



## The Effect of Profitability, Capital Structure and Company Size on Firm Value

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### ABSTRACT

The purpose of this study is to evaluate the effect of profitability, capital structure, and firm size on firm value listed on the IDX in the year (2022–2024) in the cyclical consumer sector. This study involved 21 companies as samples with a total of 63 observations selected using purposive sampling method. The data used is secondary data obtained from the company's financial statements. Data analysis was carried out using multiple regression with the help of Microsoft Excel 2021 and E-Views 13. The research findings prove that profitability, capital structure, and firm size have a significant positive effect on firm value.

## **INTRODUCTION**

In today's era of globalization and intensifying business competition, companies must consistently enhance their firm value in order to remain competitive and achieve sustainable growth. Company value reflects the performance and potential of the business in the future, which is the main focus for investors and other stakeholders. According to Rosihana (2023), a company's value can be evaluated through its stock price, which reflects the company's performance and financial prospects. Sartono (2020) defines company value as the amount of availability to be deposited by investors if the company is sold. There are many factors that have the potential to influence company value, such as profitability, capital structure, and company size. Profitability shows how well a company can generate profits, capital structure explains how the company funds its operational activities, while company size reflects the magnitude of business activities carried out. According to Hery (2017), increasing company value is a reflection of the success that has been achieved and is in accordance with the expectations of the owners. Especially for companies listed on the stock market, where their main focus lies in increasing the welfare of shareholders, One way that is implemented is by increasing the value of the company, because if the value that is often seen in the stock price is getting higher, it indicates that the company has succeeded in achieving its goals.

## **LITERATURE REVIEW**

### **Signalling Theory**

Signaling theory suggests that company management frequently takes specific actions to demonstrate the firm's performance. As explained by Brigham and Houston (2019), this theory illustrates how companies attempt to convey signals or information to investors about their future outlook and financial condition. Regarding this, management has detailed information regarding the company's operations and development direction compared to outside parties such as investors, creditors, and other stakeholders. When a company gives a positive signal, for example through certain business behaviors or decisions, it can encourage investors to be more confident and interested in increasing their share ownership.

### **Agency Theory**

Agency theory explains the relationship between parties who delegate authority, such as shareholders, and those who are appointed to manage the company's operations on their behalf (Rankin et al., 2018). According to Anthony and Govindarajan (2011:10), this relationship is in the form of a contract, with the manager as the person in charge of managing the company in order to optimize profits for shareholders. Agency theory is often used to describe the relationship between capital owners as the principal and company management as the agent. Within this relationship, the authority to manage the company's daily operations is delegated to the management by the owners. Gitman and Zutter (2015) state that one of the key functions of corporate governance is to monitor and guide management so that their actions align with established rules and procedures.

## **Company Value**

Referring to the statement put forward by Husnan and Pudjiastuti (2012:4), company value refers to the overall amount of capital a buyer would be willing to pay if the company were to be sold or traded. Meanwhile, according to Widiyanto & Yuniarwati (2023), company value is defined as a reflection of the company's performance which continues to strive as much as possible to increase this value, one of which is by keeping the stock price high. In this study, Tobin's Q is used as a measuring tool to assess how much the company is worth. This indicator reflects how much investors appreciate the company's stock in relation to the total shares issued. Tobin's Q can be used to assess whether the market price of a company's stock is relatively high (overvalued) or relatively low (undervalued).

## **Profitability**

According to Kieso, Weygandt, and Warfield (2019), profitability reflects a company's competence in gaining profit from its asset ownership. In other words, it represents how efficiently the company utilizes its assets to produce income that benefits shareholders. Profitability also illustrates the company's capacity gain profit from its operational activities through the utilization of available financial resources. The net profit that will be given to shareholders is the remainder of the profit after deducting costs such as taxes and interest.

## **Capital Structure**

According to Weygandt, Kimmel, and Kieso (2019), capital structure describes the combination of the use of loans and equity utilized by the company as a means of financing operations and driving the company's development. This reflects the proportion of financing that originates internally, such as retained earnings, and externally, such as debt. As explained by (Huda et al., 2020), determining the right capital structure requires careful consideration, because this financing choice can directly affect the company's value. Evaluation of capital structure usually uses the Debt to Equity Ratio (DER). When the ratio increases, it indicates that the company's use of loans is much greater than its use of capital. According to Chasanah and Adhi (2017), a high DER can be a signal that the company has a high level of self-confidence, even though the risk increases due to dependence on debt.

## **Company Size**

According to Sang Ayu Made et al (2021), company size indicates how big a company is, as measured by several factors such as sales volume, number of employees, or the value of all asset ownership. On the other hand, Anggarini and Rivandi (2023) consider business size as a representation of all the resources owned by the company. Meanwhile, according to Brigham and Houston (2015), business size can be determined based on the average total net sales for one year or a certain period, depending on the purpose of the analysis.

## **Relationship Between Variables**

### **Profitability and Company Value**

Profitability represents how effectively a company can generate earnings within a specific time frame. When profitability increases, investors have the potential to achieve greater returns. This is clearly a positive signal that has the

potential to create an attraction for potential investors when investing in the company. According to Ermaini (2021), return on equity (ROE) is a type of ratio that links net profit after tax to its total equity. ROE proves how effective a company is in utilizing existing capital, and serves as an indicator of how much profit is obtained from shareholders' investments.

### **Capital Structure and Company Value**

Debt to equity ratio (DER) is an important indicator that is useful as a medium for assessing how strong a company's financial condition is, especially in terms of its ability to meet financial obligations. According to Kasmir (2021), DER measures the comparison between the company's total debt and total equity ownership. The results of this ratio provide an illustration of the amount of company financing from loans compared to funds from owners. A high DER indicates that the company is quite confident even though most of its capital is obtained through debt (Chasanah & Adhi, 2017). In this context, managers can use debt as an indication that sends a positive signal to investors, because it is considered to reflect optimism about future business prospects.

### **Company Size and Company Value**

Size is often used as one of several indicators to assess whether a company's performance is in a healthy situation or not. For investors, company size that is comparable to company value can be a positive signal. Farizki et al., (2021) stated that company size is known through measuring total asset ownership or through net income earned. When the company's value is high, this reflects a strong management commitment to maintaining and improving the company's performance, a factor that can certainly attract the attention and trust of investors. A company is generally regarded as sizable when it possesses substantial assets. Conversely, if its wealth is limited, the company tends to be categorized as a small company.

### **Hypothesis Development**

Profitability is one of several important indicators that is evidence of how well a company operates. When profitability increases, it shows that the company can achieve higher profits, which reflects solid performance. According to Ermaini (2021), Return on Equity (ROE) is a comparison between net profit after tax and total equity, and is used to assess how effectively a company manages its capital ownership. A high profitability ratio usually drives increased profits, which in turn contributes positively to rising stock prices and company value. Through such conditions, high profitability can enhance the firm's standing in the market and create higher interest from investors. Based on Signaling theory, companies have the ability to communicate information to investors in various ways. These signals play a crucial role in creating investor confidence in the company's future. When a company proves that it is capable of

generating significant profits, this serves as an encouraging signal and can strengthen investor confidence.

H1: Profitability has a positive effect on company value.

According to Kasmir (2021), Debt to Equity Ratio (DER) is a type of ratio that is useful as a medium for assessing the relationship between total debt and capital ownership by a company. The existence of this ratio provides an overview of the amount of company financing from creditors compared to the funds invested by the company. In other words, DER shows the extent to which the owner's capital is used as a basis or collateral in obtaining financing from debt. Generally, investors tend to be more interested in companies with a low Debt to Equity Ratio (DER). This condition is because this condition proves that the company has a lighter debt burden, so it has more room to develop its business and increase revenue. This growth potential can ultimately drive up the company's stock price in the market.

H2: Capital Structure has a negative effect on company value.

Large-scale companies tend to achieve high profitability more easily. Company size is often a concern for investors because large companies generally have a much stronger competitive advantage. Not only that, company size is also often used as an indicator in assessing financial performance. Large companies are considered more stable, have more reliable information and present lower risks. These conditions make them more attractive to investors. A positive signal from the size of the company gives confidence to investors that the company has the potential to provide higher and profitable returns.

H3: Company size has a positive effect on company value.

Based on these hypotheses, a framework of thought can be formulated as follows:

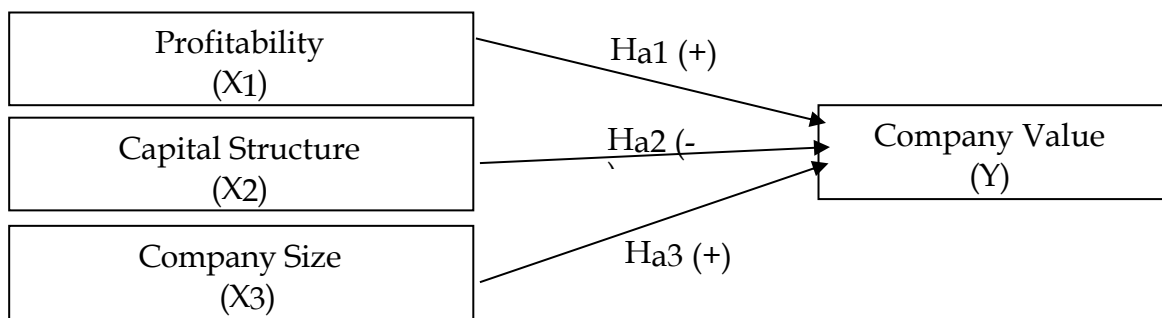


Figure 1. Theoretical Framework  
Source: Researcher Processing Results, 2025

## METHODOLOGY

This study adopts a descriptive research design, which falls under the category of conclusive research. This primary aim of a descriptive is to provide a comprehensive and accurate depiction of the relationship between independent variables (profitability, capital structure and company size) and the dependent variable (firm value). Additionally, this design facilitates the testing of hypotheses to verify the validity of proposed theoretical relationships. According

to Sugiyono (2022), a research design is defined as a structured plan or framework used to guide the data collection process in an accurate and reliable manner. The core objective of this framework is to develop, test, and validate scientific theories or knowledge. Through this process, the research aspires to contribute to a more profound understanding that not only adds to existing literature but also offers practical solutions to real-world problems. Descriptive research may utilize either a qualitative or quantitative approach depending on the nature of the study and the type of data required. In this particular study, a quantitative approach was employed, which involves gathering numerical data and analyzing it using statistical methods. According to Sugiyono (2022) the quantitative approach is based on real data that can be measured objectively. The data used in this study were obtained from secondary sources, specifically from the annual financial reports of companies published on the official website of the Indonesia Stock Exchange (IDX) (<https://www.idx.co.id/>). The research focused on companies within the consumer cyclical sector that were listed on the IDX during the 2022–2024 period, provided they met specific criteria. The variables analyzed in this study include profitability, capital structure, company size, and firm value. The sample was selected based on the following criteria: companies must be part of the cyclical consumer sector listed on the IDX from 2022 to 2024, must publish consecutive annual financial statements for those years, must not report net losses during the period, and must present their financial reports in Indonesian Rupiah (IDR). A total of 44 companies from the cyclical consumer sector that met these criteria were included as research participants. After the outlier data was removed, there were 63 data samples and a total population of 21 companies. The size and operational variables used are:

Table 1. Operational Variables and Measurement

Variables	Size	Scale
Company Value	$Tobin's Q = \frac{Total\ Market\ Value + Total\ Book\ Value\ of\ Liabilities}{Total\ Book\ Value\ of\ Assets}$	Ratio
Profitability	$ROE = \frac{Net\ Income}{Total\ Equity}$	Ratio
Modal Structure	$DER = \frac{Total\ Debt}{Total\ Equity}$	Ratio
Company Size	$Size = In (Total\ Assets)$	Ratio

Source: Researcher Processing Results, 2025

**RESULT**

After analyzing outliers, the dataset used in this research passed the traditional assumption test. The linear regression model employed here was developed from the results of the Multiple Regression Analysis.

$$\text{Tobins' } Q = 2.118306 + 0.643071 + 0.140817 - 0.053487 + \epsilon$$

The results of the influence test (t-test) can be seen in the table below:

Table 2. t-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.118306	0.541052	3.915161	0.0002
X1	0.643071	0.215563	2.983220	0.0041
X2	0.140817	0.016957	8.304559	0.0000
X3	-0.053487	0.018280	-2.925942	0.0049

Weighted Statistics

R-squared	0.606567	Mean dependent var	0.334793
Adjusted R-squared	0.586562	S.D. dependent var	0.141341
S.E. of regression	0.090881	Sum squared resid	0.487299
F-statistic	30.32072	Durbin-Watson stat	1.498417
Prob(F-statistic)	0.000000		

Source: Researcher Processing Results, 2025

58.65%, or 0.586562, is the coefficient of determination (Adjusted R2), according to the findings of the Determination Coefficient Test. This condition proves that independent factors such as profitability, capital structure, and company size can explain 58.65% of the variance in the dependent variable, namely company value. However, other factors not included in this study explain the remaining 41.34%, or 0.413438.

The results of the F Test identify the probability value of the F-statistic is 0.000000. Because the probability value of the F-statistic <0.05, this indicates that this research model can be used to predict the influence of variables such as Profitability, Capital Structure, and Company Size have a significant effect on Company Value.

In using the t-test, the findings of the analysis prove that the significance value of the t-test <0.05 proves that there is an influence of the independent variables on the dependent variable. The first independent variable, namely profitability, has a value of 0.0041, where this condition can be concluded that profitability partially has a significant effect on the dependent variable. The second independent variable, namely capital structure, has a value of 0.0000, where this condition can be concluded that capital structure partially has a significant effect on the dependent variable. The third independent variable, namely company size, has a value of 0.0049, where this condition can be concluded that company

size partially has a significant effect on the dependent variable. These results provide confidence in the theory.

## **DISCUSSION**

Based on the results of the multiple linear regression analysis, this study concludes that the independent variables (profitability, capital structure, and company size) each have a statistically significant effect on firm value when tested partially. However, the nature of the relationship varies across these variables. Profitability shows a positive and significant relationship with firm value, indicating that companies with higher profitability ratios are more efficient in generating earnings, which in turn attracts investors and enhances firm valuation. This suggests that profitability is a key driver of investor confidence, as it reflects a company's ability to deliver strong returns and operate effectively. An optimal capital structure allows companies to utilize external financing to increase value without adding excessive risk. Company size variable has a positive relationship to company value. Larger firms are generally perceived as more stable, resourceful, and influential in the market, which enhances investor trust and company valuation. This relationship can be explained from several perspectives. Large companies often face higher operational complexity, such as more complicated policies, slow decision-making processes, and difficulties in innovating or adapting to market changes. Therefore, while firm size contributes positively to value, it must be supported by effective organizational management to sustain long-term competitiveness.

## **CONCLUSIONS AND RECOMMENDATIONS**

During the implementation of this research, several limitations were encountered particularly in the stages of data collection and analysis. First, the study was limited to examining only three independent variables (profitability, capital structure, and company size) while in reality, numerous other factors may also influence firm value but were not included in this analysis. Secondly, the research was confined to companies within the consumer cyclical sector. Although the Indonesia Stock Exchange (IDX) includes various other sectors that could exhibit different patterns and impacts, these were not explored in this study. Consequently, the findings are limited in scope and may not be fully generalizable to companies in other sectors. Third, the research period only covers three years, namely from 2022 to 2024. This relatively short time span may not be enough to describe long-term patterns or trends as a whole. Based on the description of a number of previous limitations, a number of suggestions were found that might be considered for further research so that the results are increasingly optimal. First, it is recommended that future researchers add other independent variables, in addition to profitability, capital structure, and company size. The aim is that the description provided by future researchers will be more detailed regarding the factors that influence company value. Second, it would be better if future research covers more industrial sectors, so that the data collected is broader and the results are more representative. Third, it is recommended to extend the research period to more than three years, in order to

be able to capture long-term trends and provide a more stable picture of the dynamics of company value.

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