

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

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ARTICLE INFO	ABSTRACT
Received : 17 March 2026 Revised : 20 March 2026 Accepted : 21 April 2026 Publish: 30 April 2026	This study examines how capital structure, profitability, and firm size affect company value in non-durable household product firms listed on the IDX (2020–2024). It is driven by fluctuations in PBV linked to market dynamics and post-COVID-19 economic conditions. Using secondary data from financial reports, the study analyzes six firms (30 observations) with multiple linear regression (SPSS 25). Results show capital structure and profitability have a significant positive effect on firm value, while firm size is positive but not significant. The model explains 84.1% of the variation in firm value ($R^2 = 0.841$), and all variables jointly have a significant effect. Profitability and financing decisions emerge as the main drivers of firm value in this subsector.
Keyword: <i>Company Value</i> <i>Profitability</i> <i>Capital Structure</i> <i>Firm Size</i>	

1. Introduction

Corporation value reflects investors' assessment of management's success in managing resources to maximize shareholder welfare. In the capital market ecosystem, this value is reflected through stock price fluctuations, which are influenced by supply and demand dynamics. An increase in stock prices not only raises investors' returns but also strengthens confidence in prospects and corporate governance (Wilyaka, 2025). Therefore, The PBV or "Price-to-Book Value" is used in this investigation to calculate company value, which is empirically recognized as a valid measure of market performance.

In the Indonesian economy, the non-durable household products subsector of the consumer goods industry is determined to be the object of study because of its significant contribution to GDP. This industry is crucial to economic growth, and state revenue through exports and taxes. However, this sector is experiencing obstacles caused by the influence of the COVID-19 pandemic, which has affected the investment market, as seen from the decline in the JCI and changes in global conditions, including demand, technology, macroeconomics, and the environment. During the 2020–2024 period, the capital market experienced fluctuations due to economic conditions after the COVID-19 pandemic, increasing production costs, and changes in people's purchasing power. These conditions have the potential to affect the company's profitability, funding decisions, and ultimately affect the market valuation of the company. (Anisah, 2025). The outlook for this sector remains attractive to investors, with the company's value as an indicator of management performance (Umairah dkk., 2022).

Several financial factors are considered capable of influencing a company's value, considering its size, profitability also capital structure. The ability of a business to earn money from its activities is reflected in its profitability. In general, investors find companies with high profitability levels more appealing because they indicate efficient asset management and good financial performance. Because It displays the proportion of debt and equity used to finance the corporation's activities, capital structure is also crucial. Appropriate funding decisions can support business expansion and increase company value, while financial risk can be increased by using debt excessively. Additionally, a company's size indicates the scope of its activities and resources, which can affect how investors see the stability and potential for expansion of the business.

Several previous studies have examined the connection capital structure, profitability, also company size on company value. Studies carried out by Ayub Muslih, Muhammad Nuryanto, and Ami (2022) found that company size also profitability are significant, while capital structure in several cases showed results that did not match the hypothesis. The reported Adjusted R² was quite high (≈ 0.759 in several analyses) in the banking sector. Other studies conducted by Ichlasul Dede Dharmawan, I Gede Cahyadi Putra, and Made Edy Septian Santosa (2023) as well as Dyah Ayu Kusumaningrum et al. (2022) also examined similar variables but yielded different empirical findings depending on the research context and the characteristics of the industry studied.

Although many studies have examined the factors that influence firm value, most of these studies have focused on manufacturing companies, banking institutions, or other industrial sectors. Research specifically investigating companies in the consumer goods sector, particularly the non-durable household products subsector, is still relatively limited. In addition, previous studies generally use data from earlier periods and have not fully captured the economic dynamics during and after the COVID-19 pandemic. This situation creates a research gap and drives the need for more investigation on the impact of company size, capital structure, also profitability on firm value in consumer products firms between 2020 and 2024.

Based on signaling theory and previous empirical findings, profitability is anticipated to influence firm value because higher profitability reflects efficient management and better company performance, which can raise market valuation and draw in investors. In a more nuanced exposition, profitability may also be construed as a strategic communicative artifact that conveys latent organizational competencies to external stakeholders under conditions of information asymmetry.

Capital structure also influences firm value because financing decisions involving the use of debt and equity can affect company risk and investor perceptions. An optimal capital structure may support company growth and improve firm value.

Company size is often associated with the scale of operations, asset ownership, and business stability. Larger companies generally have stronger market positions and greater access to outside funding, which may increase investor confidence and influence firm value.

This investigation was carried out considering the importance of firm value as a key element in investors' assessment of management effectiveness and business prospects. Academically, this study contributes to explaining discrepancies in previous findings and confirming signaling theory related to the correlation firm value with financial performance in the Indonesian capital market. Managerial implications include the evaluation and design of effective financial strategies and governance to attract investor interest. Furthermore, a rise in the firm's value indicates the success of capital management and indicates investors' confidence in the corporation's reputation. The findings of this research are expected to complement empirical studies in the consumer goods sector, a strategic sector for national economic growth amidst the challenges of a continually changing global economy.

2. Literature Review and Hypothesis Development

2.1. Signal Theory

The signal theory can be applied in discussing stock price fluctuations in the capital market, which affect investment decisions. Response The state of the market can be influenced by how investors react to favorable and unfavorable signals. This theory conveys that all information related to the stock situation of a company always influences investor choices (Erfana & Dwijayanty, 2024).

2.2. Profitability

Conceptually, profitability represents the ability of a corporation entity to produce revenue from capital, assets and sales within a given period of time from operational activities. High profitability serves as a positive marker for investors, visualizing financial health, increasing investment interest, encouraging expansion, strengthening liquidity, and supporting market value growth (Mustika et al., 2025). In this investigation, the profitability variable was measured using *ROA*, which shows the efficiency of the corporation to create a benefit from all of the assets. The high *ROA* owned by the company will usually have more efficient performance and lower debt dependence, considering its ability to finance operations through retained earnings (Mauludia et al., 2024).

2.3. Capital Structure

A company's financial composition is known as its capital structure, this include debt and equity, such as retained earnings, ordinary stock, preferred shares and other long-term financing that is utilized to fund operational activities (Saputra & Arrozi, 2023). Within a more elaborate conceptualization, capital structure may also be perceived as a deliberate financial architecture that encapsulates managerial preferences under varying market constraints and institutional settings. Capital structure theory emphasizes the importance of optimizing funding composition to raise the value of a company, where management needs to balance the proportion of debt and equity and consider internal and external funding sources as funding decisions affect risk and return on investment (Mauludia et al., 2024). In this investigation, *DER* was used to measure capital structure factors in order to evaluate conditions and ascertain the corporation capacity to fulfill its commitments. Referring to the theory of the capital mechanism, debt that exceeds the optimal point can increase risk, lower stock prices, and reduce the value of the company despite having the potential to increase returns (Prasetyo & Hermawan, 2023).

2.4. Firm Size

As an indication of operational scale, the size of a corporation is determined by its total assets, equity, sales, and stock market value, which are then categorized into large, medium, or small scale. An increase in total assets correlates with increased operational capacity and success prospects, making it a determining factor in the preferences of investors who prioritize stability and risk minimization (Piasti, 2022). In this investigation, the company size variable was measured through a natural logarithm of all assets in the financial statements at the end of the period. This method was chosen because it is considered the most representative of the scale of the business and the corporation's ability to raise value, especially when assets exceed debt obligations (Mustika et al., 2025).

2.5. Company Values

As a representation of stock prices, company value is formed from the interaction between the capital market's supply and demand while outlining the public's opinion of the business's performance and future (Wilyaka, 2025). In addition, company value is a management performance

indicator that is used for performance evaluation and improvement, including in dividend policies that reflect profitability. In this investigation, the company value variable was measured using PBV of the PBV value of > 1 showing a higher market valuation compared to book value and showing an improvement in shareholder welfare (Piasti, 2022). On the other hand, unreasonable stock prices, either too high or too low, can affect investor perception, The fundamental worth of a corporation may be accurately determined by looking at its stock price (Mustika et al., 2023).

2.6. Hypothesis Development

Profitability, measured by ROA or "Return on Assets", demonstrates how effectively a corporation can profit from its assets. Effective resource management is indicated by a greater ROA and better financial performance, which serves as an important signal for investors. Signaling Theory states that profitable businesses send out positive signals about their performance and prospects, which can influence investor decisions and market valuation. Previous studies, such as those by Ayuningsih and Goenawan (2024) found "profitability has a positive effect on firm value". Higher profitability rises investor confidence, which causes a rise in the demand for corporation stock. Rising stock prices are a result of this increased demand, ultimately enhancing firm value.

H1: Profitability has a significant positive impact on the company's value .

DER or "Debt to Equity Ratio", which measures capital structure, shows how much debt and equity are utilized to finance a corporate. Based on Signaling Theory, financing decisions provide signals to investors regarding a company's financial condition and future prospects, where an optimal level of debt indicates effective financial management. Previous studies by Kusumaningrum et al. (2022) found "capital structure has a positive and significant effect on firm value". Making the best use of debt may boost investor confidence, increase demand for shares, and drive stock prices upward, thereby improving firm value.

H2: Capital Structure has a significant positive impact on the company's value

Firm size, commonly measured by total assets, reflects a company's scale and operational capacity. Based on Signaling Theory, "larger firms provide positive signals regarding stability, sustainability, and future prospects". These characteristics indicate stronger operational performance and lower uncertainty, which are important considerations for investors. Empirical evidence by Wahyuningrum and Sunarto (2023) found "firm size has a positive effect on firm value". Bigger corporations typically have easier access to outside funding, higher transparency, and more powerful market positions, which increase investor confidence. This condition encourages higher demand for shares also raises the price of stocks, thereby enhancing company value.

H3: The size of the company has a positive impact on the company's value

From the standpoint of Signaling Theory, financial performance and firm characteristics provide crucial information to investors on the state and prospects of a firm. Higher profitability indicates strong performance, an optimal capital structure reflects effective financing decisions, and larger firm size suggests greater stability and access to external funding. Previous studies support these relationships. Research by Ayuningsih and Goenawan (2024) reported "profitability positively affects firm value". Kusumaningrum et al. (2022) reported "capital structure influences firm value", while Wahyuningrum and Sunarto (2023) reported "a positive effect of firm size". In practice, these factors increase investor confidence, encourage increased share demand, and ultimately enhance company value.

H4: Profitability, Capital Structure, and Firm Size simultaneously have a significant impact on the company's value.

3. Data and Research Methods

Both the IDX website at www.idx.co.id and the corporation's official website provided secondary data used in this investigation. Companies listed in the consumer products industry on the IDX between 2020 and 2024 are among the study's topics. The financial statements of 11 corporations in the consumer goods sector and the non-durable home products subsector that were recorded and published on IDX between 2020 and 2024 make up the study population. *Purposive sampling* was the method employed, which resulted in the selection of 6 companies that met the research criteria. This investigation employed a quantitative approach using the descriptive analysis method. The data analyzed includes financial statements and company data for the 2020–2024 period, which is processed and analyzed through SPSS software version 25.

3.1 Research Model

This study looks at how profitability, company size, also capital structur, affect company value. ROA or “Return on Assets” is used to quantify profitability, which indicates a corporation's ability to earn money off of its assets. The percentage of debt utilized in business financing is represented by the capital structure and is measured using DER or “Debt to Equity Ratio”. Company size represents the measure of company operations and is measured using the natural logarithm of total assets. Firm value is measured using PBV or “Price-to-Book Value” ratio. The relationship between these variables, utilizing a multiple linear regression model for analysis. The following is the formulation of the regression model utilized in this investigation..

$$PBV = \alpha + \beta_1ROA + \beta_2DER + \beta_3LnTA + e$$

Where: PBV = Firm Value, ROA = Profitability; DER = Capital Structure; LnTA = Company Size (Natural Log of Total Assets); α = Constant; $\beta_1, \beta_2, \beta_3$ = Regression Coefficients; e = Error Term
This model explains that firm value is influenced by profitability, capital structure, and company size, both individually and simultaneously.

4. Results and Discussion

4.1 Statistic Descriptif

Table 1. Descriptive Analysis Results

	N	Mean	Std. Dev	Min	Max
Profitability	30	6.270	13.934	-20.820	34.890
Capital Structure	30	1.271	1.459	0.240	6.470
Firm Size	30	28.414	1.193	27.050	30.650
Company Value	30	8.172	15.930	0.210	56.790

Table 1 finds there were 30 observations in this investigation, all of which were deemed genuine (genuine N = 30). The profitability variable's score ranges from -20.820 to 34.890, with an average of 6.2703, showing that the company made a profit even though there were some losses, as well as a standard deviation of 13.934 which indicates a large data spread. With an average of 1.270, standard deviation of 1.459, the capital structure has a minimum value of 0.24 and a maximum value of 6.47, indicating that the variance across corporation is still within tolerable bounds. With an average of 28.414, standard deviation of 1.193, the company size score ranges from a low of 27.05 to a maximum of 30.65, suggesting comparatively uniform circumstances. Meanwhile, the company's value ranges from 0.21 to 56.79, with an average of 8.172, standard deviation of 15.930, which shows that the variation in company values between samples is quite high.

4.2 Result of Test

Referring to table 2, the F score is 45,860 with a significance of 0.000 (< 0.05). This shows that the regression model is significant with simultaneous. Indicates the regression coefficient for profitability is less than 0.05. This demonstrates how profitability significantly raises the value of the company. The regression coefficient displayed by the modal structure is likewise less than 0.05. As a result, the capital structure considerably increases the company's value. In the meanwhile, the company's size has a regression coefficient greater than 0.05. This indicates that the company's value is positive but not significantly impacted by its size. The R Square score was found to be 0.841, indicating that profitability, capital structure, and company size account for 84.1% of the variation in the company's value. The modeling can explain 82.3% of the variation in the company's value after accounting for several independent factors, as demonstrated by the Adjusted R Square score of 0.823.

Table 2. Regression Test Results

Variable	PBV = $\alpha + \beta_1ROA + \beta_2DER + \beta_3LnTA + e$				
	Price To Book Value				
	Eks	Coeff	T-Test		P-Value
Constanta		2,669	3,127	***	0,000
ROA	+	0,498	4,587	***	0,000
DER	+	4,003	2,797	***	0,010
LnTA	+	3,508	1,999	***	0,056
Observations					30
Adjus. R_Squre					0,823
F-Statistic					45,860
Prob (F-Statistic)					0,000
Definitions: PBV: price to book value (company value);					
ROA: return on assets (profitability); DER: debt to equity ratio					
(capital structure); TA: total assets (firm size)					

Profitability has a regression coefficient of 0.498 and a significance value of 0.000, according to the T test findings. A substantial positive affect on the company's value is confirmed by a significance score of less than 0.05, indicating a correlation between the rise in profitability and the rise in the company's value. The capital structure's regression coefficient is 4.003. and the significance level is 0.010. This variable has a strong positive impact on the company's worth since the significance value is less than 0.05, indicating that finance regulations are crucial to the company's valuation. The regression coefficient and significance for the company size variable are 3.508 and 0.056, respectively. Despite the positive direction of the associated connection, a significance scores larger than 0.05 shows that the company's size has no statistically significant impact on the company's worth. This demonstrates that the amount of the company's assets has not been the primary determinant of its worth..

5. Conclusion

This investigation's goal is to investigate how company size, profitability, also capital structure affects the value of consumer goods firms, specifically the nondurable home products subsector listed on the IDX between 2020 and 2024. The analysis's findings show that profitability significantly and favorably affects a company's worth. This finding shows that corporations that are more profitable typically have greater market values. because investors perceive profitability as a signal of

good financial performance and prospects. From a broader analytical vantage point, this investigation also aspires to elucidate the interplay between structural firm characteristics and market-based valuation mechanisms within an emerging capital market context.

The findings also show that capital structure significantly and favorably affects the value of the company. This result suggests that an ideal debt-to-equity ratio can boost investor confidence and raise a company's valuation. In contrast, a company's size has a positive but not statistically significant effect on its value, suggesting that the amount of a corporation's assets does not always define its market worth.

Simultaneously, company size, profitability, also capital structure significantly affect company value, indicating that financial performance and financing decisions play an important role in determining company valuation in the capital market. The findings of this investigation contribute to the development of signaling theory by confirming that financial indicators such as profitability also capital structure serve as important signals for investors in assessing company value.

This investigation has several limitations, including the limited number of sample companies and the focus on only one subsector within the consumer goods industry. In addition, the study only examines three financial variables, while other factors such as dividend policy, liquidity, or corporate governance may also influence company value. It is advised that future investigation include additional variables, increase the number of research participants, and examine another industrial segment to provide more comprehensive results.

6. Contribution, Limitation and Future Research

The findings of this investigation provide several important contributions. From a theoretical perspective, this research strengthens the application of signaling theory in explaining how financial performance indicators influence company value in the capital market. The findings confirm that profitability and capital structure are important factors that signal company performance to investors.

From a practical perspective, this study provides useful insights for company management in designing financial strategies to increase company value. Companies are encouraged to improve profitability and manage capital structure effectively in order to attract investor interest and increase market valuation. In addition, the findings can also assist investors and financial analysts in evaluating company performance and making investment decisions.

Despite these contributions, this study has several limitations. From a critical methodological standpoint, these constraints necessitate a cautious interpretation of the empirical generalizations derived from the analysis. The research only focuses on companies in the nondurable household products subsector and uses a relatively small sample size. Furthermore, the study only examines three independent variables, while company value may also be influenced by other financial and non-financial factors.

Future investigation is advised to broaden the study's focus by include more segment, increasing the number of sample companies, and incorporating additional variables such as liquidity, dividend policy, corporate governance, or macroeconomic factors. In a more expansive scholarly articulation, such extensions are expected to attenuate potential limitations arising from sectoral concentration and sample size constraints. Moreover, the inclusion of a broader array of explanatory variables may facilitate a more nuanced disentanglement of the multifaceted determinants influencing firm valuation. Such improvements will help produce more comprehensive findings and strengthen the understanding of determinants of company value in the capital market. Additionally, a more integrative analytical framework may enable future inquiries to capture latent interdependencies among financial and non-financial variables that are often overlooked in more parsimonious models. Ultimately, these methodological augmentations are envisaged to enhance the

robustness, generalizability, and explanatory profundity of empirical insights within the domain of corporation finance.

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