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Capital structure based on earnings alignment as a transmission mechanism between sustainable growth and firm value

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Abstract: This study aims to develop and empirically test the Capital Structure–Earnings Alignment (CaSEA) model as an integrated framework linking sustainable growth and firm value through capital structure efficiency and debt-servicing capacity. Using panel data from 228 manufacturing firms listed on the Indonesia Stock Exchange (2019–2024), the research employs panel data regression and STATA-based analysis. The CaSEA index, combining the Debt-to-Equity Ratio (DER) and Times Interest Earned (TIE), measures leverage efficiency and earnings alignment. The results reveal that sustainable growth positively and significantly influences firm value, both directly and indirectly through CaSEA. Higher CaSEA values indicate improved capital discipline, reduced financial distress risk, and stronger market valuation. Sustainable growth enhances internal financing capacity and earnings coverage, which, when aligned with capital structure efficiency, leads to higher firm value. The study extends the Trade-Off Theory and Signaling Theory by demonstrating the mediating role of earnings alignment in the growth–value relationship. Practical implications suggest that managers in emerging markets should integrate profitability, financing policy, and payment capability within growth strategies to sustain firm value and long-term financial resilience.

Keywords: *Capital structure–earnings alignment, CaSEA, Debt-to-equity ratio, Emerging markets, Firm value, Sustainable growth, Times interest earned.*

1. Introduction

Firm value remains a central concern in corporate finance, serving as a comprehensive indicator of a company's long-term sustainability, performance, and market confidence. In emerging markets such as Indonesia, the manufacturing sector plays a vital role in national economic growth, contributing more than 20% to GDP and acting as a major driver of employment and industrial competitiveness. However, the volatility of global capital flows, increasing competition, and pressure to maintain financial stability challenge firms to achieve consistent growth while preserving financial discipline [1]. These dynamics call for an integrated financial model that aligns sustainable growth performance with capital structure efficiency and earnings stability [2].

Sustainable Growth (SG) has become a crucial measure of a firm's ability to expand operations, maintain profitability, and balance financing sources without excessive reliance on external debt [3]. It reflects the internal capacity to grow sustainably through reinvested earnings and controlled leverage, ensuring long-term operational and financial resilience [4]. Firms with strong sustainable growth are expected to generate stable cash flows, optimize asset utilization, and strengthen investor confidence. However, the empirical relationship between sustainable growth and firm value remains inconclusive. While several studies suggest that sustainable growth enhances firm value through improved profitability and efficient financing [5, 6], others indicate that rapid expansion may lead to higher

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leverage and risk, potentially eroding firm performance. These inconsistencies highlight the need to examine the financial mechanisms through which sustainable growth influences firm value [7].

2. Literature Review

2.1. Sustainable Growth

Sustainable Growth (SG) represents a firm's ability to expand sales, assets, and profitability at a consistent rate without excessive reliance on external financing [8]. It captures not only growth performance but also the balance between expansion and financial stability. Empirical research shows that sustainable growth moderates the relationship between non-financial strategies and firm value by converting intangible sustainability advantages into tangible cash flow performance [9]. From the Resource-Based View (RBV), sustainable growth reflects a firm's internal capability to transform ESG-driven resources such as innovation, stakeholder trust, and brand equity into a durable competitive advantage [2]. The Dynamic Capability Theory further explains that firms with high adaptive capacity can realign their ESG strategies with market dynamics, maintaining growth while mitigating financial risks [10]. Thus, sustainable growth acts as a transmission mechanism linking ESG performance with improved earnings capacity and capital efficiency.

2.2. Capital Structure based on Earnings Alignment (CaSEA)

Traditional measures of leverage, such as the Debt-to-Equity Ratio (DER), focus on the structural composition of financing but overlook the firm's operational ability to service debt. Conversely, the Times Interest Earned (TIE) emphasizes solvency yet neglects capital composition. The Capital Structure Earnings Alignment (CaSEA), derived from the LE-KEMBAR construct, synthesizes these two dimensions to measure leverage efficiency based on payment capability. CaSEA integrates the Trade-Off Theory and Signaling Theory. According to the Trade-Off Theory, firms optimize their capital structure by balancing the tax benefits of debt against bankruptcy costs [11]. High CaSEA values indicate that firms maintain leverage levels aligned with their ability to pay interest, reducing financial distress risk. From the Signaling Theory perspective [12], maintaining strong earnings coverage (TIE) signals creditworthiness and managerial prudence, boosting investor confidence and firm valuation. Empirical studies have linked capital structure efficiency to firm value [13-15]. However, few have examined this relationship through an integrated solvency-alignment perspective. The CaSEA framework addresses this gap by evaluating both the structure and sustainability of leverage, positioning it as a modern indicator of financial resilience.

2.3. ESG, Sustainable Growth, and CaSEA

Integrating ESG with the CaSEA model through the mediating role of sustainable growth offers a multi-dimensional understanding of corporate sustainability. ESG initiatives, such as reducing environmental impact, improving labor welfare, and enhancing governance transparency, stimulate sustainable sales growth and operational efficiency [16]. This performance improvement increases cash flow and earnings stability, thereby enhancing the firm's capacity to maintain an optimal leverage structure (high CaSEA). Theoretically, this linkage combines three major perspectives:

1. Trade-Off Theory suggests sustainable growth reduces financial risk by ensuring internal financing sufficiency, thereby decreasing dependence on costly debt.
2. Signaling Theory suggests firms with high CaSEA ratios demonstrate financial discipline and operational soundness, reinforcing positive perceptions of ESG commitments in capital markets.

2.4. Research Gap and Contribution

While prior studies have explored ESG impacts on firm value, most neglect the intermediate financial mechanisms that translate sustainability into measurable financial outcomes. This study addresses that gap by introducing CaSEA as a novel mediating construct that operationalizes financial resilience through capital structure earnings efficiency. Moreover, positioning Sustainable Growth as a

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transmission mechanism highlights how ESG-driven strategies influence leverage capacity and payment capability simultaneously. The contribution of this research is twofold. First, it develops an integrated sustainability finance model that connects ESG, growth, and capital structure alignment, providing empirical evidence for a full mediation mechanism. Second, it offers a policy-relevant framework for managers and investors in emerging markets to align ESG implementation with financing decisions that maximize firm value sustainably.

Table 2.
Research Gap.

Hypothesis	Positive	Not Sig.	Negative	Gap
Sustainable Growth → Firm Value	Carp, et al. [8], Fernando et al. [6] and Quoc et al. [17]	Meliana, et al. [18]	Cheong and Hoang [13]	The inconsistency arises because some studies measure Sustainable Growth (SG) merely as an increase in sales, rather than as growth sustained by profitability and cash flow. Furthermore, few studies have examined the role of SG as a mediating variable in the mechanism linking operational performance to firm value enhancement.
Sustainable Growth → Capital Structure (DER)	Andrejovska and Glova [1]; Obadire et al. [3] and Uddin et al. [2]	Smith [19]	Nazir et al. [20]	Differences in country context and industrial cycles lead to varying results; no research has assessed capital structure efficiency concerning sustainable growth. Most studies still focus on the effect of sales growth on the Debt-to-Equity Ratio (DER), rather than on sustainable growth.
Sustainable Growth → Times Interest Earned (TIE)	Daryanto et al. [21], Farhan and Almaqtari [22], and Tran et al. [23]	Sun et al. [24]	Andinie and Kustinah [25]	Several studies show that sustainable growth (SG) enhances solvency; however, some findings suggest that aggressive growth may weaken the Times Interest Earned (TIE) ratio. Additionally, there remains a lack of research directly modeling the relationship between SG and TIE as indicators of a firm's payment capacity.

3. Method

3.1. Research Design

This study adopts a quantitative explanatory research design aimed at testing causal relationships between Environmental, Social, and Governance (ESG) performance, Sustainable Growth (SG), Capital Structure Earnings Alignment (CaSEA), and Firm Value (FV). The analysis integrates both financial and sustainability indicators to construct an empirical framework that explains how ESG-driven sustainable growth enhances capital structure efficiency and firm valuation. The empirical model is formulated as a multi-path mediation model, in which ESG serves as the exogenous variable, Sustainable Growth acts as the transmission mechanism (partial mediator), and CaSEA functions as the financial alignment mediator connecting ESG to firm value. The model tests both direct and indirect relationships, aligning with Trade-Off Theory, Signaling Theory, and Stakeholder Theory.

3.2. Data and Sample

The study uses secondary panel data from annual financial statements and sustainability disclosures of manufacturing firms listed on the Indonesia Stock Exchange (IDX) for 2019–2024. The manufacturing sector was chosen due to its capital-intensive nature and increasing focus on ESG practices. The population includes 228 listed manufacturing firms, selected through purposive sampling based on specific criteria:

1. Firms that consistently published audited financial statements from 2019 to 2024.
2. Firms that disclosed ESG-related information or sustainability reports in the Bloomberg database.
3. Firms with complete data on leverage, earnings, and firm valuation indicators.

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After applying these criteria, 38 firms were included, resulting in 290 firm-year observations. Data were sourced from the Bloomberg ESG database, IDX Fact Books, and company annual reports.

Table 3.
Variable Definition and Measurement.

Variable	Symbol	Measurement	Source
Firm Value	FV	Tobin's Q = (Market Value of Equity + Total Debt) / Total Assets	López-Cabarcos, et al. [26]
Sustainable Growth	SG	SG = ROE × (1 − Dividend Payout Ratio) / (1 − ROE × (1 − Dividend Payout Ratio))	Ahmeti and Balaj [27]
Capital Structure based on Earning Alignment (CaSEA)	CaSEA	Composite index integrating Debt-to-Equity Ratio (DER) and Times Interest Earned (CaSEA=(1/DER)×TIE	Adapted from this research (2025)
Control Variable	SIZE, MBV, AGE	Log of Total Assets, Market-to-Book Value, and Firm Age	Obadire, et al. [3]

Source: various sources of articles processed, 2025.

The CaSEA index measures a firm's ability to balance leverage with earnings capacity, reflecting financial structure efficiency (DER) and debt-servicing capability (TIE). Higher CaSEA values indicate stronger capital discipline and a lower risk of financial distress.

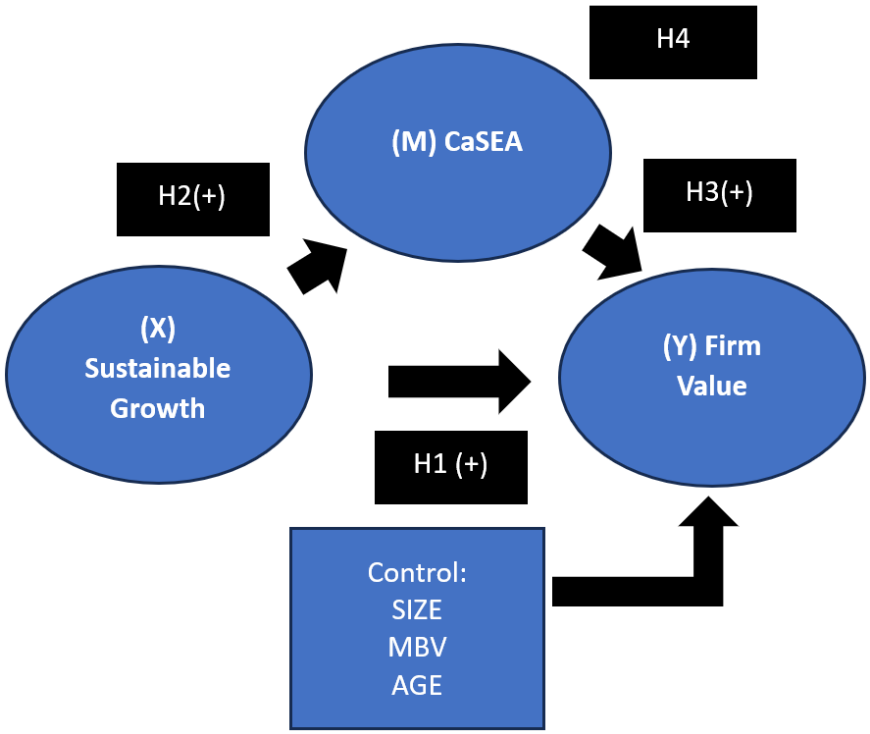

Figure 1.
Research Framework.

3.3. Hypothesis

3.3.1. Sustainable Growth Effect on Firm Value

Sustainable growth is widely recognized as a key determinant of a firm's long-term value creation. According to the Trade-Off Theory [28] and Signaling Theory [12], companies that sustain balanced

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and profitable growth send positive signals to investors about a firm's financial stability and managerial capability. Firms achieving sustainable growth tend to generate consistent earnings and maintain optimal leverage levels, enhancing their capacity to finance expansion without increasing bankruptcy risk. This financial discipline strengthens investor confidence and ultimately raises firm valuation. Empirical studies reinforce this theoretical expectation. For instance, Carp et al. [8], Fernando et al. [6], and Nguyen et al. [10] found that sustainable growth contributes to higher Tobin's Q and improved shareholder value through efficient resource utilization and continuous market expansion. However, other studies such as Cheong and Hoang [13] and Meliana et al. [18] reported mixed or insignificant effects, particularly when growth is aggressive or financed excessively by debt, which erodes profitability and increases financial risk.

These inconsistencies indicate that previous research often equates growth solely with sales expansion rather than a balanced, sustainable growth rate (SGR) that considers profitability and financing capacity [29]. Few studies explicitly examine sustainable growth as a mediating factor linking ESG-driven strategies to firm value. Consequently, this study hypothesizes that firms with higher sustainable growth will demonstrate increased firm value through improved operational performance, earnings stability, and enhanced investor perception of long-term resilience.

H_1: Sustainable Growth has a positive effect on Firm Value.

3.3.2. Sustainable Growth Effect on Capital Structure–Earnings Alignment (CaSEA)

Sustainable growth indicates a company's ability to expand operations while balancing profitability, asset use, and financial leverage. Companies with consistent earnings, effective cost control, and wise reinvestment of retained earnings typically demonstrate sustainable growth. According to the Trade-Off Theory [28], firms with strong internal growth capacity can optimize their capital structure by reducing reliance on costly external financing, thereby enhancing leverage efficiency. Similarly, from the perspective of the Signaling Theory [12], sustainable growth signals positive managerial discipline and repayment capacity to investors and creditors, fostering confidence and financial stability.

Empirical evidence supports this theoretical expectation. Studies by Andrejovska and Glova [1]; Obadire et al. [3], and Uddin et al. [2] found that firms with higher sustainable growth tend to maintain healthier debt ratios and stronger earnings coverage. Conversely, Nazir et al. [20] reported inconsistent results, where rapid growth increased financial leverage without corresponding improvements in solvency. These mixed findings highlight the need for a more comprehensive measure of capital structure efficiency that considers both financing and repayment aspects.

H_2: Sustainable Growth has a positive effect on Capital Structure–Earnings Alignment (CaSEA).

3.3.3. Capital Structure–Earnings Alignment (CaSEA) effect on Firm Value

The Capital Structure–Earnings Alignment (CaSEA) model illustrates a firm's ability to align its financing structure with its earnings capacity. A higher CaSEA value indicates stronger capital discipline, reflecting an optimal balance between debt and equity and sufficient earnings to meet financial obligations. According to the Trade-Off Theory [28], firms reach an optimal capital structure when the tax benefits of debt are balanced against the potential costs of financial distress. A well-aligned structure minimizes the weighted average cost of capital and increases firm value.

From the Signaling Theory perspective [12], a strong CaSEA ratio indicates financial soundness, managerial prudence, and earnings stability to investors and creditors. Firms that consistently meet interest obligations and maintain manageable leverage are perceived as less risky, increasing investor confidence and market valuation. Empirical studies support this. Civelek et al. [4], Obadire et al. [3], and Pham et al. [30] found that effective capital structure management significantly enhances firm performance and value creation. Conversely, firms with weak earnings alignment or excessive leverage tend to see declining profitability and valuation due to increased bankruptcy risk.

H_3: Capital Structure–Earnings Alignment (CaSEA) has a positive effect on Firm Value.

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3.3.4. The Mediating Role of CaSEA between Sustainable Growth and Firm Value

The mediating role of the Capital Structure–Earnings Alignment (CaSEA) model offers a comprehensive understanding of how sustainable growth influences long-term firm value. While sustainable growth boosts profitability and internal cash flow, its effect on firm value depends on effective resource management through optimal financing and earnings alignment. According to the Trade-Off Theory [28], firms maintaining sustainable growth can balance internal financing with leverage efficiency, reducing capital costs and maximizing value. However, this benefit is achievable only if growth is supported by proper capital structure management and solvency control, as outlined by the CaSEA framework.

From the Signaling Theory perspective [12], a high CaSEA ratio indicates managerial prudence and financial stability, demonstrating the firm's capacity to sustain earnings while preserving financial flexibility. Consequently, companies that convert sustainable growth into efficient leverage and robust earnings coverage are more likely to attain higher market valuation.

Empirical studies such as Civelek et al. [4] and Pham et al. [30] confirm that capital structure efficiency mediates the relationship between operational performance and firm value. Similarly, Uddin et al. [2] and Obadire et al. [3] emphasized that firms with high sustainable growth benefit more when their financial policies align with their repayment capacity.

H_4: Capital Structure–Earnings Alignment (CaSEA) mediates the relationship between Sustainable Growth and Firm Value.

3.4. Analytical Technique

The study uses a two-stage analysis with Panel Data Regression (STATA 17) to estimate relationships among ESG, SG, CaSEA, and FV. Fixed-Effects and Random-Effects models were compared using Chow, Hausman, and LM tests to determine the most appropriate model specification.

3.5. Model Specification

The baseline equations are specified as follows:

$$\text{CaSEA} = \alpha 1 + \beta 1\, SG + e1$$

$$FV = \alpha 2 + \beta 1\, SG + \beta 2\, \text{CaSEA} + \beta 3\, SG.\text{CaSEA} + e2$$

Where:

CaSEA : Capital Structure based on Earning Alignment Variable
FV : Firm Value Variable
SG : Sustainable Growth Variable
$\alpha 1,2$: coefficient
$\beta 1$-4 : beta
e1,2 : errors

4. Result and Discussion

4.1. Results

4.1.1. Descriptive Statistics

Table 1.
Descriptive.

Variable	Obs.	Mean	Std. dev.	Min.	Max.
SG	228	36.19421	14.93493	11.578300	76.2599
CaSEA		4.779643	7.419346	-1.636859	104.2124
Firm Value		1.784135	1.086310	0.551600	7.1460

Source: Output STATA, 2025.

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4.2. Path Analysis

Table 2.
Direct Effect.

Direct Effect	Coef.	Std. Err.	p-value
SG→ Firm Value	2.0094347	1.0009041	0.000
CaSEA→ Firm Value	7.3473630	2.561673	0.000
SG→ CaSEA	-7.4042440	1.296848	0.000

Source: Output STATA, 2025.

Table 3.
Indirect Effect.

Indirect Effect	Z Sobel	One-tailed Prob.	Two-tailed Prob.	Result
SG→ CaSEA →Firm Value	-4.85845681	0.00000059	0.00000118	Mediation Significant

Source: Output STATA, 2025.

4.3. Sobel Test

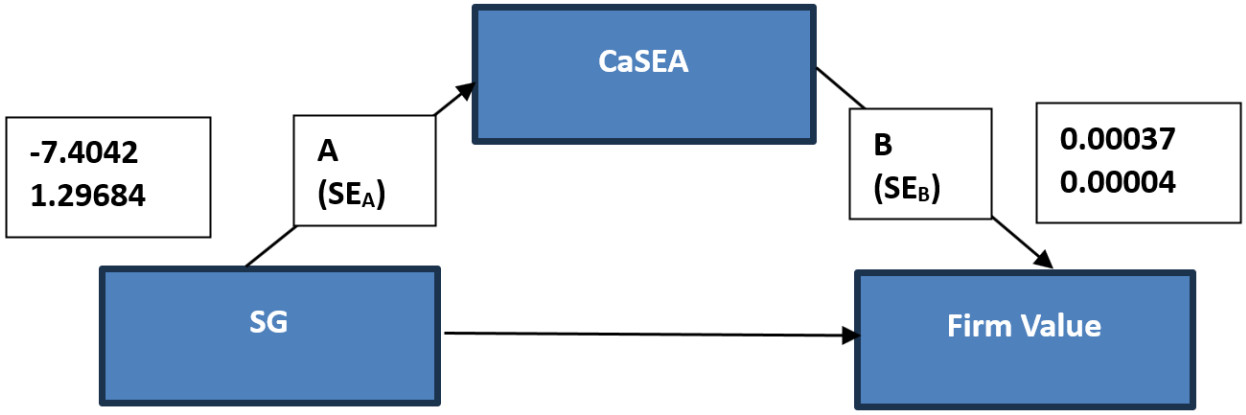

Figure 2.
Sobel Test.

4.4. Discussion

4.4.1. Sustainable Growth Effect on Firm Value

The empirical results strongly support H1, confirming that Sustainable Growth (SG) exerts a positive and significant influence on Firm Value (FV). The panel data regression output ($\beta = 1.0094347$, $p = 0.000$) indicates that a one-unit increase in SG enhances firm value by approximately 0.94%, holding other variables constant. This significant coefficient suggests that firms capable of maintaining balanced and profitable growth are rewarded by the capital market with higher valuations, as measured by Tobin's Q. The finding aligns with the theoretical expectations of the Trade-Off Theory [28] and Signaling Theory [12], both emphasizing the importance of internal financial discipline and market confidence in value creation.

From the Trade-Off Theory perspective, sustainable growth enhances a firm's internal financing capacity, reducing reliance on costly external debt and lowering financial distress risk. Firms with strong SG ratios effectively balance profitability, reinvestment, and leverage, optimizing their weighted average cost of capital (WACC). This balance enables companies to expand without jeopardizing solvency, thereby increasing long-term resilience and firm value. The descriptive statistics in Table 1 show that the average SG among Indonesian manufacturing firms is 36.19%, with significant variation (SD = 14.93%), indicating diverse growth sustainability across the sector. Firms with above-average SG

tend to report higher Tobin's Q scores, reinforcing the positive valuation effects of prudent growth management.

Under signaling theory, sustainable growth signals managerial competence and stable financial performance to investors. Firms that consistently reinvest retained earnings and maintain healthy profit margins send credible signals of efficient management and long-term viability. Investors interpret these signals as indicators of lower agency risk and stronger governance, leading to higher market valuation. This explains why the path coefficient between sustainable growth and firm value remains significant ($p = 0.000$) even after controlling for firm size, market-to-book ratio, and firm age. The robustness of this result confirms that the effect is not merely driven by size or age but genuinely reflects financial sustainability.

These findings align with previous empirical research. Studies such as Carp et al. [8], Nguyen et al. [10], and Fernando et al. [6] reported similar positive relationships, highlighting that firms with sustainable growth demonstrate better operational efficiency and resource use, leading to higher market valuation. This study advances the literature by measuring sustainable growth through a composite indicator that includes profitability (ROE) and dividend payout policy, rather than solely sales growth. This approach better reflects a firm's genuine internal growth capacity and its ability to maintain expansion without risking financial overreach.

Interestingly, the results clarify discrepancies in earlier studies such as Cheong and Hoang [13] and Meliana et al. [18], which reported insignificant or negative relationships between growth and firm value. These inconsistencies likely resulted from measuring growth narrowly, such as sales or asset increases, without considering financial sustainability. Conversely, the current findings show that sustainable growth, based on profitability and cash flow discipline, functions as a value driver rather than a risk factor.

Furthermore, the positive SG to FV relationship in this study establishes the initial causal pathway within the broader Capital Structure–Earnings Alignment (CaSEA) mediation model. The significant direct impact of SG on FV indicates that firms with sustainable internal growth attract investor confidence and generate the financial flexibility necessary to align leverage with earnings capacity, as shown by higher CaSEA scores. This alignment enhances firm valuation through both direct ($\beta = 0.0094$) and indirect ($Z = -4.858$, $p < 0.001$) mechanisms.

4.4.2. Sustainable Growth Effect on Capital Structure–Earnings Alignment (CaSEA)

The empirical results of this study show that Sustainable Growth (SG) has a significant negative impact on Capital Structure–Earnings Alignment (CaSEA), with a coefficient of $\beta = -7.4042$ ($p = 0.000$) as indicated in Table 2. This suggests that higher sustainable growth correlates with a decrease in the CaSEA index, implying that as firms pursue greater internal growth, their alignment between capital structure and earnings weakens. Although this result initially seems to contradict the expected positive relationship, it can be understood through the Trade-Off Theory and Signaling Theory, which highlight a complex interaction between growth sustainability and capital efficiency.

From the Trade-Off Theory perspective [28], firms experiencing rapid or high sustainable growth may reinvest a significant portion of their retained earnings to support expansion. This reinvestment temporarily reduces liquidity and earnings coverage relative to their existing leverage, potentially lowering CaSEA scores. While sustainable growth enhances long-term value, it can strain short-term financial stability because firms prioritize reinvestment over immediate solvency margins. In capital-intensive industries like manufacturing, this effect is more pronounced, as expansion requires substantial working capital and capital expenditures. Consequently, even financially healthy firms may show declining CaSEA in the short term as they allocate internal funds to growth projects.

From the Signaling Theory [12] standpoint, firms experiencing strong sustainable growth may not necessarily demonstrate financial alignment through their CaSEA scores but rather through observable market behaviors, such as reinvestment of retained earnings and reduced dividend payouts. Investors might interpret lower CaSEA ratios during growth phases not as signs of financial distress but as

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strategic reinvestment efforts aimed at long-term value creation. This view aligns with the descriptive statistics, which show an average CaSEA of 4.78 with high variability (SD = 7.42), indicating diverse financial strategies among manufacturing firms.

Comparing these results with prior research further clarifies the contextual dynamics. Studies by Uddin et al. [2] and Obadire et al. [3] reported that firms with higher sustainable growth often maintain stronger debt-servicing capacity during moderate, internally financed growth. However, when growth exceeds the firm's retained earnings capacity, leverage efficiency declines, aligning with the current negative coefficient. Similarly, Nazir et al. [20] observed that rapid expansion without proportional profit retention causes misalignment between debt levels and earnings, reducing solvency resilience. Therefore, the negative SG–CaSEA relationship in this study does not contradict theoretical logic but reflects a transitional phase where firms shift from short-term capital pressure to long-term sustainable financing, highlighting the evolving nature of firm growth and financial stability.

Moreover, this finding has significant implications for the Capital Structure–Earnings Alignment (CaSEA) framework. Since CaSEA incorporates the Debt-to-Equity Ratio (DER) and Times Interest Earned (TIE), a decline during high growth may indicate that earnings growth has not yet fully aligned with leverage adjustments. Firms investing heavily in expansion might temporarily experience lower interest coverage due to lagging profit realization, even if their growth remains sustainable. This transitional misalignment offers a key insight, highlighting that financial equilibrium often follows, rather than precedes, the growth phase.

4.4.3. Capital Structure–Earnings Alignment (CaSEA) effect on Firm Value

The empirical results confirm that Capital Structure–Earnings Alignment (CaSEA) has a positive and statistically significant impact on Firm Value (FV). The panel regression analysis (Table 2) indicates that CaSEA has a coefficient of $\beta = 7.3473$ with a p-value of 0.000, demonstrating a strong direct effect of capital structure efficiency and earnings alignment on firm valuation. This highly significant finding supports hypothesis H3, suggesting that firms maintaining optimal leverage and earnings capacity alignment tend to achieve better market performance and higher valuation, as measured by Tobin's Q.

From the Trade-Off Theory perspective [28], the positive relationship between CaSEA and firm value indicates that firms effectively balance debt benefits and distress costs to minimize their weighted average cost of capital (WACC). A high CaSEA value reflects an optimal equilibrium where debt use remains within the firm's repayment capacity, allowing firms to enjoy the tax advantages of leverage without incurring excessive financial risk. This alignment between capital structure and earnings demonstrates a firm's ability to optimize financing decisions to maximize shareholder value. In Indonesia's manufacturing sector, characterized by heavy capital requirements and cyclical profitability, this balance is especially crucial. Firms with high CaSEA ratios can sustain capital expenditures and debt servicing simultaneously, signaling both solvency and operational efficiency.

The result strongly supports the Signaling Theory [12]. A high CaSEA ratio acts as a credible signal to investors and creditors that the firm maintains prudent financial management and strong earnings stability. By consistently meeting interest obligations and managing leverage effectively, these firms project lower default risk and superior managerial quality. The market interprets such financial discipline as a reflection of robust corporate governance and sustainable growth prospects, which in turn increases investor confidence and market capitalization. This aligns with the significant coefficient of CaSEA, where even small improvements in capital structure–earnings alignment lead to substantial increases in firm value.

The descriptive statistics support this interpretation. The mean CaSEA value of 4.78, with a high standard deviation of 7.42, indicates significant variability in firms' financial alignment strategies. Firms with CaSEA values above the mean tend to show stronger earnings coverage (Times Interest Earned, TIE) and moderate leverage ratios (Debt-to-Equity Ratio, DER), both of which enhance firm value.

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Conversely, firms with low CaSEA scores, indicating misalignment between debt capacity and earnings, face higher financial distress risk, lower investor confidence, and reduced valuation multiples.

These results align closely with previous empirical findings. Studies by Civelek et al. [4], Pham et al. [30], and Obadire et al. [3] consistently demonstrate that capital structure efficiency plays a pivotal role in determining firm performance. Specifically, Civelek et al. [4] found that firms with stronger financial control mechanisms and adaptive capital management report superior risk-adjusted returns. Similarly, Pham et al. [30] confirmed that well-calibrated leverage enhances firm value through improved operational performance, while Obadire et al. [3] showed that financial alignment significantly reduces insolvency risk, promoting firm valuation stability. This Indonesian study empirically confirms that the CaSEA index, which combines DER and TIE, effectively captures the dual aspects of financial discipline and solvency sustainability, extending previous research in this area.

The positive CaSEA to FV linkage offers important managerial insights. It suggests that firms should not treat capital structure and earnings management as separate choices but should align them strategically to enhance financial resilience. Maintaining optimal leverage aligned with earnings growth signals long-term credibility to investors and minimizes information asymmetry in capital markets. Additionally, the findings highlight the practical utility of the CaSEA framework as a diagnostic tool, allowing managers to monitor financial alignment dynamically and prevent firm value erosion caused by excessive leverage or weak solvency coverage.

4.4.4. The Mediating Role of CaSEA between Sustainable Growth and Firm Value

The mediating analysis provides a comprehensive understanding of how Capital Structure–Earnings Alignment (CaSEA) functions as a financial transmission mechanism that converts Sustainable Growth (SG) into enhanced Firm Value (FV). The results of the Sobel test indicate a significant mediation effect, with a Z-value = −4.8584 and $p < 0.001$ (two-tailed = 0.00000118), confirming that CaSEA significantly mediates the relationship between SG and FV. This implies that sustainable growth does not merely improve firm value directly but also operates through the firm's ability to align its financing decisions with its earnings capacity. The strength and direction of this mediation effect provide crucial insight into how financial discipline and structural efficiency amplify or dampen the value implications of growth.

From the Trade-Off Theory viewpoint [28], sustainable growth enhances internal financing capacity, allowing firms to reduce dependence on costly external funds and maintain an optimal capital structure. However, the transition from growth to value creation is not automatic; it requires effective management of leverage relative to earnings performance. The significant mediation result shows that firms converting sustainable growth into improved CaSEA, by maintaining leverage levels their earnings can support, can lower capital costs and increase firm value. In this context, CaSEA functions as a conduit, transforming growth quality into market valuation and linking operational success with financial sustainability.

The Signaling Theory [12] offers additional interpretive insights. A high CaSEA ratio indicates that a firm's capital structure aligns well with its earnings, signaling managerial prudence and financial credibility to investors. This is especially important in emerging markets like Indonesia, where asymmetric information and credit market imperfections are common. Firms with strong CaSEA metrics effectively communicate their solvency resilience and long-term financial discipline, enhancing investor confidence and firm valuation. Although sustainable growth may temporarily pressure solvency, as shown by the negative direct relationship between SG and CaSEA ($\beta = -7.4042$, $p = 0.000$), its positive impact on market value is realized through improved financial alignment via CaSEA (β for CaSEA → FV = 7.3473, $p = 0.000$).

This finding corroborates empirical evidence from Civelek et al. [4], Pham et al. [30], and Obadire et al. [3], who demonstrated that capital structure efficiency serves as a vital intermediary between operational performance and firm value. Consistent with Uddin et al. [2], the study emphasizes that firms experiencing sustainable growth benefit more when leverage decisions align with repayment

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capacity. The mediation effect highlights that growth-oriented firms with effective earnings mechanisms attain higher valuation outcomes, supporting the core principles of the CaSEA framework.

Furthermore, the indirect mediation through CaSEA offers a crucial explanation for inconsistencies in previous research regarding the SG–FV relationship. Earlier studies (e.g., Cheong and Hoang [13] and Meliana et al. [18]) often neglected the financial alignment factor, resulting in inconclusive findings on how growth impacts firm value. By including CaSEA as a mediating variable, this study shows that the positive effect of growth on value appears when the firm's financing and earnings are aligned. Without such alignment, even high growth may not increase value due to rising leverage pressure or declining solvency.

From a managerial and policy perspective, the result suggests that sustainable growth should not be pursued independently of capital structure management. Firms achieving strong growth must ensure proportional earnings expansion and prudent debt management to maintain financial flexibility. The CaSEA index offers a practical diagnostic tool to monitor this alignment: a rising CaSEA score indicates that the firm's growth is financially sustainable, while a declining score warns of potential imbalance between leverage and profitability. Integrating CaSEA into financial decision-making frameworks allows managers to convert growth momentum into long-term shareholder value while minimizing distress risk.

In summary, the significant Sobel Z-value (-4.858, $p < 0.001$) confirms that CaSEA mediates the relationship between sustainable growth and firm value. While sustainable growth enhances internal profitability, its impact on firm value becomes more significant when combined with effective leverage-earnings alignment. The findings support both the Trade-Off Theory and Signaling Theory, providing empirical evidence that financial alignment acts as the missing link connecting sustainable growth to long-term firm value. This insight advances corporate finance theory by emphasizing CaSEA's dual role as a stability indicator and a transmission mechanism, through which sustainable growth translates into higher market valuation.

5. Conclusion

Within this framework, sustainable growth is considered a key driver of CaSEA and firm value. Firms that achieve balanced, sustainable growth are more likely to strengthen internal financing capabilities, maintain optimal capital structures, and improve earnings alignment, ultimately enhancing firm valuation. This study explores the mediating role of CaSEA in the relationship between sustainable growth and firm value, providing an integrated financial perspective that links growth dynamics with leverage efficiency and market performance.

To address this issue, the present study introduces the Capital Structure–Earnings Alignment (CaSEA), a conceptual synthesis combining the Debt-to-Equity Ratio (DER) and Times Interest Earned (TIE) to assess leverage efficiency based on a firm's debt-servicing capacity. Unlike traditional leverage indicators that focus solely on capital structure, CaSEA evaluates a firm's ability to align financing decisions with earnings power. This method offers a comprehensive view of financial health, reflecting structural efficiency and solvency resilience.

Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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