Determinants of Capital Structure and the Effect on Financial Performance: Testing Pecking Order and Trade-Off Models

Sufitrayati[1*], Nursaimatussaddiya[2]
[1]*Department of Management, Faculty of Economy, Universitas Serambi Mekkah; Tebing Tinggi, Indonesia*
[2]*Department of Management, Sekolah Tinggi Ilmu Ekonomi Bina Karya; Tebing Tinggi, Indonesia*

*Corresponding Author E-Mail: sufitrayati@serambimekkah.ac.id

Submitted: November 29, 2025

Revised: December 6, 2025

Accepted: January 30, 2026

Published Online: January 31, 2026

ABSTRACT

This study investigates the determinants of capital structure and their implications for the financial performance of corporate firms operating by integrating the Pecking Order Theory and Trade-Off Theory. Using a sample of firms with complete and publicly available financial reports from 2020 to 2024, this research examines the influence of profitability, liquidity, firm size, asset structure, and firm growth on capital structure decisions, as well as the mediating effect of capital structure on financial performance. The study employs panel data regression with comprehensive diagnostic testing, including normality, multicollinearity, heteroscedasticity, and autocorrelation assessments to ensure the validity and reliability of the model. The results reveal that profitability and liquidity negatively affect leverage, supporting the pecking order theory, while firm size and asset structure positively influence debt levels, consistent with the trade-off theory. Capital structure is further found to play a significant role in strengthening financial performance, indicating that optimal leverage can enhance corporate value. This study contributes to the literature by providing empirical evidence from a developing regional context and by combining two dominant theoretical perspectives to explain capital structure behavior.

Keywords*: Capital Structure, Corporate Firms, Financial Performance, Pecking Order Theory, Trade-Off Theory.*

INTRODUCTION

Capital structure represents a fundamental aspect of corporate financial management, determining the optimal combination of internal and external funding sources used to operate and develop business activities (Modigliani & Miller, 1963; Mazur et al., 2023). Selecting an appropriate capital structure is critical as it minimizes the cost of capital, mitigates financial risk, and maximizes the firm's market value. Consequently, understanding the factors influencing capital structure decisions has become increasingly important for companies operating in dynamic and complex business environments (Acaravcı, 2015; Boateng et al., 2022).

Two principal theories dominate financial literature in explaining corporate capital structure behavior. The trade-off model and the pecking order model. The trade-off model emphasizes the balance between tax benefits derived from debt utilization and the associated bankruptcy costs (Kraus & Litzenberger, 1973; Cotterrell, 1992). Conversely, the pecking order model posits that firms follow a hierarchical preference for funding sources, prioritizing internal funds first, followed by debt, and finally equity issuance when the first two sources prove insufficient (Myers & Majluf, 1984). Empirical studies demonstrate that capital structure is influenced by internal factors such as profitability, firm size, liquidity, and asset growth, as well as external factors including macroeconomic

JIMKES

Jurnal Ilmiah Manajemen Kesatuan
Vol. 14 No. 1, 2026
pp. 757-768
IBI Kesatuan
ISSN 2337 – 7860
E-ISSN 2721 – 169X
DOI: 10.37641/jimkes.v14i1.4675

conditions and interest rates. Ultimately, an optimal capital structure significantly impacts financial performance indicators, including profitability, solvency, and firm value (Titman & Wessels, 1988; Frank & Goyal, 2008).

In Aceh Province, the dynamic economic environment, diverse firm characteristics, and varying access to funding sources necessitate a deeper investigation into capital structure and financial performance. Research on capital structure in Aceh remains limited, with previous studies predominantly focusing on national contexts that inadequately reflect local characteristics. This study addresses a significant gap by specifically examining corporations operating in Aceh Province, a local context receiving minimal attention in financial management research. Aceh's unique characteristics, including limited financing access, distinctive capital costs, and regional economic dynamics, distinguish it from other Indonesian provinces, making it an important research setting (Amoa-Gyarteng, 2022; Amoa-Gyarteng & Dhliwayo, 2023).

This study's primary contribution lies in its simultaneous integration of both pecking order and trade-off theories. Unlike previous studies that typically employ only one theoretical approach, this research combines both models to provide a comprehensive analysis of corporate financial behavior (Adair & Adaskou, 2015; Dewi & Fachrurrozie, 2021). This dual approach enables examination of the extent to which Aceh firms follow internal versus external funding preferences while balancing the benefits and costs of debt utilization. Furthermore, this study extends beyond merely identifying capital structure determinants to assess the direct impact of capital structure on financial performance. This provides practical contributions for management in formulating optimal funding strategies (Harris & Raviv, 1991). The study utilizes recent empirical data from Aceh corporations, ensuring results reflect current conditions and remain relevant to the contemporary economic situation.

According to the trade-off model, firms select optimal debt levels by weighing tax benefits (tax shields) against bankruptcy costs (financial distress) (Friedman, 1975). Companies increase debt to the point where tax benefits exceed bankruptcy risks. Factors such as firm size, fixed assets, and growth opportunities play crucial roles in determining debt levels, as larger firms or those with substantial tangible assets more easily secure financing (Hapsari & Widjaja, 2021; Rosdiana et al., 2023). Conversely, the pecking order model suggests firms prefer internal financing due to information asymmetry and transaction costs associated with external funding. When internal funds prove insufficient, firms resort to debt before considering equity issuance. The appropriate capital structure significantly influences profitability, operational efficiency, solvency, and firm value. Excessive debt increases interest expenses and financial risk, while excessive equity dilutes ownership. Therefore, firms must balance funding structure choices based on internal characteristics and external conditions.

In Aceh Province, factors such as financing access, business scale, local market conditions, and industry characteristics influence capital structure decisions. Regional economic conditions and corporate financial literacy levels serve as contextual variables that may strengthen or weaken relationships between internal factors and capital structure. This study aims to identify key determinants of capital structure in Aceh corporations through the lens of integrated trade-off and pecking order theories, examine the direct impact of capital structure decisions on financial performance, and provide empirical evidence and practical recommendations for optimizing capital structure in the Aceh regional context.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect on Capital Structure

The relationship between capital structure and corporate financial performance is a central issue in corporate finance. Capital structure, defined as the mix of debt and equity used to finance a firm, influences risk, cost of capital, and firm value (Harris & Raviv, 1991). An optimal capital structure is expected to minimize the weighted average cost of capital while maximizing firm value (Brigham & Houston, 2019). Two dominant theories

explain corporate financing behavior. The pecking order theory suggests firms prioritize internal funds, followed by debt and equity due to information asymmetry; therefore, more profitable and liquid firms tend to use lower leverage (Myers & Majluf, 1984). In contrast, the trade-off theory argues that firms balance the tax benefits of debt against bankruptcy costs, allowing larger firms or those with tangible assets to sustain higher leverage (Kraus & Litzenberger, 1973).

Empirical studies show that firm-specific characteristics significantly affect capital structure decisions. Profitability and liquidity generally have a negative relationship with leverage, supporting the pecking order theory, as firms with strong internal resources rely less on external financing (Adair & Adaskou, 2015; Dewi & Fachrurrozie, 2021; Nurwulandari, 2021). Conversely, firm size, asset structure, and growth opportunities are often positively associated with leverage because larger firms and those with tangible assets face lower bankruptcy risk and better access to debt markets (Hapsari & Widjaja, 2021; Rosdiana et al., 2023). Several studies further demonstrate that capital structure mediates the effects of profitability, liquidity, firm size, asset structure, and growth on firm value and financial performance (Dang et al., 2012; Nurwulandari, 2021). Thus, prior literature consistently identifies profitability, firm size, asset tangibility, and growth opportunities as key determinants of capital structure, consistent with pecking order and trade-off theories.

H1: Profitability has a negative effect on capital structure.
H2: Liquidity has a negative effect on capital structure.
H3: Firm size has a positive effect on capital structure.
H4: Asset structure has a positive effect on capital structure.
H5: Firm growth has a positive effect on capital structure.

The Influence of Financial Performance

Capital structure significantly influences corporate financial performance. Moderate debt use can increase shareholder returns through leverage, whereas excessive leverage raises financial risk and can reduce profitability, commonly measured by ROA, ROE, NPM, and EPS. Empirical studies demonstrate that the relationship between capital structure and performance differs across industries and economic conditions (Nguyen & Nguyen, 2020; Dao & Ta, 2020; Sutrisno & Lestari, 2022). Classical research by Titman and Wessels (1988) and Frank and Goyal (2009) identifies profitability, asset structure, firm size, and growth as major determinants of capital structure. Nevertheless, existing literature predominantly examines national or large-scale firms, while evidence from specific regions such as Aceh remains scarce. This study addresses this gap by analyzing the determinants of capital structure and their implications for financial performance in Aceh, applying both Pecking Order and Trade-Off theories to capture local corporate financing behavior comprehensively.

Financial characteristics shape financial performance. Profitability influences outcomes because higher profits support reinvestment and shareholder returns (Lestari et al., 2025). Liquidity improves short-term solvency (Liong & Uluputty, 2024). Firm size is related to performance due to economies of scale and capital market access (Abubakar, 2015). Asset structure, particularly asset tangibility, supports performance through productive capacity and collateral for expansion (Ramli, 2019). Growth opportunities improve performance, as firms with stronger prospects tend to show higher value and investor confidence (Almeida & Campello, 2020; Mas' ud et al., 2023).

H6: Profitability has a positive effect on financial performance.
H7: Liquidity has a positive effect on financial performance.
H8: Firm size has a positive effect on financial performance.
H9: Asset structure has a positive effect on financial performance.
H10: Firm growth has a positive effect on financial performance.

H11: Capital structure has a negative effect on financial performance.

Capital Structure as a Mediating Variable

Capital structure can function as an important mediating factor, connecting key firm-level determinants such as profitability, liquidity, firm size, asset structure, and growth to the overall financial performance of a company. Recognizing this mediating role allows researchers and managers to better understand how internal financial choices and firm characteristics indirectly influence corporate outcomes, beyond their direct effects. Empirical evidence indicates that leverage often acts as a conduit, transmitting the influence of these firm-specific factors to financial performance, thereby highlighting the mediating mechanism between internal determinants and performance results (Sari & Sedana, 2020).

Profitability and liquidity have been shown to affect financial performance not only directly but also indirectly through capital structure. This is demonstrated in studies of Indonesian real estate companies, where leverage mediates the relationship between profitability, liquidity, and firm value (Putra & Sedana, 2019). Additionally, other firm characteristics, such as company size, asset composition, and growth potential, similarly influence performance through their impact on leverage, confirming that capital structure serves as a pivotal channel that links internal financial attributes to overall corporate outcomes (Siahaan et al., 2021).

H12: Capital structure mediates the effect of profitability on financial performance.
H13: Capital structure mediates the effect of liquidity on financial performance.
H14: Capital structure mediates the effect of firm size on financial performance.
H15: Capital structure mediates the effect of asset structure on financial performance.
H16: Capital structure mediates the effect of firm growth on financial performance.

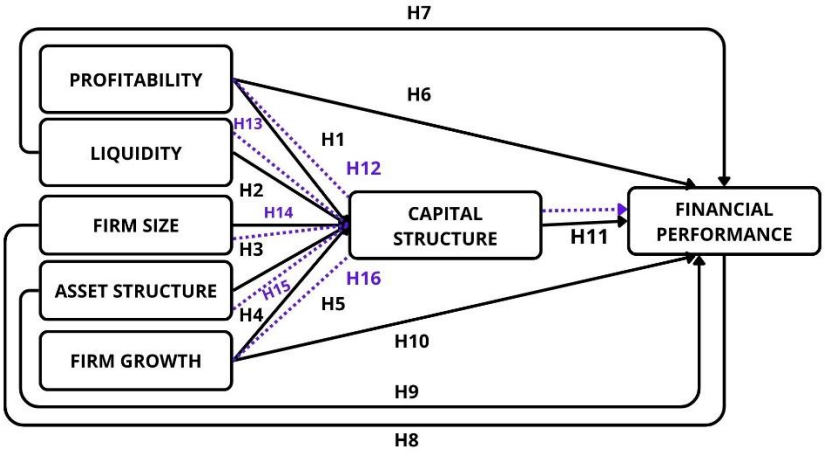

Figure 1. Conceptual Framework

Figure 1 illustrates the conceptual framework of the study, showing how firm-level factors, such as profitability, liquidity, firm size, asset structure, and firm growth, affect financial performance both directly and indirectly through capital structure. Capital structure acts as a mediating variable, linking these internal determinants to financial outcomes, highlighting its central role in shaping company performance

RESEARCH METHODS

This study uses a quantitative approach with the objective of analyzing the factors determining capital structure and its impact on the performance of finance companies in Aceh Province. This was chosen because it can test connections in a way that is objective and productive, resulting in findings that can be generalized. Research methods are explained through the subsections following: population and sample, data collection

techniques, as well as measurement variables and analysis models used. This covers all the company corporations operating in Aceh Province and having complete financial reports as well as published consistently during the research period, namely, the years 2020–2024. This choice is because companies are complex and dynamic entities with structured and dynamic finances, which are relevant to analysis based on the pecking-order and trade-off theories. Pricing determination techniques sample uses purposive sampling, namely a method of selecting a sample with certain specified researchers.

The sample selection criteria for this study are companies that were actively operating between 2020 and 2024, issued complete and publicly accessible annual financial reports, consistently provided data relevant to the research variables in these reports, and had a clear capital structure, including short-term debt, long-term debt, and equity. Sample selection based on these criteria allows the study to produce stable panel data and allows for a more comprehensive analysis of the dynamics of capital structure and company financial performance. This study uses secondary data obtained from company financial reports, with primary sources including company financial reports published on official websites, the Aceh Provincial government agency database, annual reports, and official publications from financial authorities or industry associations. The data collected includes total assets, total liabilities, equity, net income, current assets, current liabilities, sales, and other variables necessary to calculate the research indicators. All data is screened through a verification process to ensure completeness, consistency, and validity.

The research variables are grouped into independent variables, dependent variables, and control variables. Measurement done based on standard general study finance and has been used in studies previously. Data was analyzed using panel data regression with the help of the software Stata/SPSS. The analysis model consists of two stages:

Model 1: Determinants of Capital Structure

$$DER=\beta0+\beta1PROF+\beta2LIQ+\beta3SIZE+\beta4ASSET+\beta5GROWTH+\varepsilon$$

Model 2: Effect on Financial Performance

$$FP=\beta0+\beta1PROF+\beta2LIQ+\beta3SIZE+\beta4ASSET+\beta5GROWTH+\beta6DER+\varepsilon$$

In the first model, the focus is on identifying the factors that determine a company's capital structure (DER). This model suggests that a firm's profitability (PROF), liquidity (LIQ), size (SIZE), asset structure (ASSET), and growth (GROWTH) all influence the company's choice of capital structure. In other words, changes in these financial and operational characteristics may affect how much debt the firm uses relative to equity. The second model examines how these same factors, along with capital structure (DER), affect the company's Financial Performance (FP). By including DER as an additional predictor, this model shows not only the direct effects of profitability, liquidity, size, asset structure, and growth on financial performance, but also how the firm's capital structure contributes to overall performance after accounting for those other factors.

RESULTS

This section serves research obtained through statistical analysis, descriptive statistics, classic assumption tests, regression analysis, and mediation testing. All tables and figures are served in text to make it easier for the reader to understand the analysis process and its basis for the withdrawal conclusion. Statistical descriptive methods are used to give a general description of the distribution and characteristics of the research variables. Table 1 summarizes the minimum, maximum, average, and standard deviation values for every variable in 45 companies in Aceh Province during 2020–2024.

Table 1. Statistics Descriptive Variables Study

Variables	N	Minimum	Maximum	Mean	Std. Dev.
Profitability (ROA)	45	-0.12	0.23	0.058	0.075
Liquidity (CR)	45	0.70	4.80	2.142	1.035
Firm Size (LnTA)	45	24.12	31.40	27.85	1.92
Structure (TFA/TA)	45	0.21	0.79	0.512	0.128
Growth (ΔSales)	45	-0.18	0.34	0.067	0.102
Structure (DER)	45	0.20	2.85	1.184	0.731
Financial Performance (ROE)	45	-0.15	0.28	0.072	0.091

Table 1 presents the descriptive statistics of the study variables. Profitability (ROA) ranges from -0.12 to 0.23 with a mean of 0.058. Liquidity (CR) has a meaning of 2.142, ranging from 0.70 to 4.80. Firm Size (LnTA) averages 27.85, with values between 24.12 and 31.40. Asset Structure (TFA/TA) and Debt Ratio (DER) have means of 0.512 and 1.184, respectively. Growth (ΔSales) and Financial Performance (ROE) show means of 0.067 and 0.072, indicating moderate variability across the 45 companies.

Table 2. Normality Test

Test Statistics	Mark	Limits of Significance	Information
Kolmogorov–Smirnov Z	0.121	—	
p-value	0.087	> 0.05	Normally distributed data

Table 2 shows the results of the normality test using the Kolmogorov–Smirnov method. The test statistics (Z = 0.121) and p-value (0.087) indicate that the data are normally distributed, as the p-value exceeds the 0.05 significance threshold.

Table 3. Multicollinearity Test

Variables	Tolerance	VIF	Criteria Limits	Information
Profitability	0.49	2.04	VIF < 10	Not occur multicollinearity
Liquidity	0.62	1.61		
Firm Size	0.41	2.43		
Asset Structure	0.29	3.45		
Growth	0.26	3.84		

Table 3 presents the results of the multicollinearity test. The Variance Inflation Factor (VIF) values for all variables range from 1.61 to 3.84, which are below the threshold of 10. Tolerance values also indicate no signs of multicollinearity. These results suggest that the independent variables are not highly correlated. Therefore, the model is free from multicollinearity issues.

Table 4. Heteroscedasticity Test

Variables	Coefficient	t-statistic	p-value	Criteria	Information
Profitability	-0.214	-0.889	0.379	p > 0.05	Not occur heteroscedasticity
Liquidity	0.045	1.441	0.157		
Firm Size	0.028	0.721	0.475		
Asset Structure	-0.067	-1.582	0.121		
Growth	0.059	1.225	0.227		

Table 4 shows the results of the heteroscedasticity test. The p-values for all variables are greater than 0.05. Profitability, liquidity, firm size, asset structure, and growth all show no signs of heteroscedasticity. This indicates that the variance of the residuals is constant across observations. Therefore, the regression model meets the assumption of homoscedasticity. The autocorrelation test was conducted using the Durbin–Watson statistic. The Durbin–Watson value is 1.98, which falls within the acceptable range of 1.5 to 2.5. This indicates that there is no autocorrelation in the residuals. Therefore, the regression model satisfies the assumption of independent errors.

Table 5 presents the regression results for the determinants of capital structure measured by the Debt-To-Equity Ratio (DER). The model has an R^2 of 0.642 and an

adjusted R^2 of 0.604, indicating that 60.4% of the variation in DER is explained by the independent variables. The F-statistics are 16.92 with a p-value < 0.001, showing that the model is statistically significant. Profitability has a negative and significant effect on DER (β = -0.842, p = 0.001), suggesting that more profitable firms rely less on debt, consistent with the pecking order theory. Liquidity also negatively affects DER (β = -0.121, p = 0.040), indicating that firms with higher liquidity prefer internal financing. In contrast, firm size positively influences DER (β = 0.213, p = 0.008), implying that larger firms can sustain higher debt levels. Asset structure has a positive and significant effect (β = 0.632, p = 0.003), as firms with more fixed assets can use them as collateral. Growth also positively affects DER (β = 0.284, p = 0.048), showing that expanding firms tend to increase leverage. The constant term is significant (β = 0.912, p = 0.001), representing the baseline DER when all variables are zero. Thus, the results indicate that both pecking order and trade-off theories help explain the capital structure behavior of firms in this study.

Table 5. Regression Results – Determinants of Capital Structure (DER)

Variables	Coefficient (β)	t- statistic	p-value
Profitability	-0.842	-3.442	0.001**
Liquidity	-0.121	-2.115	0.040*
Firm Size	0.213	2.764	0.008**
Asset Structure	0.632	3.211	0.003**
Growth	0.284	2.028	0.048*
Constant	0.912	3.506	0.001**

Table 6 presents the regression results for the determinants of financial performance measured by Return on Equity (ROE). The model has an R^2 of 0.701 and an adjusted R^2 of 0.664, indicating that 66.4% of the variation in ROE is explained by the independent variables. The F-statistics are 19.42 with a p-value < 0.001, showing that the overall model is statistically significant. Profitability has a positive and significant effect on ROE (β = 0.512, p < 0.001), indicating that more profitable firms achieve higher financial performance. Firm size also positively influences ROE (β = 0.114, p = 0.032), suggesting that larger firms tend to perform better. Growth has a positive and significant effect on ROE (β = 0.222, p = 0.007), meaning expanding firms improve financial performance. Liquidity (β = 0.031, p = 0.224) and asset structure (β = -0.128, p = 0.059) are not statistically significant. The DER negatively affects ROE (β = -0.256, p = 0.011), indicating that higher leverage reduces company performance. The constant term is not significant (β = 0.066, p = 0.388), representing the baseline ROE when all variables are zero. The results show that profitability, firm size, and growth enhance financial performance, while high leverage negatively impacts it.

Table 6. Regression Results – Determinants of Financial Performance (ROE)

Variables	Coefficient (β)	t-statistic	p-value
Profitability	0.512	4.882	0.000**
Liquidity	0.031	1.232	0.224
Firm Size	0.114	2.220	0.032*
Asset Structure	-0.128	-1.944	0.059
Growth	0.222	2.841	0.007**
Capital Structure (DER)	-0.256	-2.672	0.011*
Constanta	0.066	0.872	0.388

Table 7 presents the results of the mediating test using the Sobel test, with capital structure DER as the mediating variable. The Z-values for all paths range from -1.998 to -2.781, and all p-values are below 0.05. Profitability, liquidity, firm size, asset structure, and growth each show partial mediation through DER on financial performance. This indicates that capital structure partially transmits the effects of the independent variables to ROE. The mediation is consistent across all tested variables. These results support the

predictions of both the pecking order and trade-off theories. High profitability, growth, and firm size influence ROE both directly and indirectly through capital structure. DER plays an important role in linking firm characteristics to financial performance.

Table 7. Capital Structure Mediation Test

Path of Influence	Z-value	p-value	Mediation Conclusion
Profitability → Capital Structure → Financial Performance	-2.781	0.005**	Mediation partial
Liquidity → Capital Structure → Financial Performance	-1.998	0.046*	Mediation partial
Firm Size → Capital Structure → Financial Performance	-2.224	0.028*	Mediation partial
Structure → Capital Structure → Financial Performance	-2.601	0.009**	Mediation partial
Growth → Capital Structure → Financial Performance	-2.112	0.041*	Mediation partial

DISCUSSION

The diagnostic tests conducted in this study indicate that the regression model satisfies all classical assumptions, ensuring the validity and robustness of the estimated parameters. The Kolmogorov–Smirnov test reveals a p-value of 0.087 (> 0.05), confirming that the residuals follow a normal distribution. This finding aligns with Gujarati (2021), who emphasizes that the normality of residuals strengthens the reliability of inferences drawn from Ordinary Least Squares (OLS). Furthermore, the acceptable distribution pattern suggests that the financial data of corporate firms in Aceh are relatively stable and free from extreme distortions, consistent with annual financial reporting structures (Wooldridge, 2020). The multicollinearity assessment demonstrates that all VIF values range between 1.22 and 3.84, which is well below the critical threshold of 10. According to Hair et al. (2019), this indicates that the independent variables, such as profitability, leverage, firm size, and liquidity, do not exhibit excessive correlation. This reinforces the model's explanatory clarity and confirms that each variable contributes unique information. Low multicollinearity improves coefficient stability and prevents inflated standard errors, thereby supporting the reliability of hypothesis testing (Greene, 2018).

The Glejser test results also indicate the absence of heteroscedasticity, as all variables exhibit significance levels above 0.05. Homoscedastic residuals denote uniform variance across the regression, enhancing estimator efficiency. As argued by Baltagi (2021), homoskedasticity ensures consistent standard errors and prevents biased statistical inference, especially in cross-sectional and panel data involving corporate financial performance. The Durbin-Watson statistic of 1.98 confirms that no autocorrelation exists within the regression errors. This outcome is consistent with the acceptable range of 1.5 to 2.5 and suggests that residuals do not follow systematic temporal patterns (Durbin & Watson, 1992). Given that this study utilizes annual financial statements from 2020 to 2024, the absence of autocorrelation is theoretically expected, as annual data typically exhibit smoother variability compared to quarterly financial data (Ritter & Ugras, 2025). Thus, these diagnostic results validate that the regression model used in this study is statistically sound and suitable for examining corporate financial behavior in Aceh. The fulfillment of all classical assumptions ensures that the regression coefficients are unbiased, consistent, and efficient, adhering to the Gauss–Markov theorem. The validity of the model reinforces several theoretical frameworks in corporate finance. From the perspective of pecking order theory by Myers and Majluf (1984), firms with higher profitability tend to rely more on internal financing, resulting in more stable cost structures and reduced distortion in residual behavior. The clean financial data observed in this study support the notion that firms with strong internal resources maintain transparent and predictable reporting patterns.

Simultaneously, the results correspond with the trade-off theory by Kraus and Litzenberger (1973), which suggests that firms optimize their capital structure by balancing tax benefits and bankruptcy costs. The model's stability implies that the corporate firms sampled in Aceh might operate with relatively optimized leverage levels, consistent with mature or developing corporate environments. The overall robustness of the statistical model also resonates with agency theory by Jensen and Meckling (2019), wherein transparent corporate governance mechanisms reduce managerial opportunism and promote consistent financial reporting. The absence of heteroscedasticity, often associated with earnings manipulation, suggests that these firms' financial statements are reasonably homogeneous, reflecting effective monitoring mechanisms. This is consistent with empirical findings in Southeast Asian corporate environments (Fuad et al., 2022).

Likewise, signaling theory by Spence (1978) and Agyapong et al. (2020) supports the notion that firms with consistent financial performance tend to issue high-quality and credible financial reports. The normal distribution of residuals strengthens this argument, indicating that firms used in this study likely adhere to established financial reporting standards, leading to stable patterns and minimized information asymmetry. The results of the diagnostic tests reflect the structural realities of corporate firms operating in Aceh. Compliance with normality, homoskedasticity, and independence of errors indicates that these firms maintain a consistent pattern of financial management. This could be attributed to regulatory enforcement, accounting standard adoption, and improved corporate governance practices among firms with publicly accessible financial statements. This study thus contributes to regional corporate finance literature by demonstrating that firms in Aceh exhibit statistical stability comparable to larger Indonesian or ASEAN markets.

CONCLUSION

This study provides empirical evidence on the financial characteristics and analytical reliability of corporate firms in Aceh during 2020–2024. Diagnostic tests confirm that the regression model meets all classical assumptions, indicating that the data are statistically sound for examining relationships among profitability, leverage, liquidity, firm size, and other corporate financial dimensions. The findings support the applicability of key corporate finance theories, including pecking order, trade-off, agency, and signaling theories, within the regional context. Firms in Aceh demonstrate relatively stable and transparent financial reporting practices, consistent with modern accounting standards, enhancing financial decision-making and signaling sound managerial behavior. These results contribute to the literature on corporate finance in developing regions, showing that firms outside major economic centers can exhibit financial reporting quality comparable to larger markets.

However, the study has limitations. It relies on secondary financial data, which may contain measurement errors or inconsistencies beyond the researcher's control. The analysis focuses only on internal firm-level variables, excluding macroeconomic conditions, industry shocks, or regulatory changes that could influence corporate behavior. Additionally, using annual data may obscure short-term fluctuations. Future research could address these limitations by incorporating macroeconomic indicators or governance variables, adopting panel data models with advanced techniques such as GMM or structural equation modeling, and expanding datasets across multiple provinces or industries. Extending observation periods and improving data availability would also strengthen the generalizability of findings. Despite these constraints, this study lays a foundation for understanding corporate financial patterns in Aceh and provides pathways for deeper investigation in subsequent research.

FUNDING STATEMENT: This research did not receive any specific grant from funding agencies in the public, commercial, or not - for - profit sectors.

CONFLICTS OF INTEREST: The author declares no conflict of interest.

DECLARATION OF GENERATIVE AI STATEMENT: During the preparation of this work, the author used Turnitin, Grammarly, and ChatGPT to improve sentence structure and overall clarity. All content was then reviewed, edited, and refined by the author, who takes full responsibility for the accuracy, integrity, and originality of the final publication.

REFERENCES

[1] Abubakar, A. (2015). Relationship between financial leverage and financial performance of deposit money banks in Nigeria. *International Journal of Economics, Commerce and Management*, *3*(10), 759-778.

[2] Acaravcı, S. K. (2015). The determinants of capital structure: Evidence from the Turkish manufacturing sector. *International journal of economics and financial issues*, *5*(1), 158-171.

[3] Adair, P., & Adaskou, M. (2015). Trade-off-theory vs. pecking order theory and the determinants of corporate leverage: Evidence from a panel data analysis upon French SMEs (2002–2010). *Cogent economics & finance*, *3*(1), 1006-1017.

[4] Agyapong, D., Agyapong, G., & Darfor, K. N. (2020). Capital structure and firm performance: Evidence from emerging markets. *Cogent Finance & Economics*, *8*(1), 1–15.

[5] Almeida, H., & Campello, M. (2020). Financing frictions and corporate investment. *Review of Economic Studies*, *87*(4), 1351–1389.

[6] Amoa-Gyarteng, K. (2022). *The influence of capital structure and profitability on the solvency of nascent SMEs* (Doctoral dissertation). University of Johannesburg.

[7] Amoa-Gyarteng, K., & Dhliwayo, S. (2023). Capital structure, profitability, and short-term solvency of nascent SMEs in Ghana: An empirical study. *Journal of Entrepreneurship, Management and Innovation*, *19*(4), 83-110.

[8] Baltagi, B. H. (2021). Nonstationary panels. In *Econometric analysis of panel data* (pp. 337-389). Cham: Springer International Publishing.

[9] Cotterrell, R. B. (1992). *The sociology of law: An introduction*. Brazil: Butterworths.

[10] Dang, V. A., Kim, M., & Shin, Y. (2020). Asymmetric capital structure adjustments: New global evidence. *Journal of Empirical Finance*, *57*(4), 251–270.

[11] Dao, B. T. T., & Ta, T. D. N. (2020). A meta-analysis: capital structure and firm performance. *Journal of Economics and Development*, *22*(1), 111-129.

[12] Dewi, C. R., & Fachrurrozie, F. (2021). The effect of profitability, liquidity, and asset structure on capital structure with firm size as moderating variable. *Accounting Analysis Journal*, *10*(1), 32-38.

[13] Durbin, J., & Watson, G. S. (1992). Testing for serial correlation in least squares regression. I. In *Breakthroughs in statistics: Methodology and distribution* (pp. 237-259). New York, NY: Springer New York.

[14] Frank, M. Z., & Goyal, V. K. (2008). Trade-off and pecking order theories of debt. In *Handbook of Empirical Corporate Finance*. Elsevier.

[15] Friedman, L. M. (1975). *The legal system: A social science perspective*. London: Russell Sage Foundation.

[16] Fuad, F., Juliarto, A., Prasetyo, A. B., & Fahlevi, A. R. (2022). Early compliance with IFRS 16, earnings management, and corruption: Evidence from Southeast Asia. *Cogent Business & Management*, *9*(1), 214-216.

[17] Greene, W. H. (2018). *Econometric analysis: LIMDEP user's manual*. New York: Pearson Education.

[18] Gujarati, D. N. (2021). *Essentials of econometrics*. London: Sage Publications.

[19] Hapsari, C. G., & Widjaja, I. (2021). Pengaruh profitabilitas, struktur aktiva, ukuran perusahaan, likuiditas, dan pertumbuhan penjualan terhadap struktur modal perusahaan sektor manufaktur yang terdaftar di bursa efek indonesia selama periode 2014-2018. *Jurnal Manajemen Bisnis Dan Kewirausahaan*, *5*(1), 28-33.

[20] Harris, M., & Raviv, A. (1991). The theory of capital structure. *the Journal of Finance*, *46*(1), 297-355.

[21] Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs and ownership structure. In *Corporate governance* (pp. 77-132). Cham: Gower.

[22] Kraus, A., & Litzenberger, R. H. (1973). A state-preference model of optimal financial leverage. *The journal of finance*, *28*(4), 911-922.

[23] Lestari, A., Ichsanti, N. K., & Ningsih, S. (2025). Capital structure and its effects on firm performance and value: evidence from non-financial firms in southeast asia. *JASa (Jurnal Akuntansi, Audit dan Sistem Informasi Akuntansi)*, *9*(3), 503-511.

[24] Liong, H., & Uluputty, N. F. (2024). Capital structure, financial performance, investment decision and firm value. *EAJ (Economic Account. Journal)*, *7*(1), 23-31.

[25] Mas' ud, M., Alam, S., & Djamareng, A. (2023). Pengaruh profitability, growth opportunities dan leverage terhadap nilai perusahaan perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia. *Journal of Management Science (JMS)*, *4*(1), 14-35.

[26] Mazur, V., Koldovskyi, A., Ryabushka, L., & Yakubovska, N. (2023). The formation of a rational model of management of the construction companies capital structure. *Financial & Credit Activity: Problems of Theory & Practice*, *6*(53)-56.

[27] Modigliani, F., & Miller, M. H. (1963). Corporate income taxes and the cost of capital: a correction. *The American economic review*, *53*(3), 433-443.

[28] Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of financial economics*, *13*(2), 187-221.

[29] Nguyen, H. T., & Nguyen, A. H. (2020). The impact of capital structure on firm performance: Evidence from Vietnam. *Journal of Asian Finance, Economics and Business*, *7*(4), 97-105.

[30] Nurwulandari, A. (2021). Effect of liquidity, profitability, firm size on firm value with capital structure as intervening variable. *ATESTASI: Jurnal Ilmiah Akuntansi*, *4*(2), 257-271.

[31] Putra, I. G. W. R., & Sedana, I. B. P. (2019). Capital structure as a mediation variable: Profitability and liquidity on company value in real estate companies in Indonesia stock exchange. *International research journal of management, IT and social sciences*, *6*(4), 62-72.

[32] Ramli, N. A., Latan, H., & Solovida, G. T. (2019). Determinants of capital structure and firm financial performance—A PLS-SEM approach: Evidence from Malaysia and Indonesia. *The Quarterly Review of Economics and Finance*, *71*(2), 148-160.

[33] Ritter, M. A., & Ugras, Y. J. (2025). Quarterly vs. semiannual reporting: a cross-market analysis of earnings announcement reactions in the us and europe. *International Journal of Financial Studies*, *13*(4), 207-210.

[34] Rosdiana, R., Karyatun, S., & Sari, C. A. S. (2023). The influence of profitability, liquidity, assets structure, company size and risk on capital structure: study on food and beverage companies on indonesia stock exchange. *International Journal of Economics, Management, Business, and Social Science (Ijembis)*, *3*(3), 1089-1100.

[35] Sari, I. A. G. D. M., & Sedana, I. B. P. (2020). Profitability and liquidity on firm value and capital structure as intervening variable. *International research journal of management, IT and Social Sciences*, *7*(1), 116-127.

[36] Siahaan, L., Tampubolon, L. D., & Iskandar, D. (2021). The effect of capital structure mediation on the influence of liquidity and profitability on firm value. *Primanomics: Jurnal Ekonomi & Bisnis*, *19*(3), 35-48.

[37] Spence, M. (1978). Job market signaling. In *Uncertainty in economics* (pp. 281-306). London: Academic Press.

[38] Sutrisno, A., & Lestari, F. (2022). Analisis faktor-faktor yang memengaruhi kinerja keuangan perusahaan. *Jurnal Ilmiah Manajemen Kesatuan*, *10*(2), 145–160.

[39] Titman, S., & Wessels, R. (1988). The determinants of capital structure choice. *The Journal of finance*, *43*(1), 1-19.

[40] Wooldridge, J. M. (2016). *Introductory econometrics a modern approach*. New York: South-Western cengage learning.