ABSTRACT

Capital structure decisions are the most important decisions affecting profitability as well as shareholder value. Companies need to understand the cost and benefit aspects of debt in determining a capital structure that can maximize performance. The risk of financial distress and company size are controversial issues in choosing a capital structure that can influence the influence between leverage and profitability. Researchers tested the role of financial distress risk and firm size as moderating variables for the effect of financial leverage on profitability. Quantitative research techniques and secondary data sources are time series. Researchers obtained data through the financial reports of companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The population of 834 companies was selected based on the criteria so that the sample in this study was 126 companies (630 observation units). The research method uses descriptive statistical tests, classical assumption tests, and moderation regression tests. The results of this study indicate that the first hypothesis of financial leverage has a significant negative effect on profitability (ROA and ROE). The second hypothesis is that the risk of financial distress can moderate (strengthen) the negative effect between financial leverage and profitability (ROA and ROE). The third hypothesis shows that firm size moderates (strengthens) the negative effect of financial leverage on profitability (ROA) and firm size moderates (weakens) the negative effect of financial leverage on profitability (ROE).

Keywords: financial distress risk, firm size, leverage, profitability