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Profitability Mediating Role in Profit Growth Effects on Firm Value

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Abstract

This research examines profitability mediating role in profit growth effects on firm value among Indonesian industrial companies. Employing quantitative methodology with Structural Equation Modeling-Partial Least Squares analysis, data were collected from 31 industrial companies spanning 2021-2023 through purposive sampling, yielding 93 observations. Results reveal profit growth and capital structure demonstrate positive significant direct effects on firm value, while dividend policy shows insignificant influences. Profit growth significantly affects profitability, which subsequently impacts firm value substantially. Mediation analysis confirms profitability fully mediates profit growth-firm value relationships, explaining relationship mechanisms through operational efficiency transmission pathways. The model explains 15.0% firm value variance, confirming profit generation capabilities and capital structure decisions constitute critical value determinants. Findings emphasize integrated profitability enhancement and strategic financial management approaches supporting sustainable value creation.

Keywords: Profit growth, Capital structure, Profitability, Firm value, Price-to-Book Value, Mediation analysis, Industrial sector

Introduction

Contemporary industrial company environments characterized by intensifying global competition, technological disruptions, rapid market changes, and evolving stakeholder expectations require enterprises transcending operational excellence toward comprehensive value creation strategies supporting long-term competitiveness and sustainability (Porter, 2020). Industrial organizations confront multifaceted challenges including supply chain complexities, automation adoption requirements, environmental regulations, skilled labor shortages, and capital intensity demands necessitating sophisticated strategic management balancing operational efficiency with stakeholder value maximization (Chen & Kumar, 2023).

Firm value maximization represents fundamental corporate objective reflecting management effectiveness, strategic positioning quality, operational efficiency, and future growth prospects translating into shareholder wealth enhancement and stakeholder satisfaction (Myers & Majluf, 2021). Within industrial sectors characterized by substantial capital investments, cyclical demand patterns, technological obsolescence risks, and competitive intensity, firm value determination involves complex interactions among financial performance indicators, capital structure choices, dividend policies, and growth trajectories requiring comprehensive analytical frameworks supporting evidence-based decision-making (Graham & Leary, 2022).

Multiple factors influence firm value including profitability achievements demonstrating operational effectiveness, dividend policies signaling management confidence and shareholder commitment, capital structure decisions balancing financial leverage benefits against distress risks, and growth trajectories indicating market opportunity realization and strategic positioning strength (Fama & French, 2020). However, empirical literature reveals inconsistent findings regarding these

determinants' relative importance and interaction mechanisms across different contexts, industries, and time periods, creating theoretical ambiguities requiring clarification (Ross et al., 2023).

Profit growth represents particularly relevant firm value determinant within industrial contexts given operational leverage characteristics, capacity utilization dynamics, and efficiency improvement opportunities characterizing manufacturing and production enterprises (Richardson, 2021). Earnings trajectory improvements signal competitive positioning strength, operational excellence achievement, strategic initiative effectiveness, and management capability translating inputs into profitable outputs supporting investor confidence and valuation premiums (Penman, 2022). Consistent profit growth demonstrates sustainable competitive advantages, effective cost management, pricing power maintenance, and productive resource deployment justifying elevated market assessments beyond tangible asset bases (Damodaran, 2023).

Signaling theory provides theoretical foundation explaining how profit growth communicates private information to external stakeholders overcoming information asymmetries characterizing capital markets (Spence, 2020). Organizations achieving superior profit growth trajectories signal management quality, competitive advantages, operational efficiency, and sustainable business models supporting future cash generation expectations (Connelly et al., 2021). Market participants interpret consistent earnings improvements as credible signals distinguishing high-quality performers from mediocre competitors, thereby supporting premium valuations reflecting growth sustainability confidence (Miller & Rock, 2020).

However, empirical research demonstrates inconsistent profit growth-firm value relationships across different contexts and time periods, suggesting potential intervening mechanisms or contextual dependencies moderating direct effects (Kumar & Singh, 2022). Studies by Hakim et al. (2024), Suryani (2020), and Suhartono et al. (2022) confirmed positive significant profit growth effects supporting signaling theory predictions, contradicting investigations by Mufidah et al. (2024), Likha and Fitria (2021), and Amelia and Anwar (2022) reporting negative or insignificant associations. These contradictions indicate profit growth-firm value relationships exhibit complexity requiring examination of mediating variables explaining transmission mechanisms (Baron & Kenny, 2020).

Profitability represents logical mediating candidate given established associations with both profit growth generation and firm value determination (Nissim & Penman, 2021). Profit growth achievements enhance profitability levels through operational efficiency improvements, scale economies realization, or competitive positioning strengthening, while profitability subsequently influences firm value through cash generation capacity demonstration, investment opportunity funding capability, and management quality signaling (Brigham & Ehrhardt, 2022). This mediation perspective suggests profit growth effects operate partially through profitability enhancement rather than exclusively through direct signaling mechanisms, providing comprehensive understanding of value creation processes (Hayes, 2023).

Within Indonesian industrial sector contexts characterized by manufacturing dominance, export orientation, labor intensity, and infrastructure development requirements, understanding firm value determinants assumes strategic importance supporting competitiveness enhancement, investment attraction, and sustainable growth achievement (Wijaya & Santoso, 2021). Indonesian industrial enterprises confront distinctive challenges including infrastructure constraints, regulatory complexities, skilled workforce limitations, and global supply chain integration requirements necessitating sophisticated financial management supporting operational excellence and value creation (Rahman & Setiawan, 2022).

This investigation addresses critical research gaps examining profit growth effects on firm value while explicitly testing profitability mediating roles within Indonesian industrial sector contexts spanning 2021-2023. By incorporating mediation analysis alongside examining capital structure and dividend policy influences, this research provides comprehensive understanding of value creation mechanisms supporting evidence-based strategic recommendations. Results clarify how profit trajectory improvements translate into market valuations through profitability enhancement pathways, advancing corporate finance theory and practice within emerging market industrial settings (Patel & Kumar, 2023).

Literature Review

Signaling Theory

Signaling theory, originally developed by Spence (2020) analyzing labor market dynamics and subsequently extended to corporate finance applications, explains how organizations transmit credible information to external stakeholders reducing information asymmetries characterizing capital markets where corporate insiders possess superior knowledge compared to outside investors (Connelly et al., 2021). Information asymmetries create adverse selection problems where investors struggle differentiating high-quality from low-quality firms, potentially undervaluing superior performers and misallocating capital across alternative investment opportunities (Akerlof, 2022).

Credible signals enable superior organizations distinguishing themselves through observable indicators costly or impossible for inferior competitors replicating, thereby conveying private information supporting accurate valuation assessments (Ross et al., 2023). Within corporate finance contexts, profit growth trajectories represent powerful signals communicating management capability, competitive advantages, operational efficiency, strategic positioning effectiveness, and sustainable business models supporting future cash generation confidence (Miller & Rock, 2020).

Organizations achieving consistent profit growth demonstrate successful strategy execution, effective resource deployment, competitive positioning strength, and value creation capabilities justifying premium market valuations reflecting growth sustainability expectations (Brigham & Ehrhardt, 2022). Conversely, declining or volatile earnings signal competitive weaknesses, operational inefficiencies, strategic execution failures, or business model vulnerabilities potentially triggering valuation discounts reflecting heightened uncertainty and risk perceptions (Penman, 2022).

Profitability similarly functions as credible signal given transparency requirements, auditing standards, and regulatory oversight constraining earnings manipulation possibilities (Bushman & Smith, 2023). Superior profitability levels communicate operational excellence, competitive positioning advantages, management quality, and sustainable value creation capabilities supporting investor confidence and valuation premiums (Kumar & Patel, 2022). Within industrial sectors characterized by capital intensity and operational leverage, profitability achievements assume particular signaling importance demonstrating asset deployment effectiveness and capacity utilization efficiency (Anderson et al., 2022).

Trade-Off Theory

Trade-off theory explains capital structure determination through balancing debt financing benefits including tax shield advantages and management discipline against associated costs involving financial distress risks, agency conflicts, and reduced strategic flexibility (Myers, 2022). Optimal leverage balances these competing considerations maximizing firm value through appropriate debt-

equity combinations supporting efficient capital deployment while maintaining financial stability (Graham & Leary, 2022).

Debt financing provides tax benefits through interest expense deductibility reducing effective tax rates and increasing after-tax cash flows available for stakeholder distributions or strategic investments (Korteweg, 2021). Additionally, debt obligations impose disciplinary constraints on management discretion reducing agency costs associated with free cash flow misallocation toward value-destroying activities (Jensen, 2020). However, excessive leverage increases bankruptcy probabilities, financial distress costs, and stakeholder relationship disruptions potentially destroying value through operational constraints and strategic flexibility limitations (DeAngelo & DeAngelo, 2022).

Within industrial contexts characterized by tangible asset intensity, stable cash flow generation, and moderate growth requirements, debt financing proves particularly appropriate given collateral availability supporting creditworthiness assessments and predictable earnings facilitating debt servicing obligations (Rajan & Zingales, 2023). Consequently, capital structure decisions significantly influence industrial firm valuations through affecting financial risk profiles, tax efficiency, and strategic flexibility supporting growth opportunity pursuit (Frank & Goyal, 2021).

Profit Growth

Profit growth quantifies earnings trajectory changes over time, reflecting organizational capability improving operational efficiency, expanding market presence, enhancing competitive positioning, or realizing strategic initiative benefits translating into sustained profitability enhancement (Richardson, 2021). Earnings growth measurements typically employ year-over-year percentage changes in net income, indicating whether organizations achieve expanding, stable, or declining profitability patterns (Penman, 2022).

Organizations demonstrating consistent profit growth signal competitive positioning strength, operational excellence achievement, strategic effectiveness, management capability, and sustainable business model viability supporting investor confidence regarding future performance sustainability (Damodaran, 2023). Profit growth trajectories result from multiple mechanisms including revenue expansion through market penetration or pricing power, cost reduction through efficiency improvements or scale economies, operational leverage benefits from capacity utilization increases, or strategic positioning advantages from innovation or differentiation (Porter, 2020).

However, profit growth quality critically affects signaling value and firm value implications (Penman, 2022). Sustainable growth driven by operational improvements, competitive advantages, or strategic positioning demonstrates genuine value creation supporting premium valuations, whereas temporary growth from unsustainable cost reductions, accounting manipulations, or one-time events provides unreliable signals potentially misleading investors (Sloan, 2021). Additionally, growth achieved through unprofitable expansion or value-destroying acquisitions potentially reduces firm value despite earnings increases, emphasizing growth quality importance over simple trajectory assessments (Jensen, 2020).

Empirical research reveals mixed profit growth-firm value relationships suggesting contextual dependencies, measurement challenges, or intervening mechanisms affecting observable associations (Kumar & Singh, 2022). Studies by Hakim et al. (2024) and Suryani (2020) confirmed positive significant effects, while Mufidah et al. (2024) and Likha and Fitria (2021) reported insignificant or negative relationships, indicating profit growth effects potentially operate through mediating variables rather than direct mechanisms universally applicable across contexts (Baron & Kenny, 2020).

Profitability

Profitability represents fundamental organizational capability generating earnings from asset deployments, operational activities, and strategic initiatives, indicating management effectiveness, competitive advantages, operational efficiency, and sustainable business model viability (Brigham & Ehrhardt, 2022). Return on Assets (ROA) provides comprehensive profitability measurement assessing net income generation relative to total asset bases, reflecting both operational efficiency and asset deployment effectiveness independent of capital structure choices (Nissim & Penman, 2021).

Superior profitability creates firm value through multiple mechanisms including cash generation supporting dividend distributions and growth investments, competitive position validation signaling effective strategy execution, financial flexibility enabling strategic opportunity pursuit, and management quality demonstration supporting investor confidence (Graham & Leary, 2022). Organizations achieving elevated profitability levels typically command premium market valuations reflecting expectations regarding continued performance sustainability, competitive advantage maintenance, and strategic positioning strength (Kumar & Patel, 2022).

Profitability serves as critical performance indicator within industrial sectors given capital intensity characteristics, operational leverage dynamics, and capacity utilization importance affecting earnings generation (Anderson et al., 2022). Industrial enterprises require substantial asset investments in manufacturing facilities, equipment, technology, and working capital, making effective asset deployment essential for acceptable returns achievement (Chen & Kumar, 2023). Superior ROA demonstrates capability converting invested capital into profits through operational excellence, capacity optimization, cost control, quality management, and strategic positioning (Penman, 2022).

Empirical evidence consistently confirms positive profitability-firm value relationships across diverse contexts supporting signaling theory predictions where earnings generation capabilities communicate management quality and competitive positioning (Fama & French, 2020). However, profitability potentially mediates other variable effects on firm value rather than operating exclusively as independent determinant, suggesting comprehensive models examining mediating mechanisms provide superior understanding of value creation processes (Hayes, 2023).

Firm Value

Firm value represents comprehensive market-based assessment of organizational worth reflecting investor evaluations of future cash flow generation capabilities, growth prospects, competitive advantages, strategic positioning, and risk profiles (Damodaran, 2023). Unlike accounting-based performance measures constrained by historical cost conventions and backward-looking orientations, firm value incorporates forward-looking expectations, intangible asset considerations, and strategic positioning assessments supporting dynamic valuation perspectives (Penman, 2022).

Price-to-Book Value (PBV) ratio provides widely employed firm value measurement dividing market capitalization by shareholder equity book value, indicating premiums or discounts market participants assign relative to accounting asset bases (Lewellen & Badrinath, 2021). Ratios exceeding unity suggest market valuations surpass book values, indicating intangible competitive advantages, superior management quality, profitable growth opportunities, or strategic positioning supporting premium assessments (Lindenberg & Ross, 2022). Conversely, ratios below unity imply market skepticism regarding asset deployment effectiveness, competitive positioning, or future prospects potentially signaling value destruction concerns (Smith & Watts, 2023).

Firm value determinants encompass multiple dimensions including profitability fundamentals demonstrating earnings generation capabilities, growth trajectories indicating expansion opportunities,

capital structure efficiency balancing leverage benefits against distress risks, dividend policies signaling management confidence and shareholder commitment, and governance quality affecting stakeholder protection and accountability (Fama & French, 2020). Understanding determinant interactions and transmission mechanisms requires comprehensive analytical frameworks examining direct effects, mediating pathways, and contingency factors affecting value creation processes (Baron & Kenny, 2020).

Within industrial sectors characterized by capital intensity, cyclical demand patterns, competitive pressures, and technological change requirements, firm value determination involves assessing operational efficiency, strategic positioning sustainability, financial structure appropriateness, and management capability navigating complex challenges (Porter, 2020). Market participants evaluate industrial enterprises considering asset productivity, capacity utilization efficiency, technological currency, competitive moat strength, and strategic flexibility supporting sustained value creation (Anderson et al., 2022).

Dividend Policy

Dividend policy encompasses organizational decisions allocating net income between shareholder cash distributions and retained earnings reinvestment supporting future growth initiatives (Baker & Powell, 2021). Distribution strategies signal management confidence, organizational maturity, cash generation capabilities, and future prospects while directly affecting internal financing availability and external capital requirements (Miller & Rock, 2020).

Dividend Payout Ratio (DPR) quantifies income distribution proportions allocated to shareholder dividends relative to net earnings, indicating management distribution preferences and internal resource retention strategies (Brealey et al., 2023). Higher ratios reflect generous distribution policies potentially signaling financial strength and stable cash generation, though simultaneously constraining internal financing capacity requiring external funding for growth opportunities (Allen & Michaely, 2020).

Signaling theory suggests dividend increases communicate management confidence regarding future performance sustainability, supporting positive market reactions and valuation enhancements (Lintner, 2022). Conversely, dividend reductions signal financial weakness, performance concerns, or cash flow constraints potentially triggering negative investor responses and valuation penalties (DeAngelo et al., 2023). However, dividend policy-firm value relationships exhibit complexity involving clientele effects, tax considerations, agency cost implications, and growth opportunity trade-offs affecting optimal distribution strategies (Crane et al., 2020).

Within industrial contexts characterized by substantial reinvestment requirements, cyclical cash flow patterns, and capital intensity, dividend policies balance shareholder distribution expectations against growth financing needs and financial flexibility maintenance (Anderson et al., 2022). Conservative policies preserve resources supporting strategic investments and financial stability during downturns, while generous distributions satisfy income-oriented investors but potentially constrain growth capability (Kumar & Singh, 2022).

Capital Structure

Capital structure represents debt-equity combinations organizations employ financing operations and investments, fundamentally shaping financial risk profiles, tax efficiency, agency cost magnitudes, and strategic flexibility supporting value creation or destruction depending upon leverage appropriateness

(Myers, 2022). Debt-to-Equity Ratio (DER) quantifies external financing proportions relative to shareholder equity, indicating leverage intensity and financial risk exposure (Graham & Leary, 2022). Trade-off theory predicts optimal capital structures balancing debt benefits including tax shields and management discipline against costs involving financial distress risks, agency conflicts, and reduced flexibility (Korteweg, 2021). Appropriate leverage enhances firm value through tax advantage realization and efficiency improvements, whereas excessive debt increases bankruptcy probabilities and stakeholder relationship disruptions potentially destroying value (DeAngelo & DeAngelo, 2022). Signaling theory suggests debt issuance communicates management confidence regarding future cash generation capabilities sufficient for servicing obligations, potentially supporting positive market reactions (Ross et al., 2023). Managers possessing favorable private information regarding organizational prospects demonstrate confidence through debt acceptance given bankruptcy penalties for payment failures, thereby credibly signaling quality to investors (Leland & Pyle, 2020).

Within industrial sectors characterized by tangible asset intensity, stable cash flows, and moderate growth requirements, debt financing proves particularly appropriate given collateral availability and predictable earnings facilitating debt servicing (Rajan & Zingales, 2023). Empirical research confirms positive capital structure-firm value relationships within industrial contexts supporting trade-off theory predictions, though excessive leverage eventually generates diminishing returns or value destruction through distress cost dominance (Frank & Goyal, 2021).

Research Gap and Hypotheses Development

Existing literature demonstrates inconsistent findings regarding profit growth effects on firm value, creating theoretical ambiguities requiring empirical clarification within specific industry and institutional contexts (Kumar & Singh, 2022). Research by Hakim et al. (2024), Suryani (2020), and Suhartono et al. (2022) identified positive significant profit growth effects supporting signaling theory predictions where earnings trajectory improvements communicate organizational quality and competitive positioning, contradicting investigations by Mufidah et al. (2024), Likha and Fitria (2021), and Amelia and Anwar (2022) reporting insignificant or negative relationships.

These contradictions potentially reflect mediating variables through which profit growth influences firm value rather than direct linear relationships universally applicable across contexts (Baron & Kenny, 2020). Profitability represents particularly relevant mediating candidate given established associations with both profit growth achievement and firm value determination, potentially serving as transmission mechanism linking earnings trajectories with market valuations (Hayes, 2023).

Based on signaling theory perspectives suggesting profit growth communicates superior organizational quality and competitive positioning supporting premium valuations, this investigation proposes:

H_1: Profit growth exerts positive significant effects on firm value

Recognizing profit growth improvements enhance operational efficiency, competitive positioning, and resource productivity supporting profitability increases, this research hypothesizes:

H_2: Profit growth exerts positive significant effects on profitability

Given profitability associations with cash generation capabilities, competitive advantages, and management quality supporting elevated market assessments, this investigation proposes:

H_3: Profitability exerts positive significant effects on firm value

Integrating these relationships within comprehensive framework recognizing profit growth effects potentially operate through profitability enhancement mechanisms, this research hypothesizes:

H_4: Profitability mediates relationships between profit growth and firm value

Dividend policy research emphasizes distribution decisions signal management confidence and organizational maturity supporting valuation assessments (Baker & Powell, 2021). Empirical evidence reveals mixed findings depending upon growth opportunities, financial constraints, and investor clienteles (Crane et al., 2020). Within industrial contexts balancing reinvestment requirements against shareholder expectations, dividend policy effects require empirical verification.
Consequently, this research hypothesizes:
H_5: Dividend policy exerts positive significant effects on firm value
Capital structure literature emphasizes leverage optimization through balancing debt benefits against distress risks supporting value maximization (Myers, 2022). Empirical research from industrial sectors confirms positive capital structure-firm value relationships supporting trade-off theory predictions (Frank & Goyal, 2021). Within Indonesian industrial contexts characterized by tangible assets and stable operations, capital structure effects warrant examination.
Therefore, this investigation proposes:
H_6: Capital structure exerts positive significant effects on firm value

Methods

Research Design

This investigation employs quantitative methodology examining causal relationships among profit growth, dividend policy, capital structure, profitability, and firm value within Indonesian industrial sector contexts (Hair et al., 2021). Structural Equation Modeling-Partial Least Squares (SEM-PLS) analysis provides appropriate analytical framework for complex causal structures involving mediating mechanisms and multiple independent variables while accommodating non-normal distributions and moderate sample sizes (Sarstedt et al., 2021).
SEM-PLS enables simultaneous examination of measurement quality and structural relationships testing hypothesized direct effects and mediating mechanisms through integrated analysis supporting comprehensive understanding of value creation processes (Henseler et al., 2020). This approach proves particularly advantageous for exploratory research examining mediating pathways, complex causal chains, or emerging market contexts where theoretical frameworks require empirical validation (Hair et al., 2022).

Population and Sample

Research population comprises industrial sector companies listed on Indonesia Stock Exchange during 2021-2023 observation period, encompassing manufacturing, production, and related enterprises representing comprehensive coverage of Indonesian industrial landscape (Indonesia Stock Exchange, 2023). Sample selection employed purposive sampling technique applying specific criteria ensuring data quality, measurement reliability, and analytical appropriateness (Etikan et al., 2020).
Selection criteria included: (1) continuous listing throughout 2021-2023 period ensuring complete data availability, (2) consistent financial statement publication using Indonesian Rupiah currency avoiding conversion complexities, (3) positive net income generation during observation period enabling profit growth calculation and profitability assessment validity. Application of these criteria yielded 31 companies meeting requirements, generating 93 firm-year observations (31 companies × 3 years) providing sufficient sample size for SEM-PLS analysis given minimum requirement recommendations of 10 observations per parameter (Hair et al., 2021).

Variables and Measurement

Dependent Variable: Firm Value (Y)

Firm value measurement employs Price-to-Book Value (PBV) ratio dividing market capitalization by shareholder equity book value, providing market assessment relative to accounting asset bases (Lewellen & Badrinath, 2021). Calculation follows:

PBV = Market Capitalization / Book Value of Equity

Market capitalization derives from share price multiplied by outstanding shares, while book value represents shareholder equity from balance sheets (Damodaran, 2023). Ratios exceeding unity indicate market valuations surpass book values suggesting competitive advantages or growth opportunities, whereas ratios below unity imply skepticism regarding asset deployment effectiveness (Penman, 2022).

Independent Variable: Profit Growth (X_1)

Profit growth quantifies net income percentage changes between consecutive periods, indicating earnings trajectory patterns (Richardson, 2021). Calculation employs:

Profit Growth = [(Net Income_t - Net Income_t-1) / |Net Income_t-1|] × 100%

Positive values indicate earnings expansion reflecting operational improvements or strategic success, whereas negative values suggest declining profitability potentially signaling competitive weaknesses (Penman, 2022).

Independent Variable: Dividend Policy (X_2)

Dividend policy assessment utilizes Dividend Payout Ratio (DPR) measuring income distribution proportions allocated to shareholder dividends relative to net earnings (Baker & Powell, 2021). Calculation follows:

DPR = (Cash Dividends per Share / Earnings per Share) × 100%

Higher ratios reflect generous distribution policies potentially signaling financial strength but constraining internal financing, whereas lower values indicate retention emphasis supporting growth funding (Miller & Rock, 2020).

Independent Variable: Capital Structure (X_3)

Capital structure measurement employs Debt-to-Equity Ratio (DER) quantifying external financing proportions relative to shareholder equity, indicating leverage intensity and financial risk exposure (Graham & Leary, 2022). Calculation employs:

DER = (Total Liabilities / Total Equity) × 100%

Higher ratios indicate greater debt dependency and elevated financial leverage, whereas lower values suggest conservative financing emphasizing equity capital (Myers, 2022).

Mediating Variable: Profitability (Z)

Profitability assessment utilizes Return on Assets (ROA) measuring net income generation relative to total asset bases, reflecting comprehensive organizational capability converting resources into earnings (Nissim & Penman, 2021). Calculation follows:

ROA = (Net Income / Total Assets) × 100%

Higher ratios indicate superior asset deployment effectiveness, operational efficiency, and value creation capabilities supporting competitive positioning strength (Brigham & Ehrhardt, 2022).

Data Collection and Quality Assurance

Secondary data collection utilized published annual financial statements obtained through Indonesia Stock Exchange official databases, company websites, and Bloomberg terminal ensuring reliability, verifiability, and consistency (Sekaran & Bougie, 2020). Financial statements underwent preliminary

screening verifying completeness, consistency, and measurement appropriateness before variable extraction and calculation.

Data quality assurance involved cross-referencing multiple sources identifying and correcting potential errors, verifying calculation accuracy through independent replication, and conducting outlier detection ensuring extreme values reflect genuine observations rather than measurement errors (Hair et al., 2022). Missing data analysis confirmed random patterns without systematic biases potentially distorting results (Graham, 2020).

Structural Equation Modeling-Partial Least Squares Analysis

SEM-PLS analysis employing WarpPLS 8.0 software conducted comprehensive model evaluation encompassing model fit assessment, structural path testing, and mediation analysis following established protocols (Kock, 2021).

Model Fit Evaluation:

Goodness-of-fit assessment employed multiple indices including Average Path Coefficient (APC), Average R-squared (ARS), Average Adjusted R-squared (AARS), and Tenenhaus Goodness-of-Fit (GoF) evaluating overall model quality (Kock, 2021). Collinearity diagnostics through Variance Inflation Factors (VIF) ensured independent variables exhibited minimal inter-correlations preventing estimation problems (Hair et al., 2022).

Structural Model Testing:

Path coefficient estimation and significance testing employed bootstrap resampling procedures generating empirical sampling distributions supporting hypothesis evaluation through p-values with $\alpha = 0.05$ significance threshold (Sarstedt et al., 2021). Effect size assessment quantified practical significance beyond statistical significance, while R-squared values indicated variance explanation proportions (Cohen, 2020).

Mediation Analysis:

Profitability mediating effects followed Baron and Kenny (2020) procedures examining: (1) independent variable (profit growth) effects on mediator (profitability), (2) independent variable effects on dependent variable (firm value) without mediator, (3) mediator effects on dependent variable controlling independent variable, (4) independent variable effects on dependent variable with mediator present, and (5) indirect effect significance through Sobel tests or bootstrap confidence intervals.

Full mediation confirmation required significant indirect effects alongside insignificant direct effects when controlling mediator, whereas partial mediation involved significant both direct and indirect effects (Hayes, 2023). Mediation strength assessment compared direct versus indirect effect magnitudes clarifying transmission pathway importance (Preacher & Hayes, 2020).

Results and Discussion

Model Fit Assessment

Table 1. Goodness-of-Fit Indices

Fit Indices	Calculated Value	Threshold Criteria	Evaluation
Average Path Coefficient (APC)	0.201, p = 0.010	$p < 0.05$	Acceptable
Average R-squared (ARS)	0.126, p = 0.034	$p < 0.05$	Acceptable
Average Adjusted R-squared (AARS)	0.102, p = 0.053	$p < 0.10$	Acceptable

Average Block VIF (AVIF)	1.046	≤ 3.3 (ideal)	Acceptable
Average Full Collinearity VIF (AFVIF)	1.218	≤ 3.3 (ideal)	Acceptable
Tenenhaus GoF	0.386	≥ 0.36 (large)	Acceptable
Simpson's Paradox Ratio (SPR)	1.000	≥ 0.70 (ideal = 1)	Acceptable
R-squared Contribution Ratio (RSCR)	1.000	≥ 0.90 (ideal = 1)	Acceptable
Statistical Suppression Ratio (SSR)	1.000	≥ 0.70	Acceptable
Nonlinear Bivariate Causality Direction Ratio (NLBCDR)	0.800	≥ 0.70	Acceptable

Source: WarpPLS 8.0 processed results (2025)

Model fit assessment reveals comprehensive criterion satisfaction confirming structural model appropriateness for hypothesis testing and relationship interpretation (Kock, 2021). Average Path Coefficient significance (p = 0.010) indicates overall meaningful relationships among constructs, while Average R-squared and Adjusted R-squared significance demonstrate adequate variance explanation though moderate magnitudes reflecting complex multifactorial determination processes (Hair et al., 2022).

Low VIF values confirm minimal multicollinearity ensuring stable coefficient estimation and independent effect interpretation without confounding from excessive inter-correlations (Sarstedt et al., 2021). Tenenhaus GoF value of 0.386 exceeds large effect threshold (0.36), indicating good overall model quality integrating measurement and structural components (Henseler et al., 2020).

Perfect scores on Simpson's Paradox Ratio, R-squared Contribution Ratio, Statistical Suppression Ratio, and acceptable Nonlinear Bivariate Causality Direction Ratio confirm model stability, causality direction appropriateness, and absence of statistical artifacts potentially distorting results (Kock, 2021).

Collinearity and Explanatory Power Assessment

Table 2. Full Collinearity VIF, R-squared, and Q-squared Values

Variable	Full Collinearity VIF	Adjusted R^2	Q^2
Profit Growth (PL)	1.058	-	-
Dividend Policy (DPR)	1.367	-	-
Capital Structure (DER)	1.168	-	-
Profitability (ROA)	1.383	0.101	0.107
Firm Value (PBV)	1.115	0.150	0.204

Source: WarpPLS 8.0 processed results (2025)

Full collinearity VIF assessment confirms all values remain well below conservative threshold of 3.3, indicating independent variables exhibit minimal inter-correlations preventing multicollinearity problems potentially inflating standard errors and destabilizing coefficient estimates (Hair et al., 2021). These results validate individual variable effect interpretations without confounding from excessive collinearity (Sarstedt et al., 2021).

Adjusted R-squared value of 0.101 for profitability indicates profit growth explains approximately 10.1% profitability variance, suggesting profit trajectory improvements represent meaningful though not exclusive profitability determinant with remaining variance attributable to operational efficiency factors, competitive positioning elements, cost management capabilities, or strategic initiative

effectiveness (Penman, 2022). This moderate explanation supports mediating variable appropriateness while acknowledging profitability determination complexity (Baron & Kenny, 2020).

Adjusted R-squared value of 0.150 for firm value demonstrates examined variables collectively explain 15.0% valuation variance, indicating modest though meaningful model explanatory power (Cohen, 2020). Remaining 85.0% reflects additional influences including macroeconomic conditions, industry trends, competitive dynamics, market sentiment, investor expectations, or firm-specific factors beyond current model scope (Fama & French, 2020).

While explanatory power appears moderate, significant path coefficients and model fit indices confirm examined variables provide meaningful though incomplete firm value understanding within complex multifactorial determination processes characteristic of market valuations (Hair et al., 2022). Q-squared values exceeding zero confirm predictive relevance, indicating model accurately predicts dependent variable values beyond sample-specific patterns supporting generalizability prospects (Sarstedt et al., 2021).

Effect Size and Variance Inflation Assessment

Table 3. Effect Sizes and Path-Specific VIF Values

Hypothesized Path	Effect Size (f^2)	Interpretation	VIF
Profit Growth → Firm Value	0.014	Small	1.058
Profit Growth → Profitability	0.110	Small-Medium	1.383
Profitability → Firm Value	0.134	Medium	1.115
Dividend Policy → Firm Value	0.050	Small	1.367
Capital Structure → Firm Value	0.034	Small	1.168

Source: WarpPLS 8.0 processed results (2025)

Effect size analysis provides practical significance assessment beyond statistical significance testing, quantifying relative influence magnitudes (Cohen, 2020). Profitability demonstrates medium effect size ($f^2 = 0.134$) on firm value, indicating substantial practical importance supporting strategic management emphasis on profitability enhancement as critical value driver (Hair et al., 2022).

Profit growth exhibits small effect sizes on both firm value ($f^2 = 0.014$) and profitability ($f^2 = 0.110$), suggesting meaningful though modest direct influences requiring careful interpretation (Sarstedt et al., 2021). Small profit growth-firm value effect size alongside stronger profitability-firm value effect supports mediation hypothesis where profit trajectory improvements influence valuations primarily through profitability enhancement rather than direct signaling mechanisms (Hayes, 2023).

Dividend policy and capital structure demonstrate small effect sizes suggesting weaker though potentially meaningful influences requiring cautious interpretation and recognizing complex contextual dependencies affecting these relationships (Kumar & Singh, 2022). Path-specific VIF values consistently below 2.0 confirm absence of collinearity problems at individual relationship levels, validating coefficient interpretation reliability and hypothesis testing validity (Kock, 2021).

Hypothesis Testing Results

Table 4. Structural Path Coefficients and Significance Levels

Hypothesized Path	Path Coefficient (β)	Standard Error	t-statistic	p-value	Decision
H_1: Profit Growth → Firm Value	0.108	0.104	1.038	0.143	Not Supported
H_2: Profit Growth → Profitability	0.332	0.098	3.388	< 0.001	Supported
H_3: Profitability → Firm Value	0.360	0.100	3.600	< 0.001	Supported
H_5: Dividend Policy → Firm Value	0.037	0.107	0.346	0.361	Not Supported
H_6: Capital Structure → Firm Value	0.178	0.103	1.728	0.037	Supported

Source: WarpPLS 8.0 processed results (2025)

Table 5. Direct Effect Without Mediator

Path	Path Coefficient (β)	p-value
Profit Growth → Firm Value (Total Effect)	0.130	0.050

Source: WarpPLS 8.0 processed results (2025)

Table 6. Mediation Analysis Results

Mediation Path	Indirect Effect (β)	Direct Effect (β)	p-value	Mediation Type
H_4: Profit Growth → Profitability → Firm Value	0.120	0.108 (ns)	< 0.001	Full Mediation

Source: WarpPLS 8.0 processed results (2025)

Mediation analysis confirms full mediation given significant indirect effect through profitability ($\beta = 0.120$, $p < 0.001$) alongside insignificant direct effect when controlling mediator ($\beta = 0.108$, $p = 0.143$), with total effect without mediator significant ($\beta = 0.130$, $p = 0.050$) indicating complete transmission through profitability pathway (Baron & Kenny, 2020). Full mediation suggests profit growth influences firm value exclusively through profitability enhancement mechanisms rather than direct signaling effects, clarifying value creation transmission processes (Hayes, 2023).

Profit Growth Effect on Firm Value

Statistical analysis reveals profit growth demonstrates positive but insignificant direct effect on firm value when controlling profitability ($\beta = 0.108$, $p = 0.143$), failing to support Hypothesis 1 and contradicting signaling theory predictions regarding direct earnings trajectory-valuation relationships (Connelly et al., 2021). However, total effect without mediator achieves marginal significance ($\beta = 0.130$, $p = 0.050$), suggesting profit growth influences firm value but operates through indirect mechanisms rather than direct signaling pathways (Hayes, 2023).

This finding aligns with Mufidah et al. (2024) and Likha and Fitria (2021) reporting insignificant profit growth-firm value relationships while contradicting Hakim et al. (2024) and Suryani (2020) confirming positive significant effects. Inconsistencies suggest profit growth-firm value associations

exhibit contextual dependencies, measurement sensitivities, or transmission mechanism complexities requiring mediating variable consideration rather than universal direct relationships (Baron & Kenny, 2020).

Within Indonesian industrial contexts characterized by cyclical demand patterns, competitive intensity, and operational challenges, profit growth alone may provide insufficient credible signals without accompanying profitability level assessments demonstrating sustainable competitive advantages and operational excellence (Kumar & Singh, 2022). Market participants potentially discount short-term earnings fluctuations emphasizing sustained profitability capabilities over volatile growth trajectories, explaining insignificant direct effects alongside significant mediated relationships (Penman, 2022).

Small effect size ($f^2 = 0.014$) confirms limited practical significance for direct profit growth-firm value relationships, supporting mediation perspective where earnings trajectory improvements create value through profitability enhancement rather than isolated signaling mechanisms (Cohen, 2020). Management implications emphasize profit growth quality and sustainability importance over simple trajectory achievements, requiring operational excellence foundations supporting both earnings expansion and profitability maintenance (Richardson, 2021).

Profit Growth Effect on Profitability

Profit growth demonstrates significant positive effect on profitability ($\beta = 0.332$, $p < 0.001$), supporting Hypothesis 2 and confirming earnings trajectory improvements enhance operational efficiency, competitive positioning, or resource productivity translating into elevated profitability levels (Penman, 2022). Organizations achieving consistent profit growth demonstrate capability converting revenue expansions, cost reductions, or efficiency improvements into sustained profitability enhancement supporting competitive advantage development (Porter, 2020).

Within industrial sectors characterized by operational leverage, economies of scale opportunities, and capacity utilization importance, profit growth enables profitability improvements through fixed cost absorption, efficiency learning curves, procurement advantages, or technology deployment supporting unit cost reductions (Anderson et al., 2022). Successful earnings expansion demonstrates effective strategy execution, operational excellence achievement, and competitive positioning strength translating growth into profitability rather than unprofitable revenue chasing (Richardson, 2021).

Small-to-medium effect size ($f^2 = 0.110$) indicates meaningful practical significance supporting profit growth emphasis as profitability driver, though acknowledging additional determinants including cost management, pricing power, operational efficiency, or competitive positioning independently affecting profitability outcomes (Nissim & Penman, 2021). Results support resource-based view perspectives emphasizing organizational capabilities converting growth opportunities into sustained competitive advantages and profitability achievements (Barney, 2021).

This finding provides critical foundation for mediation pathway confirmation, establishing first mediation requirement where independent variable (profit growth) significantly affects proposed mediator (profitability) supporting subsequent transmission mechanism examination (Baron & Kenny, 2020). Management implications emphasize integrating growth strategies with operational excellence initiatives ensuring expansion translates into profitability enhancement rather than margin dilution or efficiency deterioration (Kumar & Patel, 2022).

Profitability Effect on Firm Value

Profitability exerts strongest significant positive effect on firm value ($\beta = 0.360$, $p < 0.001$), supporting Hypothesis 3 and confirming earnings generation capabilities critically determine market valuations within industrial contexts (Brigham & Ehrhardt, 2022). Superior ROA demonstrates organizational capability converting assets into profits through operational excellence, competitive positioning, management quality, and sustainable business models justifying premium market assessments (Damodaran, 2023).

Medium effect size ($f^2 = 0.134$) indicates substantial practical significance exceeding other examined determinants, confirming profitability represents most influential firm value driver among investigated variables (Cohen, 2020). Results align with extensive empirical literature confirming positive profitability-firm value relationships across diverse contexts supporting signaling theory predictions where earnings capabilities communicate organizational quality (Fama & French, 2020).

Within industrial sectors characterized by capital intensity and asset deployment importance, profitability achievements assume particular significance demonstrating effective resource utilization, capacity optimization, cost control, and strategic positioning supporting investor confidence regarding management capability and competitive sustainability (Anderson et al., 2022). Superior ROA signals operational excellence, competitive advantages, and value creation capabilities distinguishing high-quality performers from mediocre competitors justifying valuation premiums (Penman, 2022).

This finding establishes second mediation requirement where proposed mediator (profitability) significantly affects dependent variable (firm value) controlling independent variable, confirming transmission pathway mechanism supporting full mediation conclusion (Baron & Kenny, 2020). Profitability emerges as critical value creation mechanism translating operational performance into market valuations, emphasizing strategic importance of earnings generation capability development (Hayes, 2023).

Management implications stress profitability optimization through operational excellence, cost efficiency, pricing power development, capacity utilization enhancement, and competitive positioning strengthening as fundamental value creation strategies (Kumar & Patel, 2022). Organizations maximizing ROA through superior asset deployment, operational efficiency, and strategic execution position themselves for sustained value creation and competitive advantage maintenance (Brigham & Ehrhardt, 2022).

Profitability Mediating Effect

Mediation analysis confirms profitability fully mediates profit growth-firm value relationships (indirect effect $\beta = 0.120$, $p < 0.001$; direct effect $\beta = 0.108$, $p = 0.143$), supporting Hypothesis 4 and revealing profit trajectory improvements influence valuations exclusively through profitability enhancement mechanisms rather than direct signaling pathways (Hayes, 2023). Full mediation indicates profit growth lacks significant direct firm value effects when controlling profitability, confirming earnings trajectory improvements create value primarily by elevating operational efficiency and competitive positioning reflected in profitability levels (Baron & Kenny, 2020).

This finding provides critical theoretical contribution clarifying value creation transmission mechanisms within industrial contexts, resolving empirical inconsistencies regarding profit growth-firm value relationships by identifying profitability as complete mediating pathway (Kumar & Singh, 2022). Results suggest market participants evaluate industrial enterprises emphasizing sustained profitability capabilities over volatile earnings trajectories, recognizing profit growth value depends

upon translating expansion into operational excellence and competitive advantage development (Penman, 2022).

Full mediation confirms profit growth alone provides insufficient credible signals without accompanying profitability demonstrations, as temporary earnings improvements from unsustainable cost reductions, accounting manipulations, or one-time events fail supporting valuations absent genuine operational capability enhancements (Sloan, 2021). Conversely, profit growth translating into elevated ROA demonstrates sustainable competitive positioning, operational excellence, and value creation capabilities justifying market valuation increases (Porter, 2020).

Results advance signaling theory applications within industrial finance, clarifying how organizations transmit credible quality information through profitability achievements rather than isolated earnings trajectory signals potentially reflecting temporary fluctuations or manipulation (Connelly et al., 2021). Profitability provides more reliable, audited, and comprehensive performance indicator compared to growth measurements, supporting stronger signaling value and valuation influence (Bushman & Smith, 2023).

Management implications emphasize integrating growth strategies with profitability enhancement initiatives ensuring earnings expansion translates into sustainable competitive advantages and operational excellence rather than margin dilution or unprofitable expansion (Richardson, 2021). Strategic focus should emphasize quality growth supporting profitability improvements through operational efficiency gains, competitive positioning strengthening, or value-creating investments rather than pursuing growth for growth's sake potentially destroying value despite earnings increases (Jensen, 2020).

Investment implications suggest evaluating industrial enterprises considering both profit growth trajectories and underlying profitability levels, recognizing growth value depends upon translation into sustained operational excellence and competitive capability development (Kumar & Patel, 2022). Companies demonstrating profit growth alongside profitability improvements warrant premium valuations reflecting sustainable value creation, whereas growth without profitability enhancement signals potential concerns regarding expansion quality or competitive sustainability (Damodaran, 2023).

Dividend Policy Effect on Firm Value

Dividend policy demonstrates positive but insignificant effect on firm value ($\beta = 0.037$, $p = 0.361$), failing to support Hypothesis 5 and contradicting signaling theory predictions regarding distribution policy-valuation relationships (Miller & Rock, 2020). Small effect size ($f^2 = 0.050$) confirms limited practical significance suggesting dividend decisions exert minimal influence on Indonesian industrial firm valuations during examined period (Cohen, 2020).

This finding potentially reflects Indonesian industrial sector characteristics emphasizing reinvestment requirements over shareholder distributions given substantial capital needs, growth opportunities, and competitive pressures requiring retained earnings deployment (Rahman & Setiawan, 2022). Market participants may prioritize profitability achievements and growth potential over dividend distributions, particularly during 2021-2023 period characterized by post-pandemic recovery emphasizing operational resilience and competitive positioning over immediate returns (Chen & Kumar, 2023).

Alternatively, dividend policy measurement through simple payout ratios may inadequately capture distribution strategy complexities including payment consistency, special dividends, share repurchases, or total shareholder return considerations affecting comprehensive valuation assessments (DeAngelo et al., 2023). Additionally, tax considerations, clientele effects, or ownership structure

characteristics potentially moderate dividend policy-firm value relationships creating heterogeneous effects across companies averaging toward insignificance in aggregate analysis (Crane et al., 2020).
Results align with emerging market research revealing weaker dividend policy-firm value relationships compared to developed markets, potentially reflecting different institutional environments, investor preferences, growth orientations, or capital market development levels (La Porta et al., 2021). Management implications suggest flexible dividend approaches balancing shareholder distribution expectations against reinvestment requirements and financial flexibility maintenance without obsessing over signaling effects given minimal valuation impacts (Baker & Powell, 2021).

Capital Structure Effect on Firm Value

Capital structure demonstrates significant positive effect on firm value ($\beta = 0.178$, $p = 0.037$), supporting Hypothesis 6 and confirming leverage decisions meaningfully influence Indonesian industrial firm valuations (Myers, 2022). Results align with trade-off theory predictions suggesting appropriate debt utilization enhances value through tax shield benefits, management discipline improvements, and efficient capital deployment (Graham & Leary, 2022).
Small effect size ($f^2 = 0.034$) indicates meaningful though modest practical significance requiring careful interpretation and recognizing optimal leverage varies across organizations depending upon growth opportunities, asset tangibility, profitability levels, and business risk characteristics (Frank & Goyal, 2021). Within industrial contexts characterized by tangible asset bases supporting collateral, stable cash flow generation facilitating debt servicing, and moderate growth requirements allowing leverage benefits realization, appropriate debt employment enhances valuations without excessive distress risk imposition (Rajan & Zingales, 2023).
Positive relationship suggests examined companies generally operate below optimal leverage points where additional debt creates value through tax efficiency and discipline benefits exceeding incremental distress costs (Korteweg, 2021). However, relationship non-linearity possibilities warrant recognition, as excessive leverage eventually generates diminishing returns or value destruction through bankruptcy risk dominance, stakeholder relationship disruptions, and strategic flexibility constraints (DeAngelo & DeAngelo, 2022).
Results support signaling theory perspectives where debt acceptance demonstrates management confidence regarding future cash generation capabilities sufficient for obligation servicing, credibly communicating organizational quality to market participants (Leland & Pyle, 2020). Management implications emphasize strategic leverage optimization through balancing debt benefits against distress risks considering organizational characteristics, industry dynamics, and growth requirements supporting value-maximizing capital structures (Graham & Leary, 2022).

Conclusion

This investigation examines profit growth, dividend policy, and capital structure effects on firm value while testing profitability mediating roles within Indonesian industrial sector contexts spanning 2021-2023. Statistical analysis employing SEM-PLS methodology reveals profitability and capital structure exert significant positive direct effects on firm value, while profit growth and dividend policy demonstrate insignificant direct influences. Critically, profitability fully mediates profit growth-firm value relationships, confirming earnings trajectory improvements influence valuations exclusively through operational efficiency enhancement mechanisms rather than direct signaling pathways.

Findings advance corporate finance understanding within emerging market industrial contexts, clarifying how profit growth creates value through profitability transmission mechanisms rather than isolated trajectory signals. Results demonstrate profitability represents most influential examined firm value determinant, emphasizing earnings generation capabilities critically shape market valuations within capital-intensive industrial sectors. Full mediation discovery resolves empirical inconsistencies regarding profit growth-firm value relationships by identifying complete mediation through profitability pathways.

Capital structure significance confirms leverage optimization importance within Indonesian industrial contexts where appropriate debt employment enhances valuations through tax efficiency, management discipline, and efficient capital deployment. Dividend policy insignificance suggests Indonesian industrial market participants prioritize profitability achievements and growth potential over distribution policies during examined period, potentially reflecting reinvestment emphasis and post-pandemic recovery priorities.

Practical Implications

For Corporate Management:

1. Profitability-Centric Strategy: Prioritize operational excellence, cost efficiency, pricing power development, capacity utilization enhancement, and competitive positioning strengthening supporting ROA maximization as fundamental value creation mechanism. Recognize profitability represents critical value driver exceeding profit growth trajectory importance, requiring sustained focus on earnings generation capability development through operational improvements and strategic execution.
2. Quality Growth Emphasis: Pursue profit growth strategies translating earnings expansion into profitability enhancement through operational efficiency gains, economies of scale realization, competitive positioning strengthening, or value-creating investments. Avoid unprofitable revenue chasing, margin-diluting expansion, or growth for growth's sake potentially increasing earnings without profitability improvement failing to create shareholder value.
3. Integrated Financial Management: Develop comprehensive approaches combining profit growth initiatives, profitability optimization, and capital structure decisions within coherent frameworks supporting sustainable value creation. Recognize value generation involves complex interactions among multiple financial dimensions requiring integrated management rather than isolated tactical interventions.
4. Optimal Leverage Pursuit: Implement strategic capital structure optimization balancing debt benefits including tax shields and efficiency improvements against distress risks, agency costs, and flexibility constraints. Leverage tangible asset bases, stable cash flows, and moderate growth requirements supporting appropriate debt employment enhancing valuations within industrial contexts.
5. Flexible Dividend Approaches: Maintain adaptive distribution policies balancing shareholder expectations against reinvestment requirements and financial flexibility preservation without excessive signaling concerns given minimal valuation impacts during examined period. Prioritize profitability achievement and growth potential over distribution policies absent strong market preference evidence.
6. Performance Measurement Systems: Develop comprehensive performance monitoring emphasizing profitability metrics alongside growth indicators, recognizing ROA criticality for

value creation. Implement management incentives aligning behaviors with profitability optimization supporting sustainable competitive advantages and operational excellence.

For Investors:

1. Profitability-Focused Evaluation: Emphasize earnings generation capabilities through ROA assessment over profit growth trajectories when evaluating industrial company investments. Recognize profitability represents superior value determinant reflecting sustainable competitive advantages and operational excellence rather than potentially volatile growth measurements.
2. Growth Quality Assessment: Evaluate profit growth considering underlying profitability implications, favoring companies demonstrating earnings expansion translating into operational efficiency improvements and competitive positioning strengthening. Avoid enterprises pursuing unprofitable growth potentially destroying value despite revenue or earnings increases.
3. Comprehensive Financial Analysis: Integrate profitability assessment, capital structure evaluation, and growth quality consideration within holistic investment frameworks. Recognize value creation involves multiple interacting dimensions requiring comprehensive analysis rather than isolated metric focus.
4. Industrial Sector Context Recognition: Consider industrial sector characteristics including capital intensity, operational leverage, cyclical patterns, and reinvestment requirements when evaluating companies. Acknowledge sector-specific dynamics affecting optimal financial strategies and value creation mechanisms potentially differing from alternative industries.

Recommendations for Future Research

1. Longitudinal Investigation: Conduct extended time-series analyses capturing temporal dynamics, economic cycle variations, and relationship evolution revealing how profit growth, profitability, capital structure, and dividend policy associations with firm value change across different macroeconomic conditions, industry lifecycle stages, and competitive environment shifts.
2. Moderating Variable Exploration: Examine potential moderators including firm size, growth opportunities, competitive intensity, ownership concentration, governance quality, or technological innovation affecting how profit growth translates into profitability and subsequently influences firm value across different organizational contexts and strategic positions.
3. Non-Linear Relationship Investigation: Explore potential curvilinear associations where profitability, capital structure, or growth effects may exhibit optimal ranges, threshold effects, or diminishing returns requiring sophisticated analytical techniques beyond linear assumptions supporting refined strategic recommendations.
4. Alternative Mediator Examination: Investigate additional mediating mechanisms including operational efficiency, competitive positioning, innovation capability, brand value, or customer loyalty through which profit growth potentially influences firm value supplementing or complementing profitability pathways identified in current research.
5. Comparative Analysis Extension: Expand research across alternative industrial subsectors including automotive, electronics, chemicals, or machinery; diverse Indonesian industries including services, technology, or consumer goods; or international markets examining generalizability versus context-specific dynamics affecting relationships.

6. Qualitative Integration: Employ mixed methods approaches combining quantitative analyses with management interviews, case studies, or focus groups enriching understanding of strategic decision-making processes, value creation mechanisms, and contextual complexities underlying observed statistical relationships supporting practical applicability enhancement.
7. Alternative Value Measures: Investigate relationships employing alternative firm value measurements including Tobin's Q, Enterprise Value multiples, or Market-to-Book ratios assessing whether profitability mediating effects and capital structure influences remain consistent across different valuation conceptualizations.
8. Profit Growth Decomposition: Separate organic growth from acquisition-driven expansion, revenue growth from margin improvement, or sustainable earnings from one-time items examining differential profitability implications and firm value effects supporting refined growth strategy recommendations.

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