Keunis
Vol. 14, No. 2, Jan 2026, Page. 116-127

P-ISSN: 2302-9315
E-ISSN: 2714-7274
https://jurnal.polines.ac.id/index.php/keunis

HOW DOES PROFITABILITY MODERATE THE IMPACT OF FINANCIAL PERFORMANCE ON FIRM VALUE?

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Article History:
Received : 2025-07-25
Revised : 2025-10-26
Accepted : 2025-11-17
Published : 2026-01-04

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Cite this article:
Widyakto, A., Fresiliasari, O., Octavia, A. N. Choudhury, M. A., & Yusof, R. M. (2026). How does Profitability Moderate the Impact of Financial Performance on Firm Value?. *Keunis*, 14(1), 116-127.

DOI:
10.32497/keunis.v14i1.6742

Abstract**:** *This study investigates the impacts of financial performance—assessed through blockholding, board size, and capital structure (debt-to-equity ratio/DER) variables—on firm value, with profitability (ROA) acting as a moderating variable. Data obtained from a sample of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023 were analyzed using panel data regression analysis in EViews 13. The findings reveal that blockholding exerts a negative and significant influence on firm value, indicating that ownership concentration may lead to agency conflicts and weaken investor confidence. Conversely, DER shows a positive and significant relationship with firm value, suggesting that a sound capital structure can enhance firm performance and signal financial stability to the market. Meanwhile, board size does not have a significant effect on firm value, implying that governance quality is more vital than the number of directors. Furthermore, profitability (ROA) does not moderate the relationship between blockholding, board size, or DER and firm value. These results emphasize that ownership and capital structures remain the key determinants of firm value, and profitability alone cannot strengthen these relationships. This study has practical implications for management and investors seeking to increase firm value through effective governance and optimal capital structure management.*

Keywords: *Blockholding, Board size, Capital structure, Profitability, Firm value.*

INTRODUCTION

Firm value reflects investors' perceptions of a company's overall performance, as indicated by its equity and market price. It is influenced by investor uncertainty over a company's actual worth, which plays a crucial role in investment evaluations. To attract investors, each company aims to increase its value by various means (Yulimtinan & Atiningsih, 2021). For publicly listed companies, Price to Book Value (PBV)—calculated as the ratio of the market price per share to the book value per share—serves as a common indicator of firm value (Ross & Rothe, 2008). A higher PBV suggests greater investor confidence and higher firm valuation (Hone & Wachowicz, 2001, as cited in Widyantari & Yadnya, 2017).

In Indonesia, the manufacturing sector—particularly in the food and beverage industries—plays a strategic role in the nation's industrial and economic development. This sector contributed 19.62% to the national GDP in 2019, highlighting its significance as one of the key economic drivers (Katadata.co.id, 2020). However, the COVID-19 pandemic that began in late 2019 has led to a substantial economic downturn, disrupting manufacturing performance and weakening investor sentiment. Consequently, several manufacturing companies publicly listed in the Indonesia Stock Exchange (IDX)—such as AISA, AUTO, BRPT, BUDI, and SMGR—exhibited PBVs of below one between 2020 and 2023. This indicates persistent undervaluation and incomplete recovery in market perception.

Table 1. PBV of Selected Manufacturing Companies Listed on IDX from 2020 to 2023

Company	Price Book Value			
	2020	2021	2022	2023
AISA	4.27	2.14	1.71	1.38
AUTO	0.52	0.51	0.59	0.85
BRPT	5.46	3.19	2.88	4.79
BUDI	0.36	0.63	0.76	0.85
SMGR	2.02	1.12	1.04	1.00

Source: IDX Statistical Data and Financial Reports (processed), accessible at www.idx.co.id

As shown in Table 1, most manufacturing companies in Indonesia experienced fluctuating yet generally declining price-to-book values (PBVs) during the period of 2020–2023. For instance, the PBV of AISA dropped sharply from 4.27 in 2020 to 1.38 in 2023, reflecting reduced market confidence. Similarly, SMGR's PBV fell from 2.02 to 1.00, indicating valuation stagnation despite its large-cap position. Furthermore, both AUTO and BUDI consistently reported PBVs of below one, implying undervaluation. Meanwhile, BRPT maintained relatively higher PBVs than other companies, thereby suggesting stronger investor optimism.

Profitability growth remains a fundamental driver of firm value since it reflects a company's ability to generate profit from invested capital (Putu & Kartika, 2019). Generally, investors are reluctant to put their money into companies with weak profitability, as the potential for a decline in profits may dent their confidence and lower stock prices. Besides profitability, blockholding also affects firm value through shareholder influence and activism. Shareholders may express their disapproval by voting against management or initiating strategic discussions, and companies with concentrated ownership potentially face portfolio value losses due to exit threats (Sastika, 2022).

As the company's governing body, the board of directors plays a pivotal role in maintaining firm performance and governance effectiveness (Boachie, 2023). A larger, less independent board may improve managerial supervision and decision-making efficiency, thus potentially sustaining firm value (Aktan et al. 2018). Finally, another determinant of firm value is capital structure, which represents the composition of debt and equity used to achieve an optimal financing (Shantika & Kurniawati, 2023). The proportion between debt and equity affects the company's cost of capital and, in turn, its valuation.

As stated previously, several variables are employed to explain the determinants of firm value (PBV). In this study, the examined variables are profitability (assessed using return on assets/ROA), blockholding, board size, and debt-to-equity ratio (DER). To illustrate the differences across the Indonesian manufacturing companies during the 2020–2023 period, the average values of all variables are presented in Table 2 below.

Table 2. Average ROA, Blockholding, Board Size, DER, and PBV

Year	ROA	PBV	Blockholding	Board Size	DER
2020	0.052	2.063	84.243	4.000	3.709
2021	7.916	2.121	84.635	4.466	2.810
2022	-2.789	1.609	84.654	4.795	2.693
2023	-25.831	1.705	84.437	4.966	2.592

Source: IDX Statistical Data and Financial Reports (processed), accessible at www.idx.co.id

In this study, the Good Corporate Governance (GCG) variable is proxied by Blockholding and Board Size, the capital structure variable is proxied by Debt-to-Equity Ratio (DER), the profitability variable is proxied by Return on Assets (ROA), and the firm value variable is proxied by Price Book Value (PBV).

The impacts of blockholding, board size, and capital structure (DER) on firm value (PBV) have been reported in previous studies. Bajo et al. (2020), Basu et al. (2016), and Wati et al. (2019) found that concentrated ownership and proper control by large shareholders typically increase firm value. Similarly, Agung et al. (2023), Ebimobowei

(2022), Mai (2017), and Neves et al. (2023) revealed that larger boards enhance monitoring and decision-making, thereby improving PBV. Regarding capital structure, Limesta and Wibowo (2021), Muliana and Ahmad (2021), Susanto and Suryani (2024), and Sutihat (2020) confirmed that DER significantly affects firm value through leverage and investor confidence. The moderating effect of profitability (ROA), however, is often considered weak. This is as shown by Adityaputra (2024), Ebimobowei (2022), Kurniawati (2017), Lumbanraja et al. (2018), Nurazi et al. (2020), Putri and Rahyuda (2020), and Subandi and Bagana (2024), who noted that profitability fluctuates and its mediating role in the relationship between governance, capital structure, and PBV remains inconsistent.

THEORETICAL FRAMEWORK AND HYPOTHESES

Theoretical Framework

Signaling Theory

According to the signaling theory, managers convey information about the company's prospects through their actions, which reflect management's view of company performance (Bringham & Houston, 2011, as cited in Kurniawan & Mawardi, 2017). Komara et al. (2020) add that managers use specific signals to indicate firm quality. In this study, blockholding and DER serve as the signals, ownership concentration reflects managerial alignment, and moderate leverage indicates growth potential.

Agency Theory

The agency theory views a company as a contractual relationship between principals (owners) and agents (managers), who are delegated authority to act on behalf of shareholders (Jensen & Meckling, 1976, as cited in Sumarta, 2022). However, conflicts may arise when agents prioritize personal interests over those of principals (Audrey et al., 2024). Governance mechanisms, including board size and blockholding, serve to mitigate agency costs and ultimately increase firm value.

Trade-off Theory

The trade-off theory (Modigliani & Miller, 1963, as cited in Hudawiah, 2024) explains that companies balance the tax benefits of debt against the costs of financial distress. Leverage is often used by profitable companies to reduce tax burdens. However, enormous debt increases the risk of bankruptcy. While optimal leverage increases firm value, overleveraging decreases it, thus clarifying the effects of Debt-to-Equity Ratio (DER) on firm value (Brigham & Houston, 2011, as cited in Nursasmitaa, 2021).

Price-to-Book Value

Firm value reflects the amount of money received if the company is sold (Susanti et al., 2020). It is commonly measured by the Price-to-Book Value (PBV), or P/B ratio, which compares a company's market price per share to its book value per share. According to Akbar (2021), a high PBV suggests great market confidence. Meanwhile, a low PBV indicates an undervalued stock, which is often attractive for long-term investment (Akbar, 2021), but it may also signal weak firm fundamentals. This underlines the importance of evaluating the PBVs of comparable companies in the same industry for meaningful interpretation.

Return on Assets (ROA)

Profitability influences firm value since it shows how efficiently a company yields returns from its total assets (Ali et al., 2022). Higher profitability enhances investor confidence and encourages investment decisions (Anik, 2022). To assess a company's profit-generating capability, this study uses Return on Assets (ROA), which indicates how effectively assets are utilized to produce earnings (Mahanani & Kartika, 2022). In this regard, higher ROA values demonstrate better firm performance.

Blockholding

Blockholding is a reflection of long-term institutional ownership committed to sustainable firm performance. According to Iftikhar and Siddiqui (2023), blockholding within affiliated or group companies improves corporate stability and long-term growth through stronger institutional alignment. Empirical evidence further indicates that blockholding, particularly within family and state-owned conglomerates, positively affects firm value and financial performance (Wati et al., 2019). This challenges the assumption that affiliated companies exhibit weaker supervision.

Board Size

The board of directors, comprising executive and non-executive members, is responsible for representing stakeholder interests (Boachie, 2023). According to the agency theory, increasing board size beyond the optimal point can reduce communication efficiency and decision quality, leading to lower firm performance. This is most

likely because larger boards frequently face coordination issues and agency conflicts as members prioritize personal or external interests over effective governance (Lorsch, 1992, as cited in Ummah, 2019).

Debt-to-Equity Ratio

According to Santoso (2020), a company's capital structure is indicated by long-term financing in the form of the level or proportion of long-term debt and equity. The capital structure is considered optimal if the overall SECM costs are the lowest, and the firm value is the highest. This study uses the debt-equity ratio (DER) as the variable for leverage that explains the capital structure. Adityaputra (2024) argues that DER shows how well a company can finance its daily operations using both debt funding and equity funding. This proportion is calculated using the Capital Adequacy Ratio (CAR).

Hypotheses

The Relationship between Blockholding and Firm Value

Contrary to the notion that control is weaker in affiliated firms, conglomerates with state and family blockholdings are predicted to exhibit higher firm value in both financial and stock markets (Wati et al., 2019). Bajo et al. (2020) analyzed this relationship through social network metrics and found that block-active institutional investor centrality positively influences firm performance through interconnections among overlapping ownerships. Similarly, Basu et al. (2016) revealed that large shareholders have the power to control the company, and firm value is therefore proportional to their ownership share. Therefore, the first hypothesis is proposed as follows:

H1: Blockholding positively impacts the extent of the firm value.

The Relationship between Board Size and Firm Value

According to Agung et al. (2023), firm value is significantly influenced by board size, since a larger board often reflects greater resources and perceived corporate strength. From the perspective of the agency theory, board size affects firm value through its monitoring function. In this regard, larger boards are expected to improve supervision and contribute diverse expertise, thus being able to mitigate agency conflicts (Mai, 2017). However, an excessive number of board members may create inefficiencies due to coordination issues and higher decision-making costs, which can reduce governance effectiveness. This dual effect of board size has been reported by Neves et al. (2023) and Ebimobowei (2022), who assert that board size has a critical but non-linear relationship with firm value. Therefore, the second hypothesis is proposed as follows:

H2: Board size positively affects firm value.

The Relationship between Debt-to-Equity Ratio and Firm Value

DER reflects a company's ability to manage debt relative to equity. A lower DER indicates effective debt management that can enhance firm value. A higher DER, on the other hand, may point to financial risk as well as potential growth opportunities. Empirical findings reveal that DER significantly influences firm value, since effective debt utilization can increase both investor confidence and stock prices (Limesta & Wibowo, 2021; Susanto & Suryani, 2024). In line with the signaling theory, an increase in DER signals positive investment prospects and attracts investor attention (Muliana & Ahmad, 2021; Sutihat, 2020; Widyakto et al., 2025). Therefore, the third hypothesis is proposed as follows:

H3: The Debt-to-Equity Ratio has a significant negative impact on firm value.

The Moderating Effect of Profitability on the Relationship between Blockholding and Firm Value

Stock price represents shareholder prosperity; the higher the price, the greater the perceived company performance and future potential (Putri, 2020). Nurazi et al. (2020) found that firm value is heavily influenced by corporate governance and capital structure, with institutional ownership and leverage making positive contributions. This relationship is mediated by financial performance, indicating that effective governance serves as a monitoring mechanism that enhances firm value. Therefore, the fourth hypothesis is proposed as follows:

H4: Profitability mediates the effect of blockholding on firm value.

The Moderating Effect of Profitability on the Relationship between Firm Value and Board Size

According to the study of Kurniawati (2017), board size positively impacts firm value. Nevertheless, Lumbanraja et al. (2018) argue that the turnover of the directors and commissioners cannot function as a signal for stakeholders because of conflicts of interest. As a function, the potential role of profitability in mediating the effect of good corporate governance on firm value has been reported in a prior study by Ebimobowei (2022). In addition, profitability may mediate the relationship between good corporate governance effectiveness and firm value. Therefore, the fifth hypothesis is proposed as follows:

H5: Profitability mediates the relationship between board size and firm value.

The Moderating Effect of Profitability on the Relationship between Capital Structure and Firm Value

High-growth businesses require substantial funding sources, which means they need additional funds from external parties (Subandi & Bagana, 2024). According to the trade-off theory, increasing leverage will enhance firm value if the capital structure is below the optimal level. If capital structure is higher than optimal, however, the marginal cost of the new debt will be greater than its marginal benefit, ultimately decreasing firm value. This is consistent with the findings of Adityaputra (2024), who reported a positive association between capital structure and firm value. Therefore, the sixth hypothesis is proposed as follows:

H6: Profitability mediates the relationship between the Debt-to-Equity Ratio and firm value.

RESEARCH METHODS

This study employs a quantitative research design to analyze secondary data obtained from the annual reports of the observed companies published between 2020 and 2023, accessible via www.idx.co.id.

A purposive sampling technique was applied to select companies that met the inclusion criteria. The study population is 221 publicly traded manufacturing companies listed on the Indonesia Stock Exchange (IDX). The manufacturing sector was chosen as it represents the largest industry group on the IDX (Lutfi & Sunardi, 2019). From this population, 135 companies were selected as the sample, based on the completeness and availability of financial data for all research variables over the study period (four years). The detailed process of sample selection is summarized in Table 3.

Table 3. Selected Data Sample

Description	Number
Manufacturing companies listed on the IDX from 2020 to 2023	221
Companies with incomplete financial statements and annual reports for the 2020–2023 period	(54)
Companies whose financial statements are not denominated in rupiah (IDR)	(32)
Total companies used in this study	135
Research sample size (2020–2023)	540

Source: Processed data

In this study, the data were collected using the documentation method and analyzed utilizing EViews 13. The dependent variable is Firm Value (Price-to-Book Ratio), while the independent variables are Blockholding, Board Size, and Debt-to-Equity Ratio. Meanwhile, the Return on Assets (ROA) ratio, which measures profitability, serves as the intervening variable. The operational definitions of these variables are presented in Table 4.

Table 4. Operational Definition of Variables

No	Variable	Definition	Benchmark	Source
1	*Blockholding*	The ownership of a large number of shares by an individual or organization in a company	The total outstanding shares owned by a large investor are at least 5%	(Alomran, 2024)
2	*Board Size*	The number of members on the board of directors (BOD)	Number of Board of Directors	(Neves et al., 2023)
3	*Debt Equity Ratio*	The company's long-term financing structure with debt and equity	$\frac{\text{Total Debt}}{\text{Total Equity}}$	(Maharani & Mawardhi, 2022)
4	*Return on Assets (ROA)*	The ratio that shows the return on the total assets utilized by the company	$\frac{\text{EAIT}}{\text{Total Assets}} \text{x} 100\%$	(Ghafar et al., 2023)
5	*Firm Value*	The value of shares as determined by their market price	$\frac{\text{Market price per share}}{\text{Book value per share}}$	(Khakim & Yudiantoro, 2022)

RESULTS AND DISCUSSION

Descriptive Statistics

Data were analyzed using descriptive statistics in Eviews 13, presenting the mean, minimum, and maximum values for each variable. The results of the descriptive statistical analyses are shown in Table 5.

Table 5. Descriptive Statistics

Variables	Min	Max	Mean	Std. Deviation
Blockholding	50.56000	100.0000	84.49229	10.56847
Board Size	1.000000	13.00000	4.558219	2.007713
Debt Equity Ratio	-6,300,520	343.3600	3.035745	21.88264
ROA	-4,661,569	619.9968	-5,156,420	197.2181
Firm value	0.130000	23.34000	1.874452	2.303475

Source: Processed data, 2025

Panel Regression Model Selection

Table 6. Panel Regression Model Selection Results

Testing	Statistics	Prob.	Conclusion
Chow Test	648.390632	0.0000	Fixed Effect Model
Hausman Test	4.772517	0.3114	Random Effect Model
Lagrange Multiplier Test	269.7183	0.0000	Random Effect Model

Source: Secondary data, EViews 13

The Chow test results (Table 6) show a probability value of 0.0000 ($p < 0.05$), indicating that the Fixed Effect Model is initially appropriate. However, the Hausman test yields a probability of 0.3114 ($p > 0.05$), suggesting that the Random Effect Model (REM) is more suitable. Furthermore, the Lagrange Multiplier (Breusch–Pagan) test reveals a probability value of 0.000 ($p < 0.05$), confirming that the Random Effect Model is the most appropriate model for this study.

Classical Assumption Tests

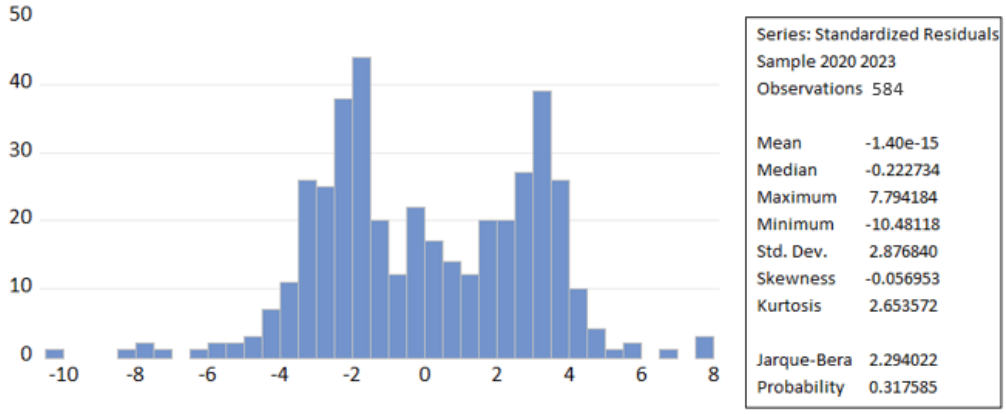

Figure 2. Jarque-Bera Test for Normality
Source: Processed data, 2024

Figure 2 shows a J-B statistic probability of 0.317585 ($p > 0.05$), demonstrating that the data are normally distributed. Following the normality test, classical assumption tests for autocorrelation, multicollinearity, and heteroscedasticity were performed (Table 7).

Table 7. Classical Assumption Tests

Variable	Multicollinearity (Prob)	Heteroscedasticity (Prob)	Autocorrelation (Durbin-Watson)
X1	0.001014	0.8541	1.602348
X2	0.011822	0.5799	
X3	0.003572	0.1760	
Z	0.001014	0.3880	

Source: Secondary data, EViews 13

As seen in Table 7, all correlation coefficients are below 0.85, showing no multicollinearity. Additionally, the heteroscedasticity test results (Table 7) confirm homoscedasticity ($p > 0.05$). Furthermore, the Durbin–Watson statistic of 1.602348 falls within the acceptable range ($-2 < DW < 2$), indicating the absence of autocorrelation among residuals.

Hypothesis Testing

Multiple Linear Regression Test

The results of the multiple linear regression tests are shown in Table 8 below.

Table 8. Multiple Linear Regression Test (Direct Effect) Results

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	1.080381	0.399570	2.703860	0.0071
X1	-0.009151	0.004359	-2.099212	0.0362
X2	-0.028936	0.014965	-1.933595	0.0536
X3	0.006318	0.002470	2.558402	0.0108

The multiple linear regression equation is as follows:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + e$$

$$Y = 1.08038 - 0.009151X1 - 0.028936X2 + 0.006318X3 + e$$

From the equation above, as well as the outcome of the data screening with the random effect model (Table 8), conclusions can be reached as follows:

1) The values of the companies at all independent variables are equal to zero or constant at 1.080.
2) The coefficient on blockholding is -0.009, with the sign of this slope being negative. Thus, every additional one-unit blockholding decreases firm value.
3) The coefficient for board size is -0.0289, which has a negative direction of the coefficient. This implies that a unit increase in board size will result in a decrease in firm value.
4) The regressed coefficient of debt-to-equity ratio (0.0063) is positive, meaning that an increased debt-to-equity ratio will increase firm value.

Individual Parameter Significance Test (t-Test)

According to the results of the multiple linear regression tests (Table 8), the findings are discussed as follows:

1. The Effect of Blockholding on Firm Value

The t-statistic and coefficient of the blockholding variable are -2.099 and -0.009151, respectively. Both are significant at the 5% level. The results indicate that blockholding has a significant negative impact on firm value. This finding implies that the higher the concentration of ownership, the lower the firm value. From a theoretical standpoint, this aligns with the entrenchment hypothesis, which suggests that when ownership is concentrated among a few large shareholders, they may exercise absolute control to serve their personal interests rather than maximizing the wealth of all shareholders (Wati et al., 2019). Ultimately, this can lead to agency conflicts and inefficient decision-making, thereby reducing firm value.

This interpretation is supported by the statistical result (negative and significant coefficient), demonstrating that an increase in block ownership proportionally reduces Tobin's Q, a proxy for firm value. This confirms the empirical findings of prior studies (Bajo et al., 2020; Kyere & Ausloos, 2021), which observed that in emerging markets, the lack of strong investor protection mechanisms amplifies the negative effects of ownership concentration. However, this finding conflicts with the alignment hypothesis that concentrated ownership can align managerial and shareholder interests. Such a contradiction may occur because the Indonesian market environment still exhibits weak corporate governance structures, allowing blockholders to dominate firm decisions at the expense of minority investors.

2. The Effect of Board Size on Firm Value

The board size variable has a t-statistic of -1.933595 and a coefficient of -0.028936, with a p-value of 0.0536, which is slightly higher than the 0.05 significance threshold. This means that board size does not have a significant effect on firm value. This result suggests that increasing the number of board members does not necessarily translate into better corporate performance or higher firm value. Theoretically, while larger boards may contribute diverse expertise and perspectives, they also tend to be fraught with coordination problems, slower decision-making, and diffused accountability, which reduce their effectiveness in monitoring the management (Alabdullah et al., 2022). The insignificance of the statistical result indicates no clear relationship between board size and value since the positive and negative effects of board size may counteract each other.

This finding supports the argument of the agency theory, which emphasizes the importance of effective monitoring rather than board size per se. It also resonates with the resource dependence theory, which posits that board composition quality matters more than its size. However, this result contradicts prior studies (Oktari et al., 2018; Famba et al., 2020) that found a positive association between board size and firm value. This is possibly

because those studies examined larger companies or different institutional contexts where bigger boards provide valuable external linkages. Hence, the result suggests that in this sample, efficiency and cohesiveness may be more crucial than the number of board members.

3. The Effect of Debt-to-Equity Ratio on Firm Value

The debt-to-equity ratio (DER) variable has a t-statistic of 2.558402, a coefficient of 0.006318, and a probability value of 0.0108 ($p < 0.05$), meaning that DER has a positive and significant effect on firm value. This implies that companies with a higher but controlled level of leverage typically have higher firm value. This is in line with trade-off theory, which explains that moderate use of debt can enhance firm value by providing tax shields and signaling managerial confidence in future profitability. The positive coefficient indicates that leverage improves firm value up to an optimal point, as the benefit of debt financing outweighs the potential cost of financial distress.

This finding supports previous empirical evidence (Agung et al., 2023; Ebimobowei, 2022; Neves et al., 2023) that leverage serves as a value-enhancing mechanism when managed prudently. It also complements the signaling theory, which argues that companies use debt to convey positive information about expected earnings to investors. However, in the context of emerging markets, excessive reliance on debt may increase vulnerability to interest rate fluctuations and liquidity risks, suggesting that maintaining an optimal capital structure is essential for sustaining firm value.

R^2 Test and F Test

Table 9. R^2 Test and F Test Results

	Adjusted R-squared	Prob. (F-statistic)
R^2 Test	0.015482	
F Test		0.007206

Source: Secondary data, EViews 13

Table 9 shows an adjusted R^2 of 0.0155, indicating that blockholding, board size, and debt-to-equity ratio explain only 1.55% of the variation in firm value, while 98.45% is influenced by other factors. This low explanatory power implies that broader financial, governance, and macroeconomic factors beyond those included in the model affect firm value more substantially. However, despite this limitation, the model remains statistically significant ($p < 0.05$), implying that the three variables collectively exert a meaningful, though limited, influence on firm value. To improve explanatory strength regarding the factors influencing firm value, future studies should include other governance and macroeconomic variables.

Moderated Regression Analysis (MRA)

Table 10. Moderated Regression Analysis (MRA) Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.876046	0.156241	12.00735	0.0000
X1_Z	1.10E-05	5.74E-05	0.192051	0.8478
X2_Z	-0.000174	0.000973	-0.178700	0.8582
X3_Z	0.000227	0.003158	0.072009	0.9426

Source: Processed data, 2024

The MRA findings (Table 10) suggest the following:

1. Profitability (Z) enhances the impacts of blockholding (X1) on firm value (Y)

For the interaction of blockholding and profitability on their impact on firm value, the results of the regression tests using the random effect model show a coefficient of 1.10, with a positive direction and a probability value of 0.8478 ($p > 0.05$). Thus, profitability does not significantly moderate the relationship between blockholding and firm value. In other words, firm profitability does not alter how ownership concentration influences firm value. From the perspective of the agency theory (Anh & Anh, 2021; Ibrahimy et al., 2019; Wati et al., 2019), concentrated ownership can either reduce or increase agency costs depending on how effectively large shareholders monitor the management. However, in emerging markets like Indonesia, where investor protection and disclosure systems are relatively weak, blockholders often exercise dominant control, leading to potential entrenchment effects (Manurung & Wijaya, 2022).

High profitability of a company may not ameliorate the negative perception associated with excessive ownership concentration, since investors may anticipate opportunistic behavior or unequal treatment of minority shareholders. Because blockholder dominance remains a stronger determinant of firm value than short-term profit performance, profitability fails to serve as a moderating factor for this relationship. Therefore, managers and

policymakers should focus on improving governance transparency and minority shareholder protection, as profitability alone cannot offset the governance risks that arise from ownership concentration.

2. *Profitability (Z) magnifies the effects of board size (X2) on firm value (Y)*

For the interaction between board size and profitability on their impact on firm value, the results of the regression tests using a random effect model show a coefficient of –0.00017, with a negative direction and a probability value of 0.8582 ($p > 0.05$). This means that profitability does not moderate the effect of board size on firm value, suggesting that the impact of board size on firm value is independent of profit performance. According to the agency theory, board effectiveness is more dependent on monitoring quality and decision-making efficiency than on the profitability of the company. Larger boards may experience communication inefficiencies or slower decision-making, while smaller boards may provide more effective oversight.

The absence of a moderating effect from profitability implies that the structure and dynamics of the board remain the primary determinants of its contribution to firm value, even in situations where the company performs well financially. As a short-term outcome, profitability does not improve or reduce the board's governance function. Therefore, companies should focus on achieving optimal board composition and effectiveness rather than relying on profitability as a reinforcing mechanism for governance outcomes. This is because increasing directors' independence, expertise, and engagement will likely have a greater impact on firm value (Okoye et al., 2020; Anh & Anh, 2021).

3. *Profitability (Z) improves the positive relationship between debt-to-equity ratio (X3) and firm value (Y)*

For the interaction between debt-to-equity ratio and profitability on their impact on firm value, the results of the regression tests using a random effect model show a coefficient of −0.00017, with a positive direction and a probability value of 0.8582 ($p > 0.05$). This shows no significant moderating effect of profitability on how the debt-to-equity ratio affects firm value, suggesting that the influence of capital structure on firm value is not contingent upon profitability. According to the signaling theory (Subandi & Bagana, 2024), companies with higher leverage send a positive signal to the market, indicating management's confidence in future cash flows and the ability to meet financial obligations. Since this signaling effect already captures investor expectations of firm performance, further profitability indications are unnecessary.

Within the framework of the trade-off theory, companies maintain debt levels that balance the tax benefits of interest payments with the costs of potential financial distress (Adityaputra, 2024). The insignificance of the moderating role of profitability implies that leverage decisions reflect long-term financial strategies rather than short-term profit fluctuations. Therefore, managers should view debt management as a strategic signal of confidence and stability, independent of current profit levels. Meanwhile, investors can interpret moderate leverage as an indicator of strong financial governance rather than simply high profitability.

The Moderated Regression Analysis (MRA) results show that profitability (ROA) does not significantly moderate the effects of blockholding, board size, or debt-to-equity ratio (DER) on firm value, as indicated by p-values of above 0.05 for all interactions. This suggests that profitability neither strengthens nor weakens the impact of ownership concentration, governance structure, or capital structure on firm valuation among Indonesian manufacturing companies.

The absence of a moderating effect between blockholding and firm value implies that profitability does not alter how concentrated ownership influences firm valuation. According to the agency theory (Putri & Rahyuda, 2020), concentrated ownership can reduce agency costs through enhanced monitoring. However, in emerging markets, excessive ownership concentration may instead lead to entrenchment, as dominant shareholders typically prioritize their personal benefits (Chung et al., 2020). Investors may still view profitable companies cautiously because of the potential for minority shareholder expropriation.

Similarly, the insignificant interaction between board size and firm value demonstrates that board effectiveness is independent of profitability levels. This is because larger boards may encounter coordination challenges that limit performance gains, regardless of profitability (Ebimobowei, 2022; Akbar, 2021). Thus, governance quality reflects structural attributes rather than short-term financial outcomes.

In the relationship between DER and firm value, the lack of moderating effect of profitability can be explained through the signaling theory (Margie et al., 2024). Profitability is no longer necessary to explain firm value because leverage itself already serves as a signal of managerial confidence in future performance. According to prior studies by Asni and Agustia (2022), Faoziyanti and Renny (2024), Haryono and Paminto (2015), and Wijaya and Miftah (2024), capital structure decisions are typically driven by long-term strategic considerations, not immediate profitability.

In conclusion, the results of the hypothesis testing (direct and moderated effects) conducted in this study can be stated as follows:

Table 11. Summary of Hypothesis Testing Results

Hypothesis	Path	Result	Conclusion
H1	Blockholding → firm value	Significantly Negative	Rejected
H2	Board size → firm value	Insignificantly Negative	Rejected
H3	Debt-to-equity ratio → firm value	Significantly Positive	Accepted
H4	Blockholding*profitability → firm value	Insignificantly Negative	Rejected
H5	Board size*profitability → firm value	Insignificantly Negative	Rejected
H6	Debt-to-equity ratio*profitability → firm value	Insignificantly Negative	Rejected

CONCLUSION

The results of this study reveal that blockholding significantly decreases firm value due to potential conflicts of interest and weaker investor confidence. In contrast, a higher debt-to-equity ratio (DER) increases firm value by signaling financial stability and growth potential. Meanwhile, board size has no significant impact on firm value, suggesting that board effectiveness matters more than its size. Furthermore, this study has found that profitability (ROA) does not moderate these relationships, indicating that good financial performance cannot compensate for structural weaknesses in ownership or governance.

However, this study has a short observation period (2020–2023) and focuses solely on manufacturing firms, which may limit the generalizability of the findings. Therefore, future studies are recommended to consider a longer time frame and additional variables, such as firm size, managerial ownership, or board effectiveness. Practically, firms should strengthen governance and maintain an optimal capital structure to increase firm value and investor confidence.

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