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BETWEEN PROFIT AND VALUE: CAN CAPITAL STRUCTURE CARRY THE WEIGHT?

Dara Ayu Nianty, Rustan DM, Sylvia
Institut Teknologi dan Bisnis Nobel Indonesia, Indonesia

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ABSTRACT: The Jakarta Islamic Index (JII) showcases firms with strong competitive advantage and investment appeal grounded in transparency and Sharia compliance. This study deepens understanding of capital structure dynamics by analyzing how profitability and growth opportunities shape firm value, both directly and through financial leverage. Drawing from a sample of 60 observations across 30 listed JII firms, the study employs panel data path analysis to test hypothesized relationships. Findings reveal that both profitability and growth opportunity significantly influence capital structure and firm value. Moreover, capital structure independently affects firm value, though it does not mediate the impact of the two antecedents. These insights refine capital structure theory in an Islamic equity context and illuminate the nuanced role of financial strategy in value creation. Practically, the results guide investors in screening high-potential Sharia-compliant firms and support managers in crafting funding strategies aligned with both financial performance and Islamic principles.

Keywords: Capital Structure; Firm Value; Profitability; Growth Opportunity; Signaling Theory

*Corresponding Author: : dara@stienobel-indonesia.ac.id
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INTRODUCTION

In the fast-evolving terrain of ethical finance, the Jakarta Islamic Index (JII) stands tall—not just as a benchmark of Sharia compliance, but as a bellwether of sustainable competitiveness. As of early 2024, this index tracks the 30 most liquid Sharia-compliant stocks on the Indonesia Stock Exchange (IDX), blending halal principles with high-growth ambition. Investor interest is far from modest: PT Bank Syariah Indonesia Tbk (BSI) saw its share price soar 52.87% by March 2024, a bold signal of market optimism rooted in ethical clarity. These patterns underscore a deeper curiosity: how do financial signals—particularly profitability, growth opportunities, and capital structure—translate into firm value under the watchful eye of the Sharia economy?

At the heart of this financial signaling game lies the pursuit of firm value, a critical metric that reflects a company's ability to enrich shareholders (Harrison & Wicks, 2013). Yet, the waters are hardly still. While profitability, often represented by Return on Assets (ROA), reflects operational acumen (Budisaptorini et al., 2019), and growth opportunity, proxied by Price Earnings Ratio (PER) (Nuridah et al., 2022), mirrors market hope, the impact of these metrics on firm value remains fiercely debated. Some scholars report robust links (Singh et al., 2017); others remain unconvinced (Kurniansyah et al., 2021). Amid this noise, one variable quietly pulls the strings: capital structure.

If we observed Debt to Equity Ratio (DER)—a deceptively simple ratio that conceals strategic nuance. As Hovakimian et al. (2001) argued, getting the balance right boosts efficiency and curbs risk. Under Signaling Theory (Bergh & Gibbons, 2011), managers armed with privileged information deploy capital structure not just as a financial lever, but as a megaphone to the market. A prudent level of debt can scream confidence; an overleveraged balance sheet might whisper impending doom (Hennessy & Whited, 2005; Huang et al., 2016; LeBaron, 2014). When combined with profitability and growth signals, the capital structure becomes the courier of managerial intent—either amplifying or distorting market perception (Li et al., 2008).

Herein lies the theoretical conundrum: can capital structure consistently mediate the relationship between profitability, growth opportunity, and firm value, particularly in firms governed by Sharia constraints? Does the elegance of Islamic financial ethics sharpen or dull the signaling blade? This study steps into that fray. We test the mediating role of capital structure within the framework of Signaling Theory, focusing on Sharia-based companies listed on JII. By doing so, we aim to refine the application of classical finance theories in Islamic contexts and offer strategic insights for financial managers seeking to navigate the fine line between religious compliance and market competitiveness. Because in the end, signaling is not just about what's said—it's about who's listening, and how loudly.

THEORETICAL REVIEW AND HYPOTHESIS DEVELOPMENT

Profitability and Capital Structure: Signaling Strategic Confidence

Profitability is not merely a reflection of operational efficiency, but also a strategic signal to the market (McConaughy et al., 2001). Firms with high levels of profitability are often in a position to finance activities internally; however, their decision to utilize debt as part of their capital structure communicates managerial confidence and calculated risk-taking (Alzoubi, 2017). In the context of Signaling Theory, this approach is interpreted as a deliberate effort to demonstrate financial strength and credibility (Bergh & Gibbons, 2011). The use of debt by a profitable firm implies that management anticipates stable cash flows and possesses the competence to meet its financial obligations without compromising long-term solvency (Bensaid et al., 2013).

Empirical studies reveal diverging perspectives. (Alarussi & Alhaderi, 2018; Hosen & Rahmawati, 2016; Widarjono, 2018) confirm a positive association between profitability and capital structure, suggesting that profitable firms are willing to leverage to enhance returns. Conversely, (Halal, 2001) argue for a negative relationship, consistent with Pecking Order Theory, which posits that firms prefer internal financing when available. Within the context of Sharia-compliant firms, the use of leverage is further filtered through religious and ethical considerations, making the signaling role of profitability particularly nuanced. Hence, the following hypothesis is proposed.

H1: Profitability negatively influences capital structure.

Growth Opportunity and Capital Structure: Financing Expansion and Signaling Optimism

Growth opportunity represents the firm's capacity to expand and invest in future projects. Such opportunities often necessitate substantial capital expenditure, which internal funds alone cannot always satisfy (Aparicio et al., 2016). As a result, firms may turn to external financing, including debt, to actualize these opportunities. When high-growth firms choose to incur debt, they signal to the market their optimism regarding future performance and their confidence in managing financial commitments effectively (Hennessy & Whited, 2005; Hovakimian et al., 2001).

The use of debt in this context also reflects other strategic considerations. Prasetya & Yulianto (2018) explain that dividend obligations and tax optimization affect the availability of retained earnings. A firm's decision to pursue debt financing may also convey its intent to benefit from tax shields, thereby reinforcing managerial prudence (Clarkson et al., 2011). In line with Signaling Theory, such financial behavior can be interpreted as a positive signal of efficiency and growth strategy execution. Prior studies suggest that firms with stronger growth prospects tend to exhibit higher leverage (Parmitasari, 2017). Therefore, the following hypothesis is offered.
H2: Growth opportunity positively influences capital structure.

Profitability and Firm Value: A Signal of Operational Mastery

Profitability, particularly when expressed through Return on Equity (ROE), serves as a critical indicator of the firm's capacity to generate returns for shareholders (Alarussi & Alhaderi, 2018; Widarjono, 2018). High ROE implies not only sound financial performance but also managerial competence in resource utilization (Bernhardt et al., 2000). According to Signaling Theory, profitability transmits essential information to external stakeholders, reassuring them of the firm's stability and earnings potential (Shah Khan et al., 2014).

A firm that consistently reports strong profitability often attracts increased investor attention, leading to heightened demand for its equity and, consequently, a rise in market valuation. Therefore, profitability functions dually as a measure of internal success and a mechanism of external communication. This perspective is supported by empirical findings, who demonstrate a positive correlation between profitability and firm value (Hirdinis, 2019; Shah Khan et al., 2014).
H3: Profitability positively influences firm value.

Growth Opportunity and Firm Value: Projecting Future Strength

Growth opportunity is inherently forward-looking (Liu & Zhang, 2020). Firms that actively invest in research and development, expand productive capacity, or diversify operations often signal long-term potential (Niu et al., 2011). Such activities are not merely strategic choices but serve as powerful indicators to the market of sustained value creation. Shareholders, seeking capital appreciation, tend to favor firms with demonstrable and scalable growth trajectories (McCann & Ortega-Argilés, 2015).

Under Signaling Theory, these strategic investments reinforce perceptions of managerial vision and business resilience. Companies with robust asset expansion and future-oriented strategies are often rewarded by the market with higher valuations, provided their growth is well-managed and clearly communicated (Audretsch et al., 2014; Lo & Leow, 2014). The empirical findings affirm this view. Therefore, the hypothesis is as follows.
H4: Growth opportunity positively influences firm value.

Capital Structure and Firm Value: Between Tax Shields and Cautionary Tales

Capital structure remains a pivotal determinant of firm value, serving both as a financial strategy and a communicative tool. According to Modigliani and Miller, in the presence of corporate taxation, debt financing increases firm value due to the deductibility of interest expenses (Frank & Goyal, 2007). However, this theoretical advantage is counterbalanced by the potential risks of overleveraging, including financial distress and market skepticism (Frennea et al., 2019).

Signaling Theory extends this logic by proposing that debt decisions reveal management's expectations about the firm's stability and cash flow sufficiency (Bergh & Gibbons, 2011). While moderate debt can be interpreted as a signal of strength, excessive leverage may elicit the opposite

reaction. Consequently, the optimal capital structure not only maximizes value but also manages perception (Hirdinis, 2019). Empirical studies reveal mixed findings (Larasati & Asrori, 2020; Wahab et al., 2020; White et al., 2010), further justifying continued inquiry.
H5: Capital structure positively influences firm value.

The Mediating Role of Capital Structure in the Profitability–Firm Value Link

When internal capital is insufficient for expansion, firms often resort to external financing (Rosiana et al., 2019). Profitability plays a crucial role in determining the firm's borrowing capacity and credibility in such contexts. From a Signaling Theory perspective, firms that are both profitable and willing to incur moderate debt send a compelling message of operational stability and strategic discipline (Wieczorek-Kosmala, 2021).

High profitability signals the ability to service debt reliably, which may enhance investor confidence and subsequently improve firm valuation (Alzoubi, 2017). However, empirical studies present conflicting outcomes. Widarjono et al. (2020) suggest that capital structure may not significantly mediate the profitability–firm value relationship. This inconsistency motivates the hypothesized proposal.
H6: Profitability influences firm value through capital structure.

The Mediating Role of Capital Structure in the Growth–Firm Value Link

Growth opportunities, while desirable, require significant capital (Muchlis, 2022). Firms that forecast rapid expansion must decide whether to raise funds via debt or equity. High-growth firms possess greater real investment options, and their financing decisions can reflect their expectations about future returns and risk tolerance (Bodie et al., 2018). In contexts where speed and discretion are essential, debt is often the preferred option. In alignment with Signaling Theory, the strategic use of debt in this scenario reinforces the firm's growth narrative and managerial confidence (Akhtar & Das, 2020). However, not all studies agree (Erragraguy & Revelli, 2015). This divergence justifies the hypothesis 7.
H7: Growth opportunity influences firm value through capital structure.

RESEARCH METHOD

This study adopts a quantitative research design, positioned firmly within the positivist tradition, where hypotheses derived from theory are subjected to empirical verification using structured data. The objective is to test the causal relationships between profitability, growth opportunity, capital structure, and firm value, specifically within the context of Sharia-compliant firms listed in the Jakarta Islamic Index (JII). This design is particularly suited for detecting structural patterns and mediating effects, aligning with previous studies in corporate finance and capital structure theory.

The population for this study comprises all firms listed on the Jakarta Islamic Index (JII), which includes the 30 most liquid Sharia-compliant stocks traded on the Indonesia Stock Exchange (IDX). These firms have passed rigorous screening for compliance with Islamic financial principles, thus offering a distinct context for examining firm value and financing decisions under Sharia constraints.

A purposive sampling technique was employed to extract data from firms that met the following criteria:

1. Firms must be consistently listed in the JII throughout the observation period of 2023–2024.
2. Firms must have published complete annual financial reports for both 2023 and 2024, with no missing data for the variables under investigation.
3. Financial statements must be denominated in Indonesian Rupiah (IDR) to ensure comparability in monetary units and eliminate currency translation distortions.

Following this criteria-based selection, the final sample consisted of 60 firm-year observations (30 firms × 2 years).

The study relies exclusively on secondary data sourced through document analysis. Financial data—including total assets, net income, equity, liabilities, and market valuation—were

extracted from publicly available annual reports, financial statements, and IDX filings. This archival approach ensures data consistency and transparency, as all records are audited and regulated.

Data retrieval was conducted manually through firm websites and IDX's official documentation portal, with validation checks performed to cross-verify figures against multiple sources. Variable construction followed conventional financial ratio formulas widely accepted in corporate finance literature.

All variables in this study are operationalized using well-established indicators to ensure comparability with prior research and methodological robustness. Profitability (ROA) is Measured as Net Income / Total Assets, capturing managerial efficiency in asset utilization (Budisaptorini et al., 2019). Growth Opportunity (PER) is Measured using the Price-to-Earnings Ratio, reflecting market expectations of future earnings (Nuridah et al., 2022). Capital Structure (DER)is Measured by the Debt-to-Equity Ratio, indicating the proportion of debt used relative to shareholder equity (Syamsudin et al., 2020). Firm Value (PBV) is Measured by the Price-to-Book Value Ratio, which reflects how the market values the company relative to its book value (Giannetti et al., 2022).

All variables were winsorized at the 1st and 99th percentiles to minimize the influence of outliers. The analytical framework employs both descriptive statistics and causal inference modelling, following the sequence commonly found in structural equation research in finance. Descriptive Statistics is Used to summarize the central tendency, dispersion, and distribution characteristics of each variable. Path Analysis via Panel Data Regression: Employed to test direct and indirect effects among variables, with a particular focus on the mediating role of capital structure. To accommodate the panel nature of the data and unobserved heterogeneity, the following econometric model was specified:

$$Y\_it=\alpha+\beta1Profitability\_it+\beta2Growth\_it+\beta3DER\_it+\varepsilon\_it \quad (1)$$

where Yit represents the firm value for firm ii at time tt, and εitεit denotes the error term. A series of Hausman tests were conducted to determine the suitability of fixed-effects versus random-effects models using Eviews software.

RESULTS

Descriptive analysis test was conducted on profitability, growth, capital structure and company value data. The following are the results of descriptive statistical tests in the table:

Table 1. Descriptive Statistical Analysis

Constructs/Measures	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	60	0.070000	3,370000	1.741356	0.744167
Growth	60	11,16148	43,48000	12.88339	11.16148
Capital Structure	60	8.120000	47,32320	16,60712	10.91436
Company Values	60	6.230001	26.51002	37.38832	34.83227
Valid N (listwise)	60				

Source: Processed secondary data (2025)

Table 1 shows that the amount of data used in this study is 60 financial report data of companies listed in the Jakarta Islamic Index. The independent variable in this descriptive analysis, namely profitability, shows the average sample score is 1.741356. The Growth variable shows an average of 12.88339. This means that the average sample company has disclosed 12.88%. Then, the Capital Structure variable shows an average of 12.88339. This means that the average sample company has disclosed 12.88%. The dependent variable in this study, namely the company value measured by Tobin's Q, shows an average of 37.38832. This means that the average sample company tends to have quite good financial performance. Furthermore, the normality test in this study uses the Jarque-Bera (JB) test, with a significance level of $\alpha = 0.05$. The test results are shown in Figure 2.

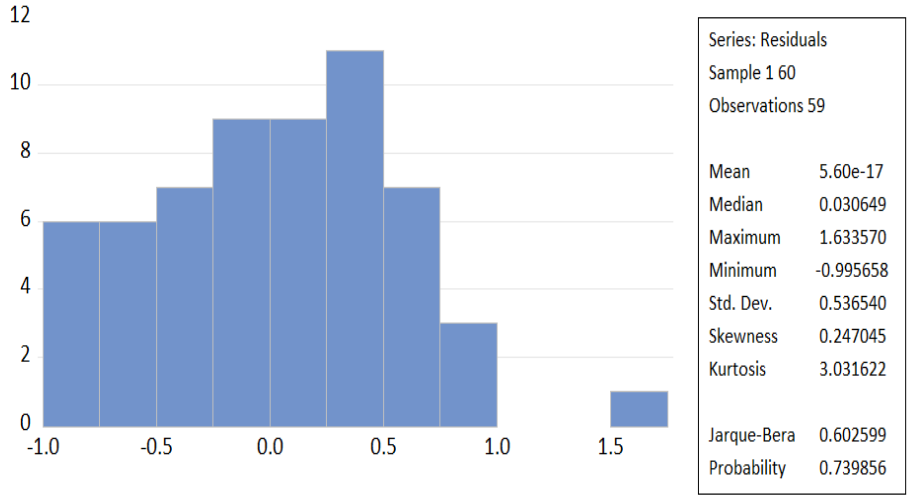

Figure 2: Normality Test
Source: Data processed by eviews, 2025

Based on the results above, the probability value is 0.739856 > 0.05 and the Jarque-Bera value is 0.602599 > 0.05. It can be concluded that the data used in this study is normally distributed.

Table 2. Multicollinearity Test

Test for	Capital Structure	Company Values
Capital structure	1,000,000	0.013146
Company Values	0.010904	1,000,000

It shows that each independent variable has a correlation value between variables <0.80, so it can be concluded that the data in the study is free from multicollinearity symptoms. The heteroscedasticity test aims to see whether there is inequality in the variance of the residuals from one observation to another.The heteroscedasticity test in this study used the ARCH test which is presented in Table 3.

Table 3. Heteroscedasticity Test

Information	Mark	Information	Mark
F. Statistics	4.033319	Prob.F(1,55)	0.0495
Obs* R-Square	3.894397	Prob.Chi-Square (1)	0.4840

Source: Eviews Output (2025)

Based on the results of the ARCH test above, the value of Obs*R-squared is 3.894397 with a Chi-Square probability of 0.4840 > 0.05. It can be concluded that the data in the regression model used in the study is not disturbed by heteroscedasticity problems. Table 4 paves the information for the autocorrelation information.

Table 4. Autocorrelation Test

Information	Mark
Durbin-Watson stat	1.951640

Source: Eviews Output (2025)

The results of the autocorrelation test are seen from the Durbin-Watson Stat value, which is 1.951640. This value is the Durbin Watson (DW) value between -2 and +2, so it can be concluded that there are no symptoms of autocorrelation. The determination coefficient test (Adjusted R2) in Table 5 was conducted to measure the extent to which the independent variables in this study consist of capital structure in explaining the dependent variable, namely company value.

Table 5. Results of the Determination Coefficient Test for Equation 1

Information	Coefficient of Determination
R Squared	0.418200
Adj. R-Squared	0.378610

Source: Eviews V Output (2025)

The Adjusted R-squared value is 0.378610 or 37.86%. This shows that the independent variables including profitability, growth and capital structure can explain the dependent variable, namely the company value of 37.86%. While the remaining 62.20% is influenced by other variables not included in this study. Furthermore, the equation 2 reveals the R^2 as in Table 6.

Table 6. Results of the Determination Coefficient Test for Equation 2

Information	Coefficient of Determination
R Squared	0.68323
Adj. R-Squared	0.51383

Source: Eviews Output (2025)

The Adjusted R-squared value is 0.51383 or 51.38%. This shows that the independent variables including profitability and Growth can explain the dependent variable, namely capital structure, by 51.38%. While the remaining 48.70% is influenced by other variables not included in this study. This leads to the presentation of *t*-value for equation 1.

Table 7. Results of *t*-Test for Equation 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	25.63971	0.847258	4.708747	0.0032
Profitability	1.138733	0.127360	1.325608	0.0641
Growth	3.740052	0.229104	8.062535	0.0000

Source: Eviews Output (2025)

The effect of profitability on capital structure has a t count of 1.325608, the t table value is 2.00247, so t count < t table means hypothesis 1 is rejected. The significance value of the profitability variable is 0.0641, this value is greater than 0.05 (0.0641> 0.05). This means that the profitability variable does not have a significant effect on capital structure.Then, the effect of growth on capital structure has a t count of 8.062535, the t table value is 2.00247, so t count> t table means Hypothesis 2 is accepted. The significance value of the growth variable is 0.000, the value is smaller than 0.05 (0.000 <0.05). This means that the growth variable has a significant effect on capital structure. Furthermore, Table 8 presents the *t*-value for the equation 2.

Table 8. Results of *t*-Test for Equation 2

Variable	Coefficient	Std.Error	t-Statistic	Prob.
Constant	5.130402	3.646156	9.403270	0.0000
Profitability	1.121866	0.137822	3.850278	0.0003
Growth	1.519195	0.233562	5.324957	0.0000
Capital structure	1.002574	0.187944	3.026411	0.0004

Source: Eviews Output (2025)

The effect of profitability has a t count of 3.850278 with a t table value of 2.00247, so t count > t table means Hypothesis 3 is accepted. The significance value of the profitability variable is 0.0003, the value is smaller than 0.05 (0.000 <0.05). This means that the profitability variable has a significant effect on the company's value. Then, the influence of growth on the company's value has a t count of 5.324957, the t table value is 2.00247, so the t count> t table means Hypothesis 4 is accepted. The significance value of the growth variable is 0.000, the value is smaller than 0.05 (0.000 <0.05). This means that the growth variable has a significant effect on the company's value. Then, the effect of capital structure on firm value has a t count of 3.026411, the t table value is 2.00247, so t count> t table means Hypothesis 5 is accepted. The significance value of the capital structure variable is 0.0004, the value is smaller than 0.05 (0.0004 <0.05). This means that the capital structure variable has a significant effect on firm value.

Table 9. Summary of Standard Errors

Variables	X To Y	X TO Z (a)	Z TO Y (b)	Sa	Sb
Profitability	1.051762	1.584053		0.237881	0.176502
Growth	1.673124	1.427042		0.201770	0.186421
Capital Structure			0.708120	0.220164	0.000420

Source: data processed by the author (2025)

Calculating Direct Effect (DE). The magnitude of the direct effect of the independent variable partially. To calculate the direct effect or DE is done as follows:

a. The effect of profitability variables on company value βX1Y1 = 1.051762.
b. The effect of growth variables on company value βX2Y1 = 1.673124.
c. The influence of capital structure variables on company value βZ1Y1 = 0.708120.
d. The effect of profitability variables on capital structure βX1Z1 = 1.584053.
e. The influence of growth variables on capital structure βX2Z1 = 1.427042.

Calculating Indirect Effect (IE) if the significance value <0.05 then the model has a significant influence. Conversely if the significance > 0.05 then the model does not have a significant influence calculation of indirect effect (IE):

a. The influence of profitability variables on the value of financial performance companies through capital structure

βX1Z1 x βZ1Y1 = 1.584053 x 0.708120 = 1.121699 (2)

The influence of profitability variables on company value through capital structure with a significant value of 1.121699 > 0.05 means that the profitability variable on company value through capital structure has no significant influence.

Calculating Total Effect (TE)

βY1X1 + (βX1Z1x βY1Z1) = 1.051762 + (1.584053 x 0.708120) = 1.051762 + 1.121699

= 2.173461. (3)

b. The influence of growth variables on the value of financial performance companies through capital structure

βX2Z1 x βZ1Y1 = 1.427042 x 0.708120 = 1.010516 (4)

The influence of the growth variable on company value through capital structure with a significant value of 1.010516 > 0.05 means that the growth variable on company value through capital structure has no significant influence.

Calculating Total Effect (TE)

βY1X2 + (βX2Z1x βY1Z1) = 1.673124+ (1.427042 x 0.708120) = 1.673124 + 1.010516

= 2.68364. (5)

DISCUSSION

The results demonstrate that profitability does not influence capital structure, contradicting the proposed hypothesis and challenging the explanatory strength of Signaling Theory in this context. Traditionally, profitability has been interpreted as a managerial signal of internal strength—companies anticipating stable future cash flows should, in theory, be inclined to leverage that confidence through debt issuance (Pikulina et al., 2017). Yet, the absence of such behavior among JII-listed firms implies a decoupling between internal performance and external financing behavior (Akhtar & Das, 2020; Korniotis & Kumar, 2011). This may suggest either managerial conservatism,

low signaling value of profitability in these firms, or a market that no longer interprets profit as a trustworthy proxy of firm value—perhaps due to earnings management or evolving investor heuristics.

Several conditions may account for this shift. First, in increasingly efficient markets, profitability may already be impounded into stock prices, making it a redundant signal (Bernhardt et al., 2000). Second, investors may discount earnings due to perceived opacity or manipulation. Third, access to diverse Sharia-compliant financing mechanisms, such as sukuk or Islamic private placements, may reduce reliance on traditional debt-equity signaling dynamics (Alzoubi, 2017). These findings further reinforce the view that the effectiveness of profitability as a signal is contingent on context—industry, regulation, and investor sophistication (Hosen & Rahmawati, 2016).

In contrast, the positive relationship between growth opportunity and capital structure reaffirms classical and signaling theories. Firms with substantial growth trajectories adjust their funding mix to accommodate expanding investment needs—especially when internal funds fall short (Bensaid et al., 2013; Hennessy & Whited, 2005). The choice to employ debt, rather than equity, often signals confidence in projected cash flows and a desire to avoid ownership dilution (Huang et al., 2016). From a signaling standpoint, leveraging for growth functions as a statement of optimism, strategic clarity, and operational confidence (Frank & Goyal, 2007). This finding demonstrates that debt, when deployed selectively in high-growth environments, continues to function as a credible managerial signal.

The empirical evidence also validates the hypothesis that profitability positively influences firm value, aligning with the central tenet of Signaling Theory: that earnings act as a powerful, observable cue to investors (Fama & French, 2002). High profitability not only reflects internal efficiency but also contributes directly to market valuation through investor expectations of future earnings and dividend streams (LeBaron, 2014). Within the JII context, this finding is especially telling—despite constraints on interest-based instruments, the market appears responsive to traditional performance indicators, reaffirming profitability's role as both a financial and symbolic construct.

Similarly, the effect of growth opportunity on firm value is both intuitive and empirically supported. Growth signals strategic expansion, adaptability, and market relevance. From the investor's lens, firms that pursue—and credibly signal—growth are seen as long-term value generators. This confirms the enduring relevance of growth-based signaling in modern capital markets and echoes findings past authors (Betermier et al., 2017; Imam & Kpodar, 2016). Here, Signaling Theory maintains its relevance, illustrating how firms convert growth narratives into valuation gains.

The acceptance of the hypothesis that capital structure influences firm value reinforces foundational finance theory: a well-calibrated mix of debt and equity minimizes cost of capital and signals competent financial stewardship. Within the framework of Signaling Theory, increased debt usage—when not excessive—signals managerial confidence in future performance and a calculated approach to tax efficiency via the interest shield mechanism (Liu & Zhang, 2020). However, the findings' contrast reminds us that this relationship is highly context-dependent, influenced by industry stability, corporate governance, and macroeconomic risk tolerance (Lee & Tsang, 2001).

The analysis further reveals that capital structure does not mediate the relationship between profitability and firm value. This suggests that even profitable firms may refrain from adjusting their capital structure in response to earnings fluctuations (Singh et al., 2017). In practice, many high-performing firms prefer internal financing and retain stable debt levels (Kurniansyah et al., 2021). Hence, the market evaluates profitability as a standalone signal, not one filtered through leverage behavior. This observation reinforces the notion that profitability, when credible, stands independently as a signal—its transmission does not require capital structure as a channel (Alarussi & Alhaderi, 2018).

Lastly, the absence of a mediating effect of capital structure between growth opportunity and firm value points to a direct market interpretation of growth indicators. Rapidly expanding firms in the JII may opt for financing routes that do not significantly alter their debt-equity ratios, or they may rely on retained earnings and equity placements that maintain stable capital structures. In such cases, the strength of the growth signal resides in operational performance—not its financing

method. This finding aligns with studies, suggesting that growth perception in Sharia contexts is shaped more by business fundamentals than by balance sheet leverage (Astuty, 2015; Fatmawati et al., 2020).

CONCLUSION AND FURTHER STUDY

This study examined how profitability and growth opportunity influence firm value, both directly and through capital structure, within Sharia-compliant firms listed in the Jakarta Islamic Index. The findings affirm that growth opportunity and profitability continue to act as credible signals to investors, directly enhancing firm value. However, capital structure fails to mediate these relationships, suggesting that in increasingly transparent markets—particularly those shaped by ethical and religious financial constraints—investors rely more on fundamental performance indicators than on financing behavior to assess firm prospects. While growth positively influences capital structure, profitability does not, indicating a contextual shift in how signals are interpreted under Sharia compliance and investor expectations.

These results must be interpreted with caution due to several limitations. The study focused solely on firms listed in the JII, which limits generalizability to broader or more conventional financial settings. Moreover, the analysis employed only financial indicators, excluding qualitative signals such as corporate governance quality, ESG disclosures, or strategic reputation. Future research should explore alternative mediators—such as investment policy, risk disclosure, or managerial ownership—as well as extend the framework to cross-country Islamic indices or hybrid financial systems. A longitudinal approach could also capture signal evolution over time, revealing how dynamic shifts in market sentiment reshape the relationship between managerial actions and firm value.

ETHICAL DISCLOSURE

Not applicable

CONFLICT OF INTERESTS

The authors declare no conflict of interest in the study designs, writings, and presentations.

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