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Firm Growth, Institutional Ownership, and Firm Size: Their Impact on Firm Value Through Capital Structure

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ABSTRAK

Nilai perusahaan merupakan indikator penting kinerja korporasi yang mencerminkan persepsi investor terhadap kondisi keuangan dan prospek masa depan suatu perusahaan. Oleh karena itu, pemahaman tentang faktor-faktor yang memengaruhi nilai perusahaan sangat penting bagi manajer dan investor dalam membuat keputusan strategis dan investasi. Studi ini bertujuan untuk meneliti pengaruh pertumbuhan perusahaan, kepemilikan institusional, dan ukuran perusahaan terhadap nilai perusahaan, dengan struktur modal bertindak sebagai variabel mediasi. Studi ini berfokus pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia selama periode 2019–2023. Dengan menggunakan pendekatan penelitian kuantitatif, data sekunder diperoleh dari laporan keuangan perusahaan, menghasilkan 664 observasi perusahaan-tahun yang dipilih melalui purposive sampling. Analisis regresi data panel digunakan untuk meneliti hubungan langsung antar variabel, sedangkan uji Sobel digunakan untuk mengevaluasi peran mediasi struktur modal. Hasil penelitian menunjukkan bahwa kepemilikan institusional memiliki pengaruh negatif dan signifikan terhadap struktur modal, sedangkan pertumbuhan perusahaan dan ukuran perusahaan tidak berpengaruh signifikan terhadap struktur modal. Selanjutnya, kepemilikan institusional memiliki pengaruh positif dan signifikan terhadap nilai perusahaan, sedangkan struktur modal memiliki pengaruh negatif dan signifikan terhadap nilai perusahaan. Sebaliknya, pertumbuhan perusahaan dan ukuran perusahaan tidak berpengaruh signifikan terhadap nilai perusahaan. Analisis mediasi menunjukkan bahwa struktur modal memediasi hubungan antara kepemilikan institusional dan nilai perusahaan, tetapi tidak memediasi hubungan antara pertumbuhan perusahaan dan nilai perusahaan, atau antara ukuran perusahaan dan nilai perusahaan. Temuan ini menyoroti pentingnya pengawasan institusional dan keputusan pembiayaan dalam meningkatkan nilai perusahaan.

Kata kunci: Pertumbuhan perusahaan, Kepemilikan institusional, Ukuran perusahaan, Struktur modal, Nilai perusahaan, Perusahaan manufaktur

ABSTRACT

Firm value is an important indicator of corporate performance that reflects investors' perceptions of a company's financial condition and future prospects. Understanding the factors that influence firm value is therefore essential for managers and investors in making strategic and investment decisions. This study aims to examine the influence of firm growth, institutional ownership, and firm size on firm value, with capital structure acting as a mediating variable. The study focuses on manufacturing companies listed on the Indonesia Stock Exchange during the period 2019–2023. Using a quantitative research approach, secondary data were obtained from companies' financial statements, resulting in 664 firm-year observations selected through purposive sampling. Panel data regression analysis was employed to examine the direct relationships among variables, while the Sobel test was used to evaluate the mediating role of capital structure. The results show that institutional ownership has a negative and significant effect on capital structure, while firm growth and firm size do not significantly influence capital structure. Furthermore, institutional ownership has a positive and significant effect on firm value, whereas capital structure has a negative and significant effect on firm value. In contrast, firm growth and firm size do not have significant effects on firm value. The mediation analysis indicates that capital structure mediates the relationship between institutional ownership and firm value but does not mediate the relationships between firm growth and firm value or between firm size and firm value. These findings highlight the importance of institutional monitoring and financing decisions in enhancing firm value.

Keywords: Firm growth, Institutional ownership, Firm size, Capital structure, Firm value, Manufacturing firms

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INTRODUCTION

Firm value represents an important indicator of corporate performance and reflects investors' perceptions of a company's financial health and future prospects. A higher firm value indicates greater market confidence in a company's ability to generate sustainable returns and create long-term shareholder wealth. Consequently, understanding the determinants of firm value has become a central topic in corporate finance and management research. Investors commonly evaluate firm value through market-based indicators such as Price-to-Book Value (PBV), which measures how the market values a company relative to its book value (Ukhriyawati & Dewi, 2019).

In the Indonesian context, the manufacturing sector plays a crucial role in supporting national economic growth and industrial development. However, in recent years the sector has faced increasing pressure due to rising production costs, inflation, and weakening global demand. According to the Purchasing Managers Index (PMI) report by S&P Global (2024), Indonesia's manufacturing activity has experienced a slowdown due to increased input costs and declining new orders. These conditions may reduce corporate financial performance and ultimately affect firm value in the capital market. Such dynamics highlight the importance of understanding internal corporate factors that influence firm value, particularly in emerging markets like Indonesia.

Several internal factors are often associated with variations in firm value, including firm growth, institutional ownership, and firm size. Firm growth reflects a company's ability to expand its operations and increase sales over time. Companies experiencing strong growth are generally expected to have better future prospects, which may attract investor interest and increase market valuation (Fajriah et al., 2022; Agustianingrum et al., 2023). Nevertheless, empirical findings regarding the relationship between firm growth and firm value remain inconsistent. Some studies find a positive relationship between growth and firm value, while others report insignificant effects, indicating the need for further investigation.

Another important determinant of firm value is institutional ownership. According to agency theory, institutional investors can act as effective monitoring mechanisms that reduce agency conflicts between managers and shareholders (Jensen & Meckling, 1976). Institutional ownership strengthens corporate governance by increasing oversight of managerial decisions and reducing opportunistic behavior. As a result, companies with higher institutional ownership are often expected to achieve better performance and higher firm value due to improved monitoring and accountability (Wibowo et al., 2021).

Firm size is also frequently considered a factor that influences firm value. Larger companies typically possess greater resources, stronger market positions, and easier access to external financing compared to smaller firms. These advantages allow large firms to undertake expansion strategies and improve operational efficiency, which may positively affect firm value (Alabdulkarim et al., 2019). However, previous studies also report mixed results regarding the effect of firm size on firm value, suggesting that firm size alone may not fully explain variations in market valuation.

The inconsistencies in prior empirical findings suggest that the relationship between firm characteristics and firm value may involve additional mechanisms. One potential mechanism is capital structure, which represents a firm's financing decision regarding the proportion of debt and equity used to fund its operations (Akmalia & Spurijanto, 2025; Akmalia & Muharam, 2024; Kusumawati & Rosady, 2018). According to trade-off theory, firms seek to achieve an optimal capital structure by balancing the benefits of debt, such as tax advantages, with the potential costs of financial distress (Brigham & Daves, 2019). Excessive leverage may increase financial risk and reduce investor confidence, ultimately lowering firm value.

The theories used in this study are used to explain the phenomena that will be observed in this study (Islam et al., 2025). Capital structure may therefore play an important mediating role in explaining how corporate characteristics influence firm value. Companies with high growth opportunities, strong institutional monitoring, and large operational scale may adopt different financing strategies that affect their capital structure decisions. These financing decisions can subsequently influence investor perceptions and market valuation. Despite the growing interest in this topic, empirical evidence regarding the mediating role of capital structure remains limited, particularly in the context of Indonesian manufacturing firms.

Based on these considerations, this study aims to examine the effects of firm growth, institutional ownership, and firm size on firm value, with capital structure acting as a mediating variable. Using data from manufacturing companies listed on the Indonesia Stock Exchange during the period 2019–2023, this study contributes to the corporate finance literature by providing empirical evidence on the mechanisms through which firm characteristics influence firm value in an emerging market context. The findings are expected to provide insights for managers, investors, and policymakers regarding the importance of financing decisions in enhancing firm value.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory explains the relationship between principals (shareholders) and agents (managers) in corporate governance. According to Michael C. Jensen and William H. Meckling, agency relationships arise when shareholders delegate decision-making authority to managers to operate the firm on their behalf. However, conflicts of interest may occur because managers may pursue personal objectives rather than maximizing shareholder wealth (Jensen & Meckling, 1976).

This conflict creates agency problems and information asymmetry, where managers possess more information than shareholders regarding the firm's actual condition. As a consequence, monitoring mechanisms are necessary to reduce opportunistic managerial behavior. Institutional ownership is often considered one of the most effective monitoring mechanisms because institutional investors have

stronger incentives and resources to supervise managerial decisions (Vitolla et al., 2020). Therefore, institutional ownership may influence corporate policies and ultimately affect firm value.

Trade-Off Theory

Trade-off theory explains how firms determine their optimal capital structure by balancing the benefits and costs of debt financing. The use of debt provides tax advantages through interest deductibility, commonly referred to as the tax shield. However, excessive reliance on debt increases the probability of financial distress and bankruptcy costs (Brigham & Daves, 2019).

According to Stewart C. Myers, firms adjust their capital structure gradually to achieve an optimal debt ratio that maximizes firm value (Myers, 1984). When the level of debt exceeds the optimal threshold, financial risk increases and may negatively affect investor confidence. Consequently, the firm's capital structure becomes an important factor influencing firm value.

Firm Growth and Capital Structure

Firm growth reflects a company's ability to expand its operations and increase sales over time. High sales growth indicates strong market demand and improved operational performance. Firms experiencing higher growth generally generate greater internal cash flows, which can be used to finance investment and operational activities without relying heavily on external debt (Geovana & Andayani, 2015). According to pecking order theory, firms tend to prioritize internal financing over external funding. Therefore, companies with strong sales growth may reduce their reliance on debt because internal funds are sufficient to support expansion activities (Yuliana & Yuyetta, 2017). Empirical studies have also found that sales growth tends to negatively influence leverage because companies prefer to utilize internally generated funds rather than external borrowing (Sistya Rachmawati & Faisal, 2024).

H1: Firm growth negatively affects capital structure.

Institutional Ownership and Capital Structure

Institutional ownership represents the proportion of company shares held by institutional investors such as investment funds, insurance companies, and pension funds. Institutional investors typically possess greater financial expertise and stronger monitoring capabilities compared to individual investors.

From the agency theory perspective, institutional ownership can reduce agency conflicts by strengthening oversight of managerial decisions (Jensen & Meckling, 1976). Institutional investors may discourage excessive debt usage because high leverage increases financial risk and may threaten long-term firm stability. Consequently, companies with higher institutional ownership are expected to maintain more conservative financing policies and lower leverage levels (Khafid et al., 2020). Empirical studies also indicate that institutional ownership tends to have a negative relationship with capital structure because institutional investors prefer financial stability and risk control (Arifin & Sudiyatno, 2023; Julian & Ruslim, 2024).

H2: Institutional ownership negatively affects capital structure.

Firm Size and Capital Structure

Firm size reflects the scale of a company's operations and is commonly measured using the natural logarithm of total assets. Larger firms generally possess more diversified business activities and more stable cash flows compared to smaller firms.

According to diversification theory, firms with diversified operations tend to have lower financial risk because fluctuations in one business segment can be offset by performance in other segments (La Rocca et al., 2009). Consequently, large firms may rely less on external debt because they can utilize internal resources to support operational and investment activities. Empirical findings suggest that firm size may influence capital structure decisions because larger firms tend to adopt more conservative financial policies (Geovana & Andayani, 2015).

H3: Firm size negatively affects capital structure.

Firm Growth and Firm Value

Firm growth is often associated with future business opportunities and expansion potential. Companies experiencing higher growth are generally perceived as having stronger prospects for generating profits in the future. This positive outlook may increase investor confidence and attract additional investments in the company's shares. High sales growth signals that a company is capable of expanding its market share and improving operational performance. Such signals are interpreted positively by investors and may lead to an increase in stock prices and firm value (Fajriah et al., 2022; Agustianingrum et al., 2023).

H4: Firm growth positively affects firm value.

Institutional Ownership and Firm Value

Institutional ownership plays an important role in strengthening corporate governance and reducing agency conflicts. Institutional investors often have strong incentives to monitor managerial performance and ensure that management decisions are aligned with shareholder interests. Effective monitoring reduces the likelihood of opportunistic managerial behavior and improves the efficiency of corporate decision-making. As a result, firms with higher institutional ownership tend to achieve better financial performance and greater investor confidence, which ultimately increases firm value (Wibowo et al., 2021).

H5: Institutional ownership positively affects firm value.

Firm Size and Firm Value

Firm size may also influence firm value because larger companies typically have greater access to financial markets and stronger reputations compared to smaller firms. These advantages enable large firms to obtain funding more easily and undertake expansion strategies that enhance operational efficiency. Moreover, large firms often benefit from economies of scale and improved operational

stability, which can positively influence market valuation (Alabdulkarim et al., 2019). Consequently, investors may perceive large firms as less risky and more reliable investment opportunities.

H6: Firm size positively affects firm value.

Capital Structure and Firm Value

Capital structure represents the proportion of debt and equity used by a company to finance its operations. According to trade-off theory, debt can increase firm value through tax advantages. However, excessive debt increases financial risk and may lead to financial distress. High leverage also increases interest expenses and financial obligations, which may reduce financial flexibility and limit future investment opportunities. As a result, companies with excessive debt levels may experience declining firm value due to increased financial risk (Haryono et al., 2017).

H7: Capital structure negatively affects firm value.

Capital Structure as a Mediating Variable

Capital structure may act as a mediating mechanism linking corporate characteristics to firm value. Firm growth, institutional ownership, and firm size may influence corporate financing decisions, which subsequently affect firm value through changes in financial risk and investor perception.

For example, companies with strong growth opportunities may reduce leverage due to increased internal funding. Similarly, institutional ownership may influence managerial decisions regarding financing policies. These financing decisions ultimately affect the firm's capital structure and market valuation (Setyowulan et al., 2020; Wibowo et al., 2021). Therefore, capital structure may mediate the relationship between firm characteristics and firm value.

H8: Capital structure mediates the relationship between firm growth and firm value.

H9: Capital structure mediates the relationship between institutional ownership and firm value.

H10: Capital structure mediates the relationship between firm size and firm value.

RESEARCH METHOD

This study employs a quantitative research approach to examine the influence of firm growth, institutional ownership, and firm size on firm value with capital structure as a mediating variable. The research focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023. The manufacturing sector was selected because of its significant contribution to Indonesia's economic development and its sensitivity to financial and operational changes that may affect firm value.

The population of this study consists of all manufacturing firms listed on the IDX during the observation period. The sampling technique used is purposive sampling, in which companies are selected based on specific criteria, including the availability of complete financial statements and consistent

reporting during the research period. Based on these criteria, the study obtained 664 firm-year observations used in the empirical analysis. Secondary data were collected from annual financial reports and other publicly available information provided through the official IDX website.

Firm value is used as the dependent variable and is measured using Price-to-Book Value (PBV), which reflects how the market values a firm relative to its book value. The independent variables include firm growth, institutional ownership, and firm size. Firm growth is measured using sales growth, representing the percentage change in sales compared to the previous year. Institutional ownership is measured as the proportion of shares owned by institutional investors relative to total outstanding shares. Firm size is measured using the natural logarithm of total assets (SIZE), representing the scale of company operations. Capital structure acts as the mediating variable and is measured using the Debt-to-Equity Ratio (DER), which indicates the proportion of debt financing relative to equity.

To analyze the relationships among variables, this study uses panel data regression analysis with the assistance of EViews 12. The analysis consists of two regression models. The first model examines the effects of firm growth, institutional ownership, and firm size on capital structure. The second model analyzes the influence of firm growth, institutional ownership, firm size, and capital structure on firm value. In addition, the Sobel test is applied to evaluate the mediating role of capital structure in explaining the indirect relationships between the independent variables and firm value. This analytical approach allows the study to examine both direct and indirect effects among variables simultaneously.

RESULT

Descriptive Statistics

Descriptive statistics were conducted to provide an overview of the research variables, including firm value (PBV), firm growth (GROWTH), institutional ownership (INS), firm size (SIZE), and capital structure (DER). The results indicate that the average firm value (PBV) of the sampled manufacturing firms is 2.61, suggesting that, on average, the market value of firms exceeds their book value. However, the relatively large standard deviation indicates considerable variation in firm value among companies during the observation period.

Firm growth has an average value of 0.10, indicating moderate sales growth among manufacturing companies. Institutional ownership shows a relatively high mean value of 0.66, implying that institutional investors hold a substantial portion of company shares. Meanwhile, firm size, measured using the natural logarithm of total assets, has an average value of 28.21, indicating that most firms in the sample operate on a relatively large scale. Capital structure, measured using the Debt-to-Equity Ratio (DER), has an average value of 0.99, suggesting that companies rely moderately on debt financing.

Panel Data Model Selection

Panel data model selection tests were conducted to determine the most appropriate regression model. The tests included the Chow test, Hausman test, and Lagrange Multiplier test. The results indicate that the Random Effect Model (REM) is the most suitable estimation method for the regression analysis.

Determinants of Capital Structure

Table 1 presents the regression results examining the effects of firm growth, institutional ownership, and firm size on capital structure.

Table 1. Regression Results for Capital Structure

Variable	Coefficient	t-Statistic	p-value
Constant	-0.504023	0.639923	0.5224
Firm Growth	-0.264094	-1.960144	0.0504
Institutional Ownership	-0.395402	-2.561040	0.0107
Firm Size	0.059717	2.030299	0.0427

The regression results indicate that institutional ownership has a negative and statistically significant effect on capital structure. This finding suggests that companies with higher institutional ownership tend to rely less on debt financing. Institutional investors may encourage firms to adopt more conservative financial policies in order to reduce financial risk.

Meanwhile, firm growth and firm size do not show statistically significant effects on capital structure. These results indicate that variations in sales growth and company size do not significantly influence corporate financing decisions in the sampled manufacturing firms. The regression model produces an R-squared value of 0.016, indicating that approximately 1.6% of the variation in capital structure can be explained by the independent variables included in the model. The F-statistic value indicates that the model is statistically significant at the 5% level.

Determinants of Firm Value

Table 2 presents the regression results examining the influence of firm growth, institutional ownership, firm size, and capital structure on firm value.

Table 2. Regression Results for Firm Value

Variable	Coefficient	t-Statistic	p-value
Constant	2.524130	1.840635	0.0661
Firm Growth	0.298541	1.328750	0.1844
Institutional Ownership	1.200972	4.471847	0.0000
Firm Size	-0.047830	-0.931685	0.3518
Capital Structure	-0.204501	-3.107279	0.0020

The regression results show that institutional ownership has a positive and significant effect on firm value. This finding suggests that stronger institutional monitoring enhances investor confidence and improves market valuation. Capital structure is also found to have a negative and significant effect on firm value, indicating that higher leverage increases financial risk and reduces market valuation.

However, firm growth and firm size do not have statistically significant effects on firm value. This suggests that increases in company scale or sales growth do not necessarily translate into higher firm value unless accompanied by improved financial performance. The regression model produces an R-squared value of 0.053, indicating that approximately 5.3% of the variation in firm value can be explained by the independent variables included in the model.

Mediation Analysis

To examine whether capital structure mediates the relationship between the independent variables and firm value, the Sobel test was conducted. The results show that capital structure significantly mediates the relationship between institutional ownership and firm value. However, capital structure does not mediate the relationships between firm growth and firm value or between firm size and firm value. These findings suggest that institutional ownership influences firm value both directly and indirectly through capital structure. In contrast, firm growth and firm size affect firm value primarily through direct mechanisms rather than through capital structure.

Table 4. Sobel Test Results

Relationship	Sobel Statistic	p-value	Result
Firm Growth → Capital Structure → Firm Value	1.657846	0.097348	Not mediated
Institutional Ownership → Capital Structure → Firm Value	1.976295	0.004812	Mediated
Firm Size → Capital Structure → Firm Value	-1.699646	0.089198	Not mediated

DISCUSSION

This study examines how firm growth, institutional ownership, and firm size influence firm value, with capital structure acting as a mediating variable in manufacturing companies listed on the Indonesia Stock Exchange. The empirical findings provide several important insights into the mechanisms through which corporate characteristics affect firm value.

First, the results indicate that institutional ownership has a negative and significant effect on capital structure. This finding suggests that firms with higher institutional ownership tend to use lower levels of

debt financing. Institutional investors generally have stronger monitoring capabilities and greater incentives to ensure that firms maintain financial stability. From the perspective of agency theory, institutional investors act as effective monitoring mechanisms that reduce managerial opportunism and encourage more prudent financial policies. As a result, companies with strong institutional ownership are more likely to adopt conservative capital structures in order to minimize financial risk and protect long-term firm performance.

Second, the findings show that firm growth does not have a significant effect on capital structure. Although firms experiencing higher growth are expected to require additional financing to support expansion activities, the results indicate that sales growth alone does not significantly influence financing decisions in the sampled firms. One possible explanation is that manufacturing companies may rely more on internally generated funds to finance their expansion rather than increasing their leverage. This behavior is consistent with the pecking order theory, which suggests that firms prefer internal financing before seeking external funding sources.

Third, the results also reveal that firm size does not significantly influence capital structure. While larger firms generally have easier access to external financing, this advantage does not necessarily lead to higher leverage levels. Large firms may instead rely on internal resources or retained earnings to support operational and investment activities. Consequently, the scale of company operations alone does not appear to be a decisive factor in determining capital structure decisions in the manufacturing sector.

Regarding firm value, the results demonstrate that institutional ownership has a positive and significant effect on firm value. This finding supports the argument that institutional investors play an important role in improving corporate governance and enhancing managerial accountability. Strong institutional monitoring reduces agency conflicts and encourages managers to make decisions that maximize shareholder wealth. As a result, firms with higher institutional ownership tend to achieve greater investor confidence and higher market valuation.

The study also finds that capital structure has a negative and significant effect on firm value. This result suggests that higher levels of debt may increase financial risk and reduce investor confidence, leading to lower firm value. Although debt financing can provide tax benefits, excessive leverage increases the probability of financial distress and reduces financial flexibility. Investors may perceive highly leveraged firms as riskier investments, which may negatively affect stock prices and firm valuation.

In contrast, firm growth and firm size do not have significant effects on firm value. These results indicate that investors may not rely solely on company growth or size when evaluating firm value. Instead, investors may place greater emphasis on financial stability, risk management, and effective corporate governance. Consequently, increases in sales growth or company scale do not necessarily translate into higher market valuation.

Finally, the mediation analysis shows that capital structure mediates the relationship between institutional ownership and firm value, but does not mediate the relationships between firm growth or firm size and firm value. This finding suggests that institutional investors influence firm value not only directly through improved monitoring but also indirectly by shaping corporate financing decisions. Firms with strong institutional ownership may adopt more optimal capital structures, which subsequently enhance investor confidence and increase firm value.

CONCLUSION

This study aims to examine the influence of firm growth, institutional ownership, and firm size on firm value, with capital structure acting as a mediating variable in manufacturing companies listed on the Indonesia Stock Exchange during the period 2019–2023. Using panel data regression analysis and Sobel mediation testing, the study provides empirical evidence regarding the mechanisms through which corporate characteristics influence firm value.

The results show that institutional ownership has a negative and significant effect on capital structure, indicating that firms with higher institutional ownership tend to adopt more conservative financing policies and rely less on debt financing. In contrast, firm growth and firm size do not have significant effects on capital structure, suggesting that variations in sales growth and company scale do not substantially influence financing decisions in the sampled firms.

Furthermore, the findings reveal that institutional ownership has a positive and significant effect on firm value. This result indicates that stronger institutional monitoring improves corporate governance and enhances investor confidence, leading to higher firm valuation. Capital structure is also found to have a negative and significant effect on firm value, implying that excessive leverage increases financial risk and reduces market valuation. Meanwhile, firm growth and firm size do not have significant effects on firm value, suggesting that increases in company scale or sales growth do not necessarily translate into higher market value.

The mediation analysis confirms that capital structure mediates the relationship between institutional ownership and firm value. However, capital structure does not mediate the relationships between firm growth and firm value or between firm size and firm value. These findings indicate that institutional investors influence firm value both directly and indirectly through their impact on corporate financing decisions.

From a managerial perspective, the results suggest that companies should pay close attention to their capital structure decisions and strengthen institutional monitoring to improve corporate governance and enhance firm value. For investors, institutional ownership may serve as an important signal of corporate oversight and financial stability when evaluating investment opportunities.

Despite its contributions, this study has several limitations. First, the analysis is limited to manufacturing companies listed on the Indonesia Stock Exchange, which may restrict the generalizability of the findings to other sectors. Second, the study focuses on a limited number of variables, while other factors such as profitability, liquidity, or corporate governance mechanisms may also influence firm value. Therefore, future research is encouraged to include additional variables, extend the observation period, and examine other industry sectors to provide a more comprehensive understanding of the determinants of firm value.

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