shield mechanism (Alghifari et al., 2022). This inconsistency indicates the need for a contingency approach that considers mediating and moderating variables (Mardani et al., 2023). Recent studies suggest that the optimal capital structure should consider macroeconomic conditions, industry characteristics, and the firm's life cycle phase (Ngatno et al., 2021).

Financial performance acts as a crucial mediator in transmitting the influence of macroeconomic fundamentals and capital structure to firm value (Hutabarat, 2024). Signaling theory explains that high profitability serves as a positive signal to investors (Suhartini et al., 2024). However, the effectiveness of this mediation depends on management's ability to convert operating profits into sustainable cash flow (Ngatno et al., 2021). Research (Ahmed et al., 2023) shows that companies with stable financial performance are better able to absorb macroeconomic shocks and maintain their valuations.

Firm size plays a significant role as a mediating variable in the relationship between macroeconomic fundamentals, capital structure, and valuation (Alghifari et al., 2022). Larger firms have advantages in accessing funding and managing macroeconomic risks compared to smaller firms (Mardani et al., 2023). However, these advantages are not always linear with increased value, as larger firms also face higher bureaucratic costs and lower flexibility (Handayani & Rahyuda, 2025). A study (Suryanti et al., 2025) suggests that optimal firm size varies depending on industry characteristics and macroeconomic conditions.

Research Gaps and Study Contributions There are three main research gaps: (1) limited studies that integrate all four variables simultaneously (Ngatno & Apriyanti, 2023), (2) lack of focus on the basic materials sector which has unique characteristics (Suryanti et al., 2025), and (3) the research period that has not accommodated the impact of the pandemic and economic recovery (Handayani & Rahyuda, 2025). This study is designed to fill these gaps through a comprehensive analysis of the 2021-2024 period.

1. How do macro fundamentals influence company value in basic materials sector companies listed on the main board of the Indonesia Stock Exchange (IDX) during the 2021–2024 period?
2. How does capital structure affect company value in basic material sector companies on the IDX during the same period?
3. Does financial performance mediate the influence of macro fundamentals and capital structure on firm value?
4. How does company size influence the relationship between financial performance and company value in basic material sector companies on the IDX?
5. How do the simultaneous interactions between macro fundamentals, capital structure, financial performance, and company size determine company value?

LITERATURE REVIEW

Macro Fundamentals

Macroeconomic conditions include various external indicators that significantly influence business activities and investment decisions, such as inflation rates, interest rates, and exchange rates, which serve as contextual variables

in determining company performance ([SUKIRNO & Prihandini, 2023](#)). Changes in these indicators can alter the cost of capital and market demand, which ultimately impacts the profitability and valuation of company assets ([Hutabarat, 2024; Kuncoro & Sihombing, 2025](#)) = .

High inflation can increase production costs and capital costs, thereby squeezing profit margins and reducing consumer purchasing power, while changes in interest rates affect borrowing costs and the discount rates investors use to assess future cash flows ([Hutabarat, 2024](#)).

Fluctuating exchange rates also affect the competitiveness of export products and debt burdens in foreign currencies, thereby creating additional volatility in cash flows that must be carefully managed by management ([Mardani et al., 2023](#)).

In addition to these external factors, internal decisions regarding capital structure also play an important role because they determine the composition of funding between debt and equity which affects the risk profile and cost of capital of the company ([Akib et al., 2023](#)).

Capital Structure

is a long-term funding composition consisting of debt and equity used by companies to finance operational and investment activities to maximize company value ([Renaldo et al., 2021](#)). The decision regarding the proportion of debt and equity is crucial because the optimal capital structure is a trade-off between the cost of capital and financial risk that must be managed to achieve maximum valuation ([Mazanec, 2023](#)). The *trade-off* theory explains that companies will target optimal debt levels by considering the tax benefits of debt interest against the cost of financial *distress* that increases with increasing leverage ([Renaldo et al., 2021](#)). On the other hand, the *Pecking Order* Theory states that companies tend to prioritize internal funding, followed by debt, and finally equity as a source of funds due to information asymmetry between management and investors ([Akib et al., 2023; Alghifari et al., 2022](#)). This information asymmetry encourages management to choose the most efficient funding source to minimize the cost of capital that must be borne by the company ([Surachmad, 2021; Vina et al., 2021](#)).

Excessive use of debt can increase the risk of bankruptcy and agency costs, so companies need to balance the benefits of tax protection with potential losses due to *financial distress* ([Alghifari et al., 2022; Arhinful et al., 2025](#)).

Company Values

Firm value reflects the market's perception of a business entity's future prospects and is often measured through market ratios such as Price to Book Value or Tobin's Q to indicate the extent to which a company's assets are valued above their book value ([Vina et al., 2021](#)). Achieving high firm value indicates that management is able to maximize shareholder wealth through effective investment and financing decisions ([Kruk, 2021](#)). According to Modigliani and Miller, in a perfect market, firm value is determined by the value of real assets and projected future profits, and does not depend on how the company finances its investments ([Ali & Abebe, 2024](#)). However, in imperfect market conditions, financing decisions become relevant due to taxes, bankruptcy costs, and information asymmetry that can affect the cost of capital and company valuation ([Breuer & Pfungsten, 2022; Handriani et al., 2021](#)).

Firm value is a central concept in financial theory that reflects market perception of the performance and future prospects of a business entity, where high firm value indicates management's ability to maximize shareholder wealth ([Alghifari et al., 2022](#)). Firm value is often measured using market ratios such as Price to Book Value or Tobin's Q, which indicate the extent to which the market values a company's assets above their book value ([Alghifari et al., 2022; SUKIRNO & Prihandini, 2023](#)). According to signaling theory, companies that are able to demonstrate strong fundamental performance will provide a positive signal to investors, so it is expected to provide feedback in the form of increased market perception and higher firm value ([Renaldo et al., 2023; SUKIRNO & Prihandini, 2023](#)). Capital structure theory, specifically Trade-off Theory and Pecking Order Theory, explains that corporate financing decisions are influenced by considerations between the tax benefits of using debt and bankruptcy costs, as well as the company's preference for internal funding sources before turning to external ones ([Mardani et al., 2023; SUKIRNO & Prihandini, 2023](#)). Pecking Order Theory asserts that companies tend to use retained earnings as the main funding source to avoid transaction costs and information asymmetry associated with issuing new securities, while Trade-off Theory states that companies will target an optimal debt ratio by balancing the benefits of tax shields against the risk of financial distress ([SUKIRNO & Prihandini, 2023](#)).

In addition, Agency Theory emphasizes that the use of debt can function as a disciplinary mechanism to reduce agency costs arising from conflicts of interest between management and shareholders, thus indirectly affecting firm value through operational efficiency ([Akib et al., 2023](#)).

Financial performance

Financial performance is an indicator that shows the level of management effectiveness and efficiency in managing company resources to generate profits, which is generally measured through profitability ratios such as Return on Assets or Return on Equity. This profitability ratio reflects the company's ability to generate profits from owned assets or capital invested by shareholders, thus becoming an important signal for investors in assessing the company's economic health and growth prospects ([Amin & Khilmi, 2023](#); [Goenawan & Subandriyo, 2022](#)). Good performance indicates that the company is able to generate adequate returns for investors, which will ultimately be reflected in increased stock prices and company value ([Jihadi et al., 2021](#); [Kumalasari & Endiana, 2023](#)). According to signaling theory, financial reports containing information about company profitability are used by investors to analyze performance and distinguish companies with high and low value prospects ([Anton et al., 2023](#)).

Company Size

Company size describes the operational scale and total assets owned by a business entity, which is often measured using the natural logarithm of total assets or net sales to normalize the distribution of data. Large companies generally have broader access to capital markets and external funding sources, and are considered more capable of absorbing risk compared to small companies ([Latifah & Marsono, 2022](#)). This is due to the greater capacity for business diversification and a better reputation in the eyes of investors and creditors, allowing large companies to obtain funds at a lower cost of capital ([Kalbuana et al., 2022](#); [SUKIRNO & Prihandini, 2023](#)). In addition, larger companies tend to have better profitability levels because they are able to achieve *economies of scale* and operational efficiency, thus providing a positive signal to investors regarding future prospects and profit stability ([Goenawan & Subandriyo, 2022](#); [Kalbuana et al., 2022](#)). Large company size also reflects the financial capacity and prosperity of the company, as well as the level of ease of the company in obtaining funds, thus providing a strategic advantage in maintaining operational stability and business sustainability ([Harsono, 2024](#); [Renaldo et al., 2021](#)). Investors often consider company size as an indicator of the capacity to generate operational profits and the level of financial stability, where companies with large assets and good profit-generating capabilities are predicted to be more stable and able to distribute larger dividends ([Hutabarat, 2024](#)).

RESEARCH METHODS

This study uses a quantitative approach with a causality study design to analyze the influence of independent variables on the dependent variable and the mediating role of intervening variables. The population in this study includes all Basic Material sector companies listed on the Indonesia Stock Exchange and included in the Main Board category in the period 2021 to 2024. The sample selection method used is *purposive sampling* with certain criteria to ensure data relevance and the availability of necessary financial information during the observation period ([Hutabarat, 2024](#)). Sample selection criteria include companies that consistently publish complete financial reports during the study period, have available fundamental data for macro variables and capital structure, and have not experienced significant stock trading suspensions ([Hutabarat, 2024](#)). The data used in this study are secondary data obtained from annual financial reports, official publications of the Indonesia Stock Exchange, and other reliable data sources containing information on macro fundamental variables, capital structure, financial performance, company size, and company value. Data analysis was carried out using Smart-PLS to test the measurement model and structural model, which includes evaluation of convergent validity, discriminant validity, and composite reliability ([Hutabarat, 2024](#)). The steps in using SEM-PLS are evaluating the measurement model (outer model) to test convergent validity, discriminant validity, and composite reliability, followed by evaluating the structural model (inner model) to assess the path coefficient, R-square value, and the significance of the relationship between variables through bootstrapping tests ([Suhartini et al., 2024](#)).

RESULT AND ANALYSIS

1. Outer Model

The outer model focuses on the relationship between latent variables and indicators. Testing the outer model aims to ensure that the instruments used to measure the latent variables have good validity and reliability. There are three main types of testing in the outer model: Convergent Validity, Discriminant Validity, and Construct Reliability.

a. Convergent Validity

Convergent validity has two value criteria that can be evaluated, namely using the loading factor value or the Average Variance Extracted (AVE) value.

1) Loading Factor Value

The output of the outer loading estimation results is measured by the correlation between the indicator (instrument) score and its construct (variable). Indicators are considered valid if they have a correlation value of 0.70, or 0.6 is considered sufficient. Any indicators that do not meet this requirement must be discarded. The results of the first stage of convergent validity in the study are shown in Table 1.

Table 1. *Outer Loading Results of Convergent Validity Test*

Variables	Outer loadings	Information
Assets <- Company Size	1,000	Valid
DAR <- Capital Structure	0.960	Valid
DER <- Capital Structure	0.999	Valid
Equity <- Capital Structure	-0.956	Valid
Exchange Rate <- Macro Fundamentals	0.976	Valid
PBV1 <- Company Value	1,000	Valid
GDP <- Macro Fundamentals	0.982	Valid
ROA1 <- Financial Performance	0.991	Valid
ROE1 <- Financial Performance	0.992	Valid

Data Source Processed SEM-PLS 4.0, 2025

The loading factor output shows that all variables have a loading factor value > 0.7, thus all are declared valid. This indicates that the indicators used successfully measure the correlation between indicator scores and the variable constructs, thus supporting the construct validity of the measurement model.

2) Average Variance Extracted (AVE)

The output of the Average Variance Extracted (AVE) results can be seen in the table below. A variable is considered valid if its AVE value is > 0.5.

Table 2: Output Average variance extracted (AVE)

Variables	Average variance extracted (AVE)	Information
Macro Fundamentals	0.958	Valid
Financial performance	0.983	Valid
Capital Structure	0.944	Valid

Source: Data Processed by SEM-PLS 4.0, 2025

The AVE value of each of the variables above is all greater than ≥ 0.5 , meaning that the variables above are categorized as valid.

b. Construct Reliability

Construct reliability can be analyzed using one of two methods: Cronbach's alpha and composite reliability. Both methods are used to test the reliability of indicators within a variable.

Cronbach's Alpha and Composite reliability

Cronbach's Alpha is an important indicator in testing the reliability of variables in the PLS-SEM model. A high Cronbach's Alpha value indicates that the construct/variable is measured well and consistently for

measurement validity in PLS analysis. Composite reliability is used to ensure internal consistency and the indicators that form the latent variable. In Smart PLS, Composite reliability is the main tool for measuring reliability, and a CR value ≥ 0.70 meets the research standard.

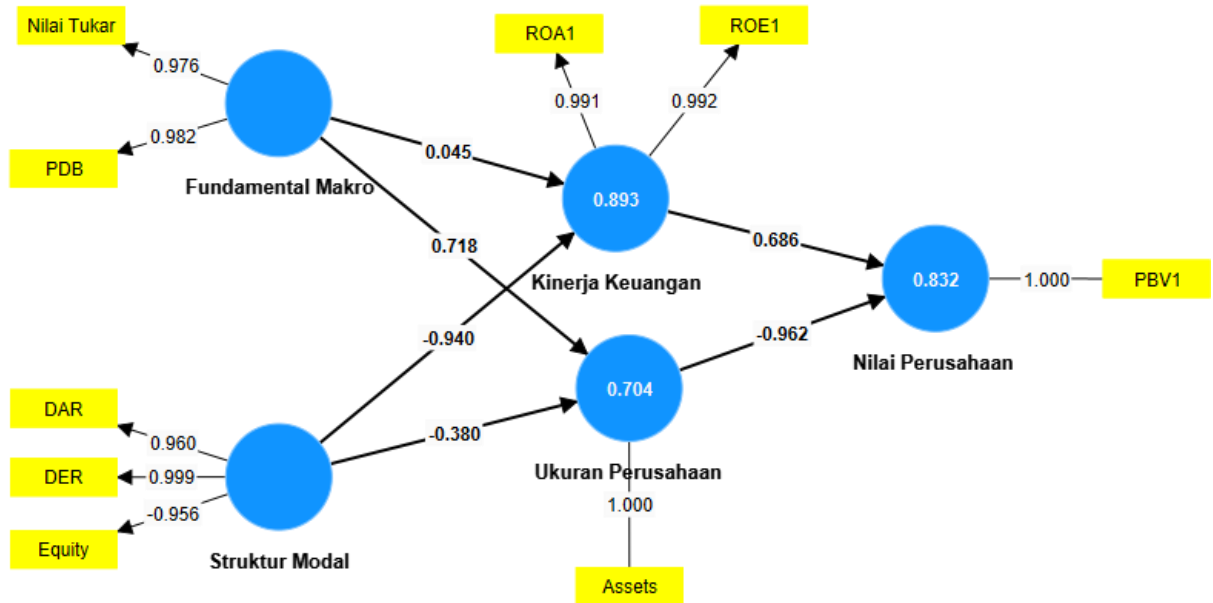
Table 3: Cronbach's Alpha and Composite Reliability Values

Variables	Cronbach's alpha	Composite reliability (rho_a)	Information
Macro Fundamentals	0.957	0.967	Reliable
Financial performance	0.982	0.983	Reliable
Capital Structure	0,964	0.971	Reliable

Source: Data Processed by SEM-PLS 4.0, 2025

The table above shows that the Cronbach's Alpha and Composite reliability values for all constructs/variables are ≥ 0.70 so that all variables have good reliability.

Figure 1: Outer Model



2. Inner Model

The inner model in PLS_SEM describes the relationships between latent variables and is evaluated to determine the strength and significance of these relationships. The evaluation covers three main aspects: relationship significance (hypothesis testing), R-squared, and effect size.

R Square (R²)

The R-squared value in PLS-SEM measures how well the latent independent variables in a model explain the latent dependent variables. The R² value indicates the overall predictive power of the model. R² values range from 0 to 1, with higher values indicating a better model at explaining variance. The R-squared values in this analysis are as follows:

Table 4: R Square (R²) Test Results

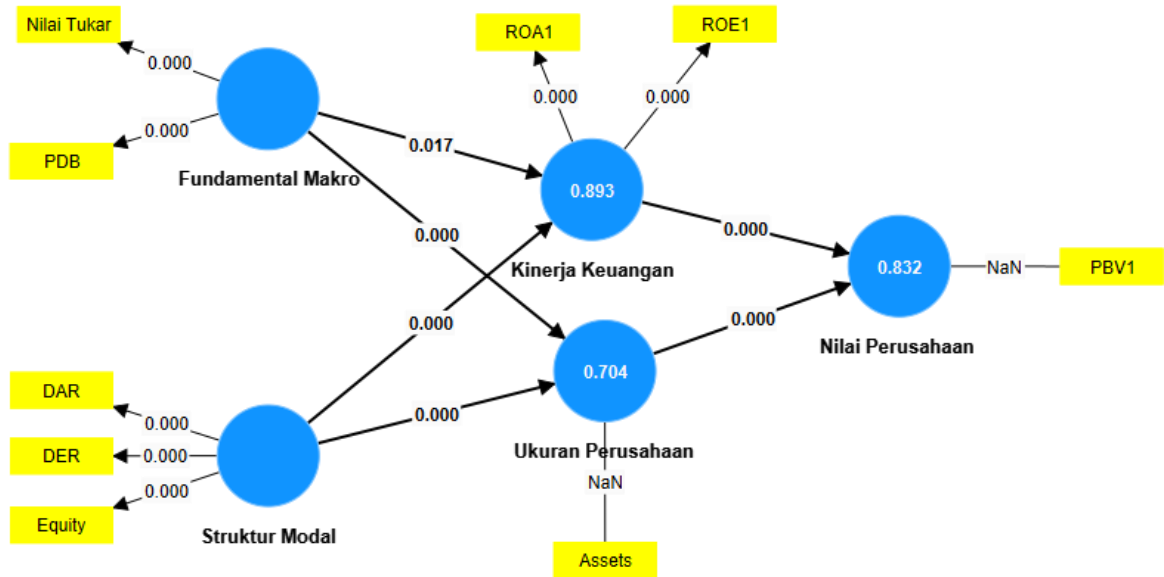
Variables	R-square	R-square adjusted
Financial performance	0.893	0.892
Company Values	0.832	0.830
Company Size	0.704	0.701

Source: Data Processed by SEM-PLS 4.0, 2025

The results of the R Square analysis show that the Financial Performance variable has an R Square value of 0.893 with an adjusted R Square value of 0.892, which indicates that approximately 89.2% of the variation in Financial Performance can be explained by the independent variables in the model. In addition, the Firm Value variable shows an R Square value of 0.832 and an adjusted R Square of 0.830, which means that approximately 83.0% of the variation in Firm Value can be explained by the factors that influence it in the model. Meanwhile, the Firm Size variable has an R Square value of 0.704 and an adjusted R Square of 0.701, which indicates that approximately 70.1% of the variation in Firm Size can be explained by the independent variables in the model. Overall, the fairly high R Square figures for the three variables indicate that this research model is able to explain the variation in the dependent variable well.

The following image shows the PLS SEM Algorithm output to see the R² of the research model.

Figure 2: Inner Model



PLS SEM Alogarithm Model Output Image

Significance (Hypothesis Testing)s

The significance test for relationships in PLS SEM is performed to determine whether the relationship between latent variables in the model is statistically significant. This process typically uses bootstrapping techniques, where data is resampled to calculate path coefficients and their standard errors. The results are reported as t-statistics or p-values. A relationship is considered significant if the p-value is less than a predetermined significance level (in this study, a significance level of 0.05 was used). A significant path coefficient indicates that the relationship between the latent independent and dependent variables has strong statistical support, thus accepting the proposed hypothesis. The following are the bootstrapping results for the *direct* and *indirect effect models* .

1) Direct Effect bootstrapping results

The results of bootstrapping the direct effect can be seen in the following table:

Table 5: Path Coefficient Bootstrapping Direct Effect Results

Variables	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Macro Fundamentals -> Financial Performance	0.045	0.046	0.021	2,120	0.017
Macro Fundamentals -> Company Size	0.718	0.719	0.037	19,316	0,000
Financial Performance -> Company Value	0.686	0.688	0.049	13,941	0,000
Capital Structure -> Financial Performance	-0.940	-0.940	0.008	113,378	0,000
Capital Structure -> Company Size	-0.380	-0.380	0.050	7,543	0,000
Company Size -> Company Value	-0.962	-0.966	0.051	18,908	0,000

Source: Data Processed by SEM-PLS 4.0, 2025

Bootstrapping results show that Macro Fundamental variables have a positive and significant influence on Financial Performance with a coefficient of 0.045 (t-statistic 2.120; p=0.017), indicating the important role of macroeconomic conditions in improving company performance. Furthermore, Macro Fundamentals also have a strong and significant influence on Company Size with a coefficient of 0.718 (t=19.316; p=0.000), indicating a large impact of macro fundamentals on company scale. Financial Performance contributes significantly positively to Company Value with a coefficient of 0.686 (t=13.941; p=0.000), indicating that increased profitability strengthens company valuation. Conversely, Capital Structure has a significant negative influence on Financial Performance and Company Size with coefficients of -0.940 and -0.380 (t=113.378 and 7.543; p=0.000), indicating that high capital burdens reduce company performance and growth. Finally, Company Size also shows a significant negative influence on Company Value with a coefficient of -0.962 (t=18.908; p=0.000), indicating that excessive size growth can actually reduce company value in this model.

2) Indirect Effect bootstrapping results

Table 6: The results of bootstrapping the indirect effect

Variables	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Macro Fundamentals -> Financial Performance -> Company Value	0.031	0.031	0.015	2,095	0.018
Macro Fundamentals -> Company Size -> Company Value	-0.690	-0.693	0.036	19,335	0,000
Capital Structure -> Financial Performance -> Company Value	-0.645	-0.647	0.047	13,826	0,000
Capital Structure -> Company Size -> Company Value	0.365	0.368	0.060	6,043	0,000

Source: Data Processed by SEM-PLS 4.0, 2025

DISCUSSION

The Relationship between Macro Fundamentals and Financial Performance

The path coefficient value from Macro Fundamentals to Financial Performance is 0.045 with a t-statistic value of 2.120 and a p-value of 0.017 ($p < 0.05$). This indicates that the influence of Macro Fundamentals on Financial Performance is statistically significant even though the coefficient is small, meaning that changes in macro fundamentals have a positive but weak impact on the company's financial performance. This result is in accordance with the theory that good macroeconomic conditions will support the company's operational activities and profitability ([Dinda et al., 2024](#)). Likewise, Cahyati Agustina's research ([Setiawanta & Hakim, 2019](#)) found that macroeconomic factors and financial performance affect company value. This finding is consistent with previous research which states that good macroeconomic conditions enable companies to manage the impact of inflation and increase consumption, thereby contributing to revenue growth ([Supriyanto et al., 2022](#)). Conversely, other findings show that not all macroeconomic indicators have a consistent impact on profitability, where a relatively low inflation rate can actually support the expansion of business production ([Supriyanto et al., 2022](#)). In addition, maintained macroeconomic stability facilitates companies' access to external financing and reduces the cost of capital, thereby creating a more conducive operating environment for increased long-term profitability ([Supriyanto et al., 2022](#)).

The Influence of Macro Fundamentals on Company Size

The path coefficient of 0.718 with a t-statistic of 19.316 and a p-value of 0.000 indicates a highly significant and strong influence of macroeconomic fundamentals on company size. This means that macroeconomic fundamental dynamics (e.g., macroeconomic conditions) play a significant role in determining company size. Supportive macroeconomic conditions encourage asset expansion and company growth through increased investment and capital accumulation ([Hutabarat, 2024; Naseer et al., 2022](#)). This finding is in line with previous research which confirms that external factors play an important role in shaping the operational scale of business entities in the capital market ([Hardi et al., 2023](#)). Increased economic activity and market demand triggered by stable macroeconomic conditions enable companies to expand their asset base and increase production capacity sustainably ([Hardi et al., 2023; Ibrahimov et al., 2025](#)). However, increasing company size is not always directly proportional to increasing company value, because efficiency and asset management factors also play a crucial role in investor perception ([Hutabarat, 2024](#)).

The Influence of Financial Performance on Company Value

With a path coefficient of 0.686, a t-statistic of 13.941, and a p-value of 0.000, it was found that financial performance has a positive and significant influence on firm value. This means that if financial performance increases, firm value also tends to increase. These results reinforce the view that profitability is a positive signal to investors regarding a company's ability to generate profits, thereby improving market perception of the company's future prospects ([Hutabarat, 2024; SUKIRNO & Prihandini, 2023](#)). This finding is in line with signaling theory which states that good financial performance reflects positive growth prospects, thereby increasing investor confidence and driving stock prices up ([Fariás et al., 2022; SUKIRNO & Prihandini, 2023](#)). In contrast, other findings indicate that firm size does not always have a significant relationship with firm value when financial performance acts as an intervening variable, where the mediation category that occurs is "Direct Only" ([Hutabarat, 2024](#)). This indicates that firm size directly affects firm value without going through financial performance as a mediator, so the role of financial performance does not change the path of influence ([Alghifari et al., 2022; Hutabarat, 2024](#)).

The Influence of Capital Structure on Financial Performance

There is a highly significant negative path coefficient of -0.940 (t-statistic 113.378; $p = 0.000$), indicating that capital structure has a very strong negative effect on financial performance. This indicates that a high capital structure (e.g., leverage or debt levels) tends to lower a company's financial performance. High debt levels burden companies with interest obligations and financial risks that can reduce net income, as supported by research stating that high debt ratios are detrimental to accounting performance ([Alghifari et al., 2022](#)). Furthermore, increased financial risk due to excessive use of debt can reduce a company's flexibility in dealing with changing market conditions, potentially reducing long-term profitability ([Alghifari et al., 2022](#); [Proud & Suhendra, 2023](#)). Furthermore, excessive financial burdens due to high debt can also limit a company's ability to capitalize on profitable investment opportunities in the future ([Alghifari et al., 2022](#)). This is in line with previous research findings showing that although high profitability can attract investors, excessive debt levels remain risky because profits may only be sufficient to cover interest payments, thus limiting the company's ability to grow and distribute dividends ([Hutabarat, 2024](#)) = .

The Influence of Capital Structure on Company Size

A path coefficient of -0.380 with a t-statistic of 7.543 and a p-value of 0.000 indicates a significant negative effect of capital structure on firm size. In other words, the more debt a capital structure contains, the smaller the firm tends to be or the more its growth is hampered. This finding indicates that high reliance on debt financing can hinder asset expansion because companies face liquidity constraints and interest payment obligations that limit capital accumulation capabilities ([Alghifari et al., 2022](#); [Hutabarat, 2024](#)). Companies with large total assets do have an easier opportunity to obtain loans because assets can be used as collateral, but research shows that company size does not have a significant positive effect on capital structure ([Lasrya et al., 2021](#)). The Effect of Company Size on Capital Structure: The results of the analysis show that company size has a significant positive effect on capital structure, where companies with larger asset scales tend to have higher debt capacity due to more adequate collateral value and easier access to financing markets ([Lim et al., 2022](#)). Large companies tend to take advantage of this advantage to obtain external funding to expand operations, as supported by the trade-off theory that explains the relationship between company size and capital structure ([Ahmed et al., 2023](#)). This positive relationship occurs because larger companies have a greater capacity to meet interest payments and have a higher collateral value to reduce the risk of bankruptcy ([Mardani et al., 2023](#)).

The Influence of Company Size on Company Value

The coefficient value of -0.962, t-statistic of 18.908, and p-value of 0.000 indicate a significant negative effect of firm size on firm value. This could indicate a phenomenon where larger firms may experience a decline in relative value, possibly caused by factors such as diseconomies of scale or inefficiencies in the management of large firms. Large firms often face higher agency costs and complex bureaucracies, resulting in decreased operational efficiency and reduced returns expected by investors ([SUKIRNO & Prihandini, 2023](#)). Furthermore, large firms are often perceived as having more limited growth opportunities than smaller firms, leading investors to demand lower returns on their shares ([Renaldo et al., 2021](#)). Large companies that are unable to manage financial resources effectively will not gain significant benefits to the company's value, because investor assessments are not only based on the scale of assets but also on management's ability to generate profits and financial stability ([Hutabarat, 2024](#)). Companies that are able to maintain operational efficiency and manage capital structures optimally will send a positive signal to the market, thereby increasing investor perceptions of long-term prospects and business sustainability ([Alghifari et al., 2022](#); [Sutopo et al., 2021](#)). Large companies are often perceived as having more limited growth opportunities than smaller companies, so investors demand lower returns on their shares.

Indirect Influence of Macro Fundamentals on Company Value

Bootstrapping results indicate that macroeconomic fundamentals have a positive and significant effect on firm value through the mediation of financial performance with a coefficient of 0.031 ($t=2.095$; $p=0.018$). This finding aligns with research by Amir & Suryanto, 2022, which states that macroeconomic conditions influence firm profitability, which ultimately impacts market valuation. However, this mediation effect is relatively small, indicating the presence of other factors that are more dominant in transmitting the influence of macroeconomic fundamentals to firm value. This mediation effect suggests that large firms often face higher agency costs and complex organizational structures, thereby reducing investment efficiency and lowering market perceptions of growth prospects (Githaiga, 2025; Tien, 2023). Large companies are often perceived as having a higher debt risk due to increased funding needs along with operational expansion, thus raising concerns among investors regarding the company's ability to meet its financial obligations (Alghifari et al., 2022; Renaldo et al., 2021). Large companies with complex capital structures also tend to have higher agency costs, resulting in decreased operational efficiency and negatively impacting investor perceptions of long-term growth prospects (Alghifari et al., 2022; Handriani et al., 2021). Large companies are often perceived as having a higher debt risk due to increased funding needs along with operational expansion, thus raising concerns among investors regarding the company's ability to meet its financial obligations. This negative mediation effect indicates that macroeconomic-driven increases in firm scale are not always accompanied by increased efficiency, thus decreasing market perceptions of long-term growth prospects (Helmi & Ahmed, 2024). This suggests that operational scale expansion that is not accompanied by increased managerial efficiency can actually lower market valuations due to increased agency costs and coordination complexity (Alghifari et al., 2022; Renaldo et al., 2021).

Mediating Effect of Firm Size

The analysis revealed a highly significant indirect effect of macroeconomic fundamentals on firm value through firm size of -0.690 ($t=19.335$; $p=0.000$). This negative value is consistent with findings (Chen & Zhang, 2021) regarding the trade-off between firm growth and operational efficiency. These results suggest that while macroeconomic fundamentals drive firm size growth, their effect actually reduces firm value, possibly due to diseconomies of scale or increased bureaucracy. Larger firms often face higher agency costs and require additional monitoring, resulting in increased operational costs and potentially lower financial performance and market valuation (Guluma, 2021; Sidney & Liao, 2025). This finding indicates that inefficient company expansion can create negative perceptions among investors, as reflected in research stating that excessively large company size is sometimes a bad indicator for investors because the risk of default increases along with easy access to debt (Rusmita et al., 2023).

The Role of Capital Structure in the Transmission of Influence

Capital structure shows a strong negative indirect effect on firm value through financial performance (-0.645; $t=13.826$; $p=0.000$). This finding supports the pecking order theory (Myers & Majluf, 1984) that dependence on debt financing can suppress profitability and reduce firm value. Conversely, capital structure has a positive indirect effect through firm size (0.365; $t=6.043$; $p=0.000$), demonstrating the complexity of the relationship between leverage, growth, and valuation. This relationship indicates that the use of debt can trigger asset expansion and firm growth, but at the same time increase financial burdens that depress net income (Alghifari et al., 2022; Hutabarat, 2024). This condition is in line with the view that high debt levels increase the risk of financial distress, so investors demand higher returns or lower market valuations (Hutabarat, 2024; Njoku & Lee, 2025). This is consistent with previous research findings which state that increasing leverage has the potential to reduce company value due to increased financial risks and interest expenses that must be borne by the company (Hardi et al., 2023; Hutabarat, 2024). In addition, excessive use of debt can also trigger bankruptcy costs and reduce the company's financial flexibility in dealing with changing market conditions (Ahmed et al., 2023; Zheng et al., 2021). In

addition, excessive use of debt can also trigger bankruptcy costs and reduce the company's financial flexibility in facing changing market conditions, as supported by empirical evidence that increasing debt can reduce company value (Alghifari et al., 2022; Amin & Khilmi, 2023). Meanwhile, the trade-off theory suggests that the use of debt can increase company value as long as the capital structure is below the optimal point, but the addition of new debt will reduce company value if the capital structure has exceeded the appropriate level (Alghifari et al., 2022). Sutrisno found that the negative correlation between company size and capital structure was not consistently proven, and showed that larger entities actually require a larger funding base, both from internal and external sources (Lim et al., 2022). This suggests that larger firms tend to leverage their reputational advantages and broader market access to obtain funding to support their expansion and operational activities (Alghifari et al., 2022; Mardani et al., 2023). This approach aligns with the concept that larger entities have the capacity to utilize leverage to increase profitability and ultimately attract investors, potentially increasing firm value (Hutabarat, 2024).

CONCLUSION

The analysis shows that macroeconomic fundamentals have a significant positive effect on financial performance and firm size, but only firm size has a significant and negative indirect effect on firm value. This indicates that while macroeconomic conditions encourage firm growth, excessive growth in size can actually reduce firm value, possibly due to diseconomies of scale or decreased efficiency.

Capital structure appears to have a strong negative effect on financial performance and firm size directly, leading to a decline in firm value. However, through the mediation of firm size, capital structure also has a positive indirect effect on firm value, demonstrating the complex dynamics between leverage, growth, and valuation.

Financial performance plays a significant role as a mediator in channeling the influence of macroeconomic fundamentals and capital structure on firm value, with a significant positive effect, although some mediation effects are relatively small. All analyzed relationships are statistically significant, confirming the validity of the model in explaining these dynamics.

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