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Profitability as a Boundary Condition Between Global Trade Tensions, Capital Structure, and Firm Value: Evidence from Multinational Corporations in Indonesia

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ABSTRACTß

Increasing global trade uncertainty caused by changes in trade policies, geopolitical tensions, and international supply chain disruptions has created strategic challenges for multinational corporations highly exposed to the global economy. This study aims to analyze the effects of global trade tensions and capital structure on firm value and to examine the moderating role of profitability among multinational corporations operating in Indonesia. This research adopts a quantitative approach with an explanatory research design using data from multinational corporations listed on the Indonesia Stock Exchange during 2021–2024. The sample was selected through purposive sampling, resulting in 48 observations. Global trade tensions were measured using the World Trade Uncertainty Index (WTUI), capital structure was proxied by the Debt-to-Equity Ratio (DER), firm value was measured using Tobin's Q, and profitability was represented by Return on Assets (ROA). Data analysis was conducted using multiple linear regression and Moderated Regression Analysis (MRA). The findings reveal that global trade tensions negatively and significantly affect firm value, while capital structure has a positive and significant effect. Profitability strengthens both relationships, indicating that firm value depends on internal capabilities and responses to global external pressures.

Keywords: Global Trade Tensions; Capital Structure; Profitability; Firm Value; Multinational Corporations.

INTRODUCTION

The transformation of the global economy in recent decades has driven increased connectivity between countries through international trade activities, foreign direct investment, and the establishment of cross-border production chains (GVCs) Adarov, A., & Stehrer, R. (2021). In this economic ecosystem, multinational corporations (MNCs) are strategically positioned because they are able to integrate various resources, including capital, technology, labor, and production facilities from various countries to improve operational efficiency and expand market coverage Pitelis, C. N., Teece, D., & Yang, H. (2023). In addition to playing a role in global business strategy, the existence of multinational companies also has an economic impact on investment destination countries through increasing foreign capital flows, job creation, and the dissemination of technology and knowledge (Dunning & Lundan, 2008; Narula & Pineli, 2021).

Although global economic integration provides a wide range of growth opportunities, the dynamics of international trade in recent years have faced various pressures that increase the level of business uncertainty Jung, J. (2023). Changes in trade policies, increasing geopolitical conflicts, and the tendency to implement protectionist policies are factors that have the potential to hinder cross-border economic activities Aiyar et al. (2023). The World Trade Organization (WTO, 2024) indicates that the slowdown in global trade growth is influenced by rising trade barriers, geopolitical tensions, and uncertainty over the direction of international economic policy.

The impact of changing global trade environments is also felt by developing countries, including Indonesia, which has significant involvement in the international production network of Guez Monroy et al. (2022). As one of the countries that are foreign investment destinations, Indonesia has an industrial sector that depends on export activities and international trade relations Wicaksono, K., & Tu, Y. (2023). Data from the Central Statistics Agency (BPS, 2024) shows a decrease in the value of non-oil and gas exports compared to the previous period, especially in the manufacturing sector which has a high level of dependence on global market demand. These conditions suggest that external changes in international trade can put pressure on the performance of companies that have a high level of global exposure.

One form of external pressure that is of concern in the international business literature is the increasing global trade tensions Contractor et al. (2026). The trade conflict between the United States and China in the 2018–2019 period is a clear example that changes in tariff policies and trade barriers can affect the business activities of Huang et al. (2023). Increased trade uncertainty can lead to changes in operational strategies, increased production costs, supply chain disruptions, as well as changes in investors' perception of the company's prospects. Huang et al. (2023) show that companies with high levels of involvement in international trade experience a decline in market value when faced with increased trade uncertainty.

For multinational companies, the risks due to global trade tensions become more complex than domestic companies due to their operational characteristics involving various countries Larsen et al. (2023). Changes in import tariffs, fluctuations in logistics costs, limited supply of raw materials, and changes in investment regulations can affect a company's ability to maintain financial performance Sha and Zhao (2023). In these conditions, firm value is one of the important indicators that reflects how the market evaluates the company's ability to deal with external risks and maintain business sustainability.

In addition to external pressures, internal factors of the company also have an important contribution to the formation of company value. One of the internal factors that is of concern in financial management is the capital structure, namely the company's decision to determine the proportion of the use of debt and equity capital as a source of funding Nurdin et al. (2025). Proper capital structure decisions can help companies reap funding benefits, but suboptimal decisions can increase financial risk and lower investor perceptions Arhinful et al. (2025).

On the other hand, the company's ability to generate profits is a factor that can determine the level of resilience of the company when facing the uncertainty of the business environment

Jia, J., & Li, Z. (2020). High profitability indicates the company's ability to generate internal resources that can be used to deal with economic pressures and operational risks Nakonechna, N., & Hradyuk, N. M. (2024).

Although research on the factors that affect company value has developed extensively, some limitations have still been found in previous research. First, most previous studies focused more on internal factors such as capital structure, profitability, company size, and investment decisions. Meanwhile, the influence of external factors in the form of global trade tensions on the value of companies, especially in multinational companies in developing countries, is still not widely studied.

Second, most research on global trade uncertainty is conducted on companies in developed countries that have different economic characteristics and market structures than developing countries. Therefore, empirical evidence on how multinational companies in Indonesia respond to global trade pressures still has room for development.

Third, previous research has tended to place profitability as an independent variable that directly affects a company's value. This study offers a different approach by making profitability a moderation variable that explains a firm's ability to manage the impact of global trade tensions and capital structure decisions on a firm's value

Based on the problems and gaps in the research, this study aims to analyze the influence of global trade tensions and capital structure on the value of companies in multinational companies operating in Indonesia and test the role of profitability as a moderation variable. This research is expected to make a theoretical and empirical contribution through the integration of global economic and corporate finance perspectives in explaining the mechanism of corporate value formation

RESEARCH METHODS

This study uses a quantitative approach with an explanatory research design to examine the causal relationship between global trade tensions, capital structure, profitability, and corporate value in multinational companies listed on the Indonesia Stock Exchange for the period 2021–2024. This approach was chosen because the research aims to test the hypothesis empirically through statistical analysis of the influence of external factors in the form of global trade uncertainty and internal factors in the form of funding decisions on the value of companies, as well as analyzing the role of profitability as a moderation variable (Wooldridge, 2010).

The study population included all multinational companies listed on the Indonesia Stock Exchange during the observation period. The sample was determined through purposive sampling techniques with the following criteria: (1) the company is listed on an ongoing basis during the 2021–2024 period, (2) has international business activities or involvement in global trade, and (3) provides complete semi-monthly financial statements. Based on these criteria, 6 companies were obtained as a research sample with a total of 48 observations based on semi-annual financial statements for four years

The research uses secondary data sourced from the company's semi-annual financial statements and annual reports obtained through the Indonesia Stock Exchange as well as international economic data related to global trade tensions. Global trade tension variables are measured using the World Trade Uncertainty Index (WTUI) developed (Ahir et al., 2022), capital structure is proxied using the (DER) Debt to Equity Ratio (Kruk, 2021), company value is measured through Tobin's Q (Dang et al., 2022), while profitability as a moderation variable is measured using (ROA) Return on Assets (Alarussi & Alhaderi, 2021). The use of ROA as a moderation variable is based on the role of profitability in reflecting a company's ability to cope with external pressures and manage funding decisions.

The operational definition and measurement of the Global Trade Tension variable is the Global Trade Uncertainty Index calculated based on the frequency of trade-related words in international publications with the World Trade Uncertainty Index (WTUI) indicator (Ahir et al., 2022). Capital Structure (Kruk, 2021). Company Value (Dang et al., 2022). Profitability (Alarussi & Alhaderi, 2021).

Data analysis was performed using multiple linear regression and Moderate Regression Analysis (MRA) with the help of statistical software. Double linear regression was used to test the direct influence of global trade tensions and capital structure on the value of a company, while MRA was used to test the influence of profitability moderation through the interaction variables between ROA and each independent variable.

Before conducting regression testing, this study conducted a classical assumption test which included normality, multicollinearity, heteroscedasticity, and autocorrelation to ensure the feasibility of the model. Hypothesis testing was carried out through t-test, F-test, and Adjusted R^2 to determine the partial, simultaneous, and model-based influences in explaining variations in company values. The moderation effect is determined based on the significance of the interaction coefficient between profitability and independent variables.

Although the study has the characteristics of panel data because it involves several companies over several time periods, the model estimation was conducted using the pooled ordinary least squares (OLS) approach through SPSS. This approach is used because the research focuses on testing the relationship between the variables as a whole. The use of panel regression methods such as Fixed Effects Model (FEM) and Random Effects Model (REM) can be the next research development to capture differences in characteristics between companies and changes between periods more specifically (Wooldridge, 2010).

RESULTS AND DISCUSSION

Statistik Deskriptif

Tabel 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
World Trade Uncertainty Index	48	0.02	37.35	6.3975	12.01297
Debt-to-Equity Ratio	48	0.12	6.49	1.2346	1.53721
Tobin’s Q Ratio	48	0.75	10.57	2.7559	2.82259
Return on Assets	48	0.01	0.90	0.1074	0.13337

Source: Research Data

The World Trade Uncertainty Index (WTUI) variable has an average value of 6.3975 with a standard deviation of 12.01297 and a value range of 0.02 to 37.35, which shows that the level of global trade uncertainty fluctuates relatively high during the study period. The Debt-to-Equity Ratio (DER) obtained an average value of 1.2346 with a standard deviation of 1.53721, which indicates a difference in capital structure strategies between companies, especially in the use of debt-based funding. Meanwhile, Tobin's Q Ratio has an average value of 2.7559 with a standard deviation of 2.82259, indicating that the companies in the sample generally have a positive market valuation with a market value that exceeds the value of their assets. Return on

Assets (ROA) shows an average value of 0.1074 with a standard deviation of 0.13337, which describes the company's ability to generate profits from its assets, despite variations in profitability levels between companies. Overall, the variation in values in each variable showed a heterogeneity of company characteristics and economic conditions during the observation period, so that the data had sufficient characteristics for further analysis.

Classic Assumption Test

Before hypothesis testing, an evaluation of the feasibility of the regression model was first carried out through a series of classical assumption tests. The results of the normality test using the Kolmogorov-Smirnov One-Sample showed a significance value of 0.177, which indicates that the residual model has a normal distribution. Furthermore, the multicollinearity test showed that all independent variables had a Tolerance value ranging from 0.816 to 0.918 and a Variance Inflation Factor (VIF) value between 1.090 to 1.225. This value shows that there is no indication of correlation between independent variables that can interfere with the regression model estimation. The results of the heteroscedasticity test through the Glejser test approach also show that all variables have a significance value above 0.05, so it can be stated that the model does not experience the problem of residual variance inequality. In addition, autocorrelation testing yielded a Durbin-Watson statistical value of 1.610, indicating that the residuals between observations do not have a specific correlation pattern. With the fulfillment of all the criteria for testing the classic assumptions, the research model is declared to meet the statistical requirements and can be used for regression analysis and testing of relationships between research variables.

Multiple Linear Regression

Table 2. Multiple Linear Regression Results

Variabel	Koefisien (B)	Std. Error	t	p-value
Konstanta	1.019	0.358	2.847	0.007***
World Trade Uncertainty Index	-0.054	0.022	-2.459	0.018**
Debt-to-Equity Ratio	1.368	0.169	8.091	0.000***
Return on Assets	3.677	2.066	1.780	0.082*

Notes:***p<0.01, **p<0.05, *p<0.10.
Source: Research Data

The results of multiple linear regression testing showed that there was a difference in the contribution of each independent variable in explaining the variation in company values. A constant value of 1.019 with a significance level of 0.007 indicates that when the predictor variable is at a fixed condition, the fixed model produces a positive enterprise base value. The World Trade Uncertainty Index (WTUI) variable has a negative regression coefficient of -0.054 with a significance value of 0.018, which indicates that the increase in global trade uncertainty is related to significant decline in the value of the company. These results illustrate that increased external pressures due to trade uncertainty can affect market perceptions of the outlook and stability of companies. In contrast to WTUI, the Debt-to-Equity Ratio (DER) variable shows a positive relationship direction with a coefficient of 1.368 and a significance level of 0.000. The findings indicate that the use of debt-based funding structures has a positive correlation with increasing the value of the company, which may reflect the ability of the company to leverage external sources of financing to support value creation. Meanwhile, the Return on Assets (ROA) variable has a positive coefficient of 3.677, but its significance value of 0.082 indicates that the influence has not met the statistical significance level of 5%. This condition suggests that the level of profitability of the company has not been a factor that significantly explains the change in the value of the company in this research model. Overall, the regression results show that external uncertainty factors and capital structure decisions have a stronger role than profitability in explaining the variation in the company's value during the observation period.

Moderate Regression Analysis (MRA)

Table 3. Results of Moderate Regression Analysis

Variabel	Koefisien (B)	Std. Error	t	p-value
Konstanta	1.703	0.313	5.446	0.000**
WTUI	-0.027	0.022	-1.199	0.237
DER	-0.024	0.360	-0.065	0.948
WTUI*ROA	-0.161	0.062	-2.582	0.013**
DER*ROA	7.618	1.713	4.447	0.000**

Notes:***p<0.01, **p<0.05, *p<0.10.
Source: Research Data

The results of the moderation test showed that the interaction between the World Trade Uncertainty Index (WTUI) and the Return on Assets (ROA) had a negative coefficient of -0.161 with a significance level of 0.013. These findings suggest that ROA significantly moderates WTUI's relationship to corporate value, where increased corporate profitability is able to reduce the negative impact of global trade uncertainty on market perception. Furthermore, the interaction between the Debt-to-Equity Ratio (DER) and Return on Assets (ROA) resulted in a positive coefficient of 7.618 with a significance value of 0.000. These results indicate that ROA strengthens the relationship between DER and company value, so that the effectiveness of the use of debt in increasing the company's value becomes more optimal when supported by the company's ability to generate profits. Overall, these results show that ROA has a significant moderation role in changing the relationship between external factors in the form of WTUI and internal factors in the form of DER on company value.

The Effect of Global Trade Tensions on Corporate Value

The results of the study show that global trade uncertainty proxied through the World Trade Uncertainty Index (WTUI) has a negative and significant effect on company value. These findings indicate that increased uncertainty in international trade activities may lower market appreciation of companies. This condition is caused by increasing business risks arising from changes in trade policies, uncertainty in the implementation of tariffs, potential restrictions on market access, and disruption of the stability of economic relations between countries. This impact is becoming increasingly relevant for multinational companies because of their operational characteristics that have a high connection to the global market through cross-border trade activities, international investment, and dependence on global supply chain networks (Julio & Yook, 2012).

In contrast to companies that only operate in the domestic market, multinational companies have a greater level of exposure to changing international trade conditions. As trade tensions increase, companies face various consequences, such as increased costs due to tariff changes, uncertainty of production strategies, distribution barriers, and increased complexity of managing global operations (Handley & Limão, 2017). The increased risk then influences investors' decisions in assessing the company's prospects. Investors tend to make adjustments to cash flow estimates and investment risk levels, so companies with high levels of global exposure can experience pressure on market valuations (Pastor & Veronesi, 2013).

Theoretically, the results of this study support signaling theory, which explains that information about changes in the external environment can be a signal for investors to form perceptions of the company's condition and prospects. The increase in WTUI indicates that there is global trade instability that has the potential to increase operational risks, suppress profitability, and increase uncertainty in company growth. In addition, the results of this study are also consistent with the perspective of real options theory, which explains that increased uncertainty can encourage companies to postpone investment decisions because the benefit of waiting for clearer information (option value of waiting) is greater than expanding under risky conditions. This phenomenon is particularly relevant for multinational companies because international investments generally require large capital commitments and have high adjustment costs.

The findings of this study are in line with various previous studies on the impact of trade uncertainty on company activities. Caldara et al. (2020) show that increasing trade policy uncertainty can hinder companies' investments due to unclear trade policy direction. Furthermore, Handley & Limao (2015) found that trade policy uncertainty caused companies to be more cautious in expanding because it was difficult to predict future market conditions. Baker et al. (2016) also explain that increased economic uncertainty can put pressure on economic activity and financial markets through changes in investors' risk perceptions. In the context of multinational companies, Nguyen et al. (2023) show that increasing policy uncertainty in the countries where companies operate can reduce the market value of companies due to reduced certainty about international activities and growth opportunities.

Thus, this study reinforces the empirical evidence that global trade uncertainty is an external factor that has an important role in influencing company values, especially for multinational companies that have a high dependence on international economic conditions. The results of this study confirm the importance of risk mitigation strategies through market diversification, strengthening supply chain flexibility, and increasing adaptability to changes in the global trade environment to maintain the sustainability of company value.

The Influence of Capital Structure on Company Value

The results of the study show that the capital structure proxied through the Debt-to-Equity Ratio (DER) has a positive and significant effect on the value of the company. These findings suggest that the increased use of debt in funding structures is able to increase the positive perception of the market which is reflected through the increase in the value of Tobin's Q. This indicates that investors do not always consider leverage as a risk, but may see it as a funding strategy to support investment, expansion, and growth of companies. For multinational corporations, the use of debt has an important role due to the large need for funding to support cross-border operational activities, technology development, and global business expansion.

The positive relationship between capital structure and company value can be explained through Trade-Off Theory (Kraus & Litzenberger, 1973; Modigliani & Miller, 1963), which states that the use of debt can increase the value of a company through the benefit of the tax shield as long as the tax benefits obtained are greater than the potential costs of financial distress. The results of this study show that the company's leverage level is still at an optimal level, so that the additional use of debt can increase the efficiency of capital costs and support increased investment without causing excessive financial risk.

In addition, these findings also support the Signaling Theory (Ross, 1977), which explains that capital structure decisions can be informative for investors in assessing the company's prospects. The use of debt can signal that management has confidence in the company's ability to generate future cash flow to meet financial obligations. Thus, effectively managed leverage can increase investor confidence and positively impact the company's value.

The results of this study are in line with Frank and Goyal (2009) who show that leverage is an important factor in the decision of a company's capital structure. Demirgüneş (2017) also found that the use of debt can increase the value of a company when the benefits of funding through debt are able to outweigh the financial risks posed. The latest findings of Udyono et al. (2026) further reinforce that companies with good operational capabilities and growth opportunities can benefit from the use of leverage as an instrument to support investment and value creation.

Overall, this research shows that capital structure is not only a funding decision, but also a strategic instrument in increasing the value of a company. In multinational companies operating in Indonesia, optimal leverage management can expand business capacity, increase funding efficiency, and strengthen the company's competitiveness in the face of the global business environment. Therefore, the positive benefits of capital structure to the value of a company are highly dependent on the company's ability to balance the benefits of using debt with the accompanying financial risks.

The Effect of Global Trade Tensions on Company Value with Profitability as a Moderation Variable

The results show that profitability reinforces the negative influence of global trade tensions on company value. These findings indicate that companies with high levels of profitability actually experience a greater decline in company value when faced with increased international trade uncertainty. This condition shows that profitability does not always function as a protective factor against external risks, especially in multinational companies that have a high dependence on global trade networks. High profitability reflects the company's success in capitalizing on international opportunities, but at the same time demonstrates its exposure to supply chain stability, global markets, and trade policies between countries.

This finding can be explained through resource dependence theory (Pfeffer & Salancik, 1978), which states that a company's dependence on external resources and environment can increase its vulnerability to external changes. Multinational companies gain an advantage through integration in global value chains, but such dependency can be a source of risk when there are tariff increases, trade barriers, or supply chain disruptions. As a result, companies with high profitability and large international exposure may face greater pressure on operating costs, cash flow, and growth prospects.

In addition, the results of this study support the perspective of signaling theory (Spence, 1973), which explains that profitability is important information for investors in assessing the company's prospects. The high level of profitability shapes market expectations for the sustainability of the company's performance. However, when trade uncertainty threatens a company's ability to sustain profit growth, investors will make valuation adjustments more significantly as it considers the potential for future performance declines.

These findings are consistent with Caldara et al. (2020) who show that trade policy uncertainty can hamper economic activities and company investment. Handley and Limão (2017) also found that companies that benefit more from international trade openness tend to face greater impacts when there is a change in trade policy. Furthermore, Pringpong et al. (2023) show that increased geopolitical risk can lower the value of a company, especially in companies with a high level of external exposure. The study expands on the findings by showing that profitability can increase a firm's sensitivity to global trade risks.

Overall, this study shows that the role of profitability in dealing with external risks is contextual. In multinational companies, high profitability does not necessarily increase the resilience of the company, but it can reinforce the negative impact of global trade uncertainty because it reflects the high interconnectedness of the company with the international economy. Therefore, companies need to increase operational flexibility, diversify supply chains, and reduce dependence on specific markets to maintain the sustainability of corporate value in the face of global trade dynamics.

The Effect of Capital Structure on Company Value with Profitability as a Moderation Variable

The results of the study show that profitability reinforces the positive influence of capital structure on the value of the company. These findings show that the benefits of using external funding in increasing the value of a company are greater when the company has the ability to generate high profits. Thus, the effectiveness of the capital structure does not only depend on the composition of debt and equity, but is also influenced by the company's internal ability to optimize the resources obtained from such funding decisions.

This finding can be explained through the Trade-Off Theory (Kraus & Litzenberger, 1973), which states that the use of debt can increase the value of a company as long as the benefits of the tax shield obtained are still greater than the risk of financial distress. In the context of multinational companies, a high level of profitability increases a company's ability to meet financial obligations, so that the risk due to increased leverage can be minimized. This condition allows companies to take advantage of debt to support expansion, productive investment, and strengthening business competitiveness.

In addition, the results of this study also support the Signaling Theory (Spence, 1973), which explains that capital structure decisions can be information for investors in assessing the company's prospects. Companies that have high profitability and are able to manage debt optimally give positive signals about management's ability to generate future cash flow. The combination of strong profitability performance and effective funding strategies can ultimately increase investor confidence as well as company value.

The results of this study are in line with Dewi et al. (2025) who show that profitability plays a role in strengthening the relationship between capital structure and company value. The findings confirm that leverage does not always have the same impact on the entire company, but rather relies heavily on the company's ability to generate profits and manage financial risk.

Overall, this study shows that the positive influence of capital structure on the value of the company is conditional on the level of profitability of the company. Profitability is a strategic factor that allows companies to derive optimal benefits from the use of leverage through increased obligation payment capacity, financial credibility, and investment opportunities. Therefore, for multinational companies operating in Indonesia, increasing the use of debt will be more effective in creating value if it is supported by adequate profitability capabilities.

CONCLUSION AND RECOMMENDATIONS

This research shows that global external dynamics and internal decisions of companies have an important role in explaining the variation in corporate values in multinational companies operating in Indonesia. Global trade uncertainty measured through the World Trade Uncertainty Index (WTUI) has been proven to have a negative influence on company value. These findings indicate that increased international trade risks may lower market confidence due to increased uncertainty over the company's business performance and prospects.

On the other hand, the capital structure proxied by the Debt-to-Equity Ratio (DER) has a positive influence on the value of the company. This shows that the optimal use of debt can be a strategic instrument in supporting business expansion and capacity building. In addition, profitability has been shown to have a moderation role in the relationship between variables. Profitability reinforces the negative impact of global trade tensions on the value of the company, but it also reinforces the benefits of the capital structure to the increase in the value of the company.

Overall, the study confirms that a company's ability to create value depends not only on internal financial decisions, but also on its capacity to adapt to changing global business environments.

Based on the results of the study, multinational companies need to strengthen external risk mitigation strategies through market diversification, supply chain flexibility, and management of international trade exposures. In making funding decisions, companies also need to maintain a balance in the use of debt so that the benefits of leverage can be obtained without excessively increasing financial risk. For investors, the results of this study show the importance of considering global external factors in addition to internal financial indicators in evaluating investments. Further research is suggested to expand the research model to include other variables such as geopolitical risk, exchange rate volatility, or trade policy, as well as to use a broader sample scope and observation period to gain a more comprehensive understanding.

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