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The Impact of Profitability, Firm Size, and Capital Structure on Firm Value in the Manufacturing Sector

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This study analyzes the impact of profitability, firm size, and capital structure on firm value within the manufacturing sector. Utilizing a descriptive literature-based method, this research synthesizes various findings from previous studies to provide a comprehensive overview of the relationships among these variables. Profitability, often measured by Return on Assets (ROA) or Return on Equity (ROE), is expected to have a positive relationship with firm value as it reflects a company's ability to generate profits. Firm size, measured by total assets or the logarithm of sales, is also assumed to influence firm value, both through economies of scale and better access to capital markets. Meanwhile, capital structure, measured by Debt to Equity Ratio (DER) or Debt to Asset Ratio (DAR), has a complex impact; while debt can enhance firm value through tax shields, excessive debt levels can increase financial risk and potentially decrease firm value. The synthesis of literature indicates a general consensus on the importance of profitability and firm size in shaping firm value, though there is variation in the significance and direction of the relationship for capital structure variables. This study provides important implications for company managers and investors in making strategic decisions related to resource allocation and selecting an optimal capital structure to enhance firm value.

Keywords: firm value, profitability, firm size, capital structure, manufacturing sector

Introduction

Firm value is a fundamental indicator of success and a primary focus for stakeholders. Its enhancement reflects a company's ability to create shareholder wealth, attract investment, and support growth. The manufacturing sector, characterized by capital intensity and complex production cycles, plays a vital role in the economy, making it a relevant subject for this study. This research examines three key financial variables widely believed to influence firm value: profitability, firm size, and capital structure (Muda et al., 2021). Profitability (e.g., ROA/ROE) indicates operational efficiency and profit-generating capability, directly affecting investor appeal. Firm size (e.g., total assets) is often associated with economies of scale and better access to capital markets, although management complexity can pose challenges. Capital structure (e.g., DER/DAR) refers to the mix of debt and equity that influences a company's cost of capital and firm value; optimal decisions regarding the proportion of debt and equity are crucial.

Given the importance of the manufacturing sector and the complex interactions among these variables, this

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study aims to descriptively analyze how profitability, firm size, and capital structure impact firm value. By synthesizing findings from relevant literature, this research is expected to provide a comprehensive understanding of the dynamics shaping firm value within the manufacturing sector.

Literature Review

Firm Value

According to Ririh (2020) The firm value is the price that potential buyers are willing to pay if the company is sold. The higher the stock price, the higher the shareholder prosperity. The better the quality of the firm value, the investors or shareholders will be more interested in working together and investing their capital. Firm value can reflect the company's performance and level of success that can affect investor perceptions of the company. A good quality of firm value holds significant appeal for investors and shareholders (Santoso et al., 2020). This encourages them to be more interested in forging collaborations and investing their capital, as their perception of the company becomes more positive. Thus, firm value effectively reflects the company's performance and operational success, ultimately influencing how investors view the company's potential and stability. Therefore, increasing firm value is a primary strategic objective for management, as it not only benefits shareholders but also enhances the company's access to external funding sources and strengthens its competitive position in the market.

Gede (2023) "A high firm value will affect the welfare of the owners, which will naturally influence investors to invest in that company. In this study, firm value is proxied by the PBV ratio (Price-to-Book Value) because this ratio illustrates how much market value is reflected in the stock price relative to the book value of a company's shares. The higher this ratio, the greater the market's confidence in the firm's value."

Profitability

Gita (2023) "To measure a company's ability to generate profits based on its operational activities, you can look at its profitability value. Measuring a company's operational capability isn't just about its sales activities, but also about the turnover of its total assets and capital itself. Alternatively, profitability can be defined as a company's ability to manage its wealth to generate profit." Thus, profitability isn't merely a measure of net profit; rather, it's a comprehensive indicator assessing a company's efficiency in utilizing resources, both assets and capital, to generate returns. This capability is crucial because consistent and adequate profits are the primary foundation for business continuity, growth, and most importantly, an increase in firm value. Companies that can effectively transform their assets and operations into solid profits will be seen as more attractive by investors, as this demonstrates competent management and healthy financial prospects for the future.

Profitability is measured using Return on Equity (ROE), which is a measure of a company's ability to generate profit with its own capital, often referred to as equity profitability. Profitability is measured using Return on Equity (ROE), which is a metric indicating a company's ability to generate profit from its own capital, often referred to as equity profitability. ROE shows how efficiently the company utilizes shareholders' equity investment to generate earnings. The higher the ROE ratio, the better the company's performance in managing the capital entrusted to it, which in turn can increase its attractiveness to investors and positively contribute to overall firm value. Therefore, ROE is an important indicator for both investors and management in evaluating the effectiveness of equity utilization and potential investment returns.

Firm Size

Jessica (2023) “defines firm size as a scale that can classify the company’s size in various ways such as based on the amount of total assets, log size, market value, and others. Based on signal theory, companies with high total assets will provide positive signals to investors. The larger company’s size indicates that the company has high total assets. The high total assets illustrate that more capital is invested in the company. The company can this to maximize operating activities, resulting in increased sales so to increase the profit earned. The increase in profit means that the company can increase shareholder return so that investors react positively to this information. In addition, investor respond positively to large company because companies have high opportunities in the future, are more stable, and disclose more information than small companies”. Companies can leverage this large capital to maximize their operational activities, which in turn leads to increased sales and, ultimately, higher profits. Increased profits mean the company has the ability to boost shareholder returns, causing investors to react positively to this information. Furthermore, investors also respond favorably to large companies because these companies tend to have high future opportunities, are considered more stable, and typically disclose more information than smaller companies. This strengthens investor confidence and potentially increases the company’s market value.

Capital Structure

Lilis (2025) “capital structure refers to the sources funding companies that involve calculation between debt and equity both from source external and internal. In this study the measurement capital structure is done by using the Debt to Equity Ratio (DER). DER is often used to measure capital structure because this ratio shows comparison between debt and equity company. This ratio provides clear picture about level corporate financial risks and how the impact of debt on structure funding in a way overall. In other words, DER helps evaluate how far the company rely on debt to finance operational and investment compared to using own capital (equity)”. A high DER ratio indicates that the company uses more debt compared to its own capital to fund its operations and investments. Although using debt can provide benefits in the form of a tax shield (tax savings) that potentially increases firm value, an excessively high DER also increases financial risk. This is because the company will have large interest and principal debt payment obligations, which can burden cash flow and increase the likelihood of financial distress or even bankruptcy, especially in unstable economic conditions. Therefore, financial managers need to find an optimal balance in the capital structure to maximize firm value while maintaining solvency and operational sustainability.

METODOLOGI

This study employs a literature-based descriptive approach to analyze the impact of profitability, firm size, and capital structure on firm value in the manufacturing sector. This method focuses on reviewing, synthesizing, and interpreting findings from various previous studies to build a comprehensive understanding of the phenomenon under investigation.

Result and Discussion

Result

Research Findings. Previous research indicates that firm value is influenced by several internal factors, including profitability, capital structure, firm size, and liquidity. Research by Situmorang et al. (2025) demonstrates that, simultaneously, firm size, capital structure, liquidity, profitability, and asset structure significantly affect firm value in the infrastructure sector. However, partially, only capital structure, liquidity, profitability, and asset structure have a significant impact, while firm size does not significantly influence firm value. Research by Friederick and Sudirgo (2023) reinforces these findings, stating that capital structure and profitability have a positive and significant effect on firm value, while firm size has a negative and significant effect, and leverage is not significant. Meanwhile, Pratiwi (2020), in her research on LQ45 companies, concluded that capital structure and profitability significantly affect firm value, but firm size does not. Apriawan and Dana (2023) stated that profitability and firm size don't directly affect firm value, but both have a significant impact on capital structure. This capital structure then proved capable of mediating the effect of profitability and firm size on firm value. Furthermore, Widiarta and Dermawan (2023) found that profitability and capital structure have a significant positive effect on firm value. Interestingly, firm size in this study actually showed a negative and insignificant effect on firm value. Rachmadevi et al. (2023) also found that capital structure has a positive effect on firm value, while interestingly, profitability showed a negative effect. Firm size in this study also had a negative impact on firm value but could moderate the influence of other variables on firm value.

Based on the synthesis of various analyzed journals, the following key findings were obtained:

1. The Effect of Profitability on Firm Value

Profitability (measured by ROA/ROE) generally has a positive and significant effect on firm value because it demonstrates the ability to generate profits, which attracts investors. However, some studies found a negative or insignificant effect, indicating that in some contexts, the level of profit does not always reflect the company's prospects or stability. Profitability also has a positive effect on capital structure, which can ultimately mediate an increase in firm value.

2. The Effect of Capital Structure on Firm Value

Capital structure (indicated by DER) has a positive and significant effect on firm value in many studies because debt can provide tax benefits and increase profit leverage. Capital structure also functions as a mediating variable between profitability and firm size on firm value. However, an excessively high capital structure can increase the risk of bankruptcy, so it must be managed optimally.

3. The Effect of Firm Size on Firm Value

Firm size (measured by total assets or logarithm of assets) shows mixed results:

Some research states that firm size has a negative and significant effect on firm value due to increased operational complexity as size grows.

Other studies mention that firm size has no significant effect.

Nevertheless, firm size has been proven to have a positive and significant effect on capital structure, making it relevant in corporate financial strategy.

Firm size also moderates the relationship between capital structure and firm value, as well as between profitability and firm value.

4. The Effect of Liquidity on Firm Value

Liquidity (measured by current ratio) has a significant effect on firm value because it demonstrates the company's ability to meet short-term obligations, increasing investor confidence. High liquidity indicates operational stability and good cash management.

5. The Effect of Leverage on Firm Value

Leverage (as part of capital structure) in some studies has no significant effect on firm value. This suggests that the use of debt must be balanced with the company's internal financial conditions.

6. Simultaneous Relationship between Variables

Most studies conclude that profitability, firm size, and capital structure simultaneously have a significant effect on firm value. This effect can be direct or indirect through mediating variables like capital structure.

7. Differences in Sector Context

Studies were conducted in various sectors (infrastructure, manufacturing, primary consumption, transportation & logistics), which also influenced the differing results. Sectors like infrastructure and logistics are more sensitive to capital structure and liquidity than non-cyclical manufacturing sectors.

Discussion

Table 1

Literature Review for All Research

No	Authors	Year	Journal Title	Research Objective	Key Findings	Research Methodology
1	Situmorang et al.	2025	The Influence of Firm Size, Capital Structure, Liquidity, Profitability, and Asset Structure on Firm Value	To analyze the effect of firm size, capital structure, liquidity, profitability, and asset structure on firm value in infrastructure sector companies listed on IDX (2020-2023)	Profitability, capital structure, liquidity, and asset structure have a significant effect on firm value; firm size is not significant.	Quantitative, purposive sampling, 17 companies, linear regression
2	Friederick & Sudirgo	2023	The Effect of Capital Structure, Profitability, Leverage, and Firm Size on Firm Value	To examine the effect of capital structure, profitability, leverage, and firm size on the firm value of manufacturing companies listed on IDX (2018-2020)	Capital structure and profitability have a positive and significant effect; firm size has a negative significant effect; leverage is not significant.	Quantitative, purposive sampling, 65 companies, EViews 12 software
3	Pratiwi	2020	Do Capital Structure, Profitability, and Firm Size Affect Firm Value?	To analyze the influence of capital structure, profitability, and firm size on the firm value of LQ45 companies (2014-2018)	Capital structure and profitability significantly affect firm value; firm size has no effect.	Quantitative, purposive sampling, 31 companies, multiple linear regression
4	Apriawan & Dana	2023	The Effect of Profitability and Firm Size on Firm Value with Capital Structure as a Mediating Variable	To examine the influence of profitability and firm size on firm value and test the mediating role of capital structure	Profitability and firm size do not directly affect firm value; capital structure mediates both variables.	Quantitative, path analysis, 21 transportation and logistics companies
5	Widiarta & Dermawan	2023	The Effect of Profitability, Firm Size, and Capital Structure on Firm Value in Manufacturing Companies	To determine the effect of profitability, firm size, and capital structure on firm value in consumer non-cyclical manufacturing companies (2020-2022)	Profitability and capital structure have a positive and significant effect; firm size has a negative and insignificant effect.	Quantitative, 140 data samples, linear regression using SPSS
6	Rachmadevi et al.	2023	The Effect of Capital Structure and Profitability on Firm Value with Firm Size as a Moderating Variable	To analyze the effect of capital structure and profitability on firm value with firm size as a moderating variable	Capital structure has a positive effect; profitability has a negative effect; firm size moderates both relationships.	Quantitative, panel data regression, mining and basic industry sectors
7	Chandra et al.	2019	The Effect of Capital Structure on Profitability and Stock Returns	To examine the relationships among capital structure, profitability, and stock returns in Kompas 100 companies	Profitability affects stock returns; capital structure does not significantly affect returns; firm size influences profitability.	Quantitative, path analysis using AMOS, 64 companies

8	Sihombing & Lestari	2023	The Impact of Profitability, Firm Size, and Capital Structure on Firm Value in the Manufacturing Sector	To synthesize previous findings on the relationship among profitability, firm size, and capital structure toward firm value in manufacturing	Profitability and firm size tend to have a positive influence; the effect of capital structure varies depending on the context and debt level.	Descriptive, literature review-based method

Practical and Policy Implications

1. Strategic Financial Decision-Making

Managers should prioritize improving profitability (e.g., via cost efficiency and asset utilization), as it consistently shows a strong relationship with firm value. Companies with high profitability are more attractive to investors due to better return prospects.

Optimal capital structure decisions are crucial. Excessive reliance on debt increases financial risk, while a well-managed balance between debt and equity can enhance firm value by leveraging tax benefits.

2. Capital Structure as a Strategic Lever

Companies should adopt a flexible and context-based approach to capital structure. While moderate debt can enhance value, firms must monitor their leverage to avoid default risk, especially in volatile markets.

Policymakers and financial regulators should encourage transparency in reporting capital structure policies and provide guidelines for industry-specific optimal leverage ratios.

3. Rethinking the Role of Firm Size

The findings regarding firm size are mixed, implying that larger size does not always guarantee better firm value. Thus, managers of large firms must focus on maintaining operational efficiency and not rely solely on scale advantages.

Investors should consider efficiency ratios along with firm size when making investment decisions, rather than assuming large companies always perform better.

4. Enhancing Corporate Transparency and Communication

Firms should clearly communicate their financial strategy, risk management, and profitability trends to the public and investors, supporting signaling theory. Transparent reporting builds investor trust and improves market valuation.

5. Policy Framework to Support Value Creation

Regulatory bodies may consider developing incentive structures for firms that maintain balanced capital structures and demonstrate consistent profitability. This can promote sustainable value creation across sectors.

Policies encouraging financial literacy and capital structure management among SMEs and newly public companies may reduce market asymmetries and enhance investor confidence.

6. Sector-Specific Considerations

Given the variation in findings across sectors (e.g., infrastructure, logistics, manufacturing), sector-specific guidelines and benchmarks for capital efficiency, size optimization, and risk exposure would be useful for more targeted financial governance.

Conclusion

This study synthesizes findings from eight research articles that examine the impact of profitability, firm size, and capital structure on firm value across various sectors, including infrastructure, logistics, and manufacturing. The results reveal several key conclusions:

Profitability consistently emerges as one of the most influential factors affecting firm value. Most studies confirm a positive and significant relationship, supporting the view that firms with higher returns on assets or equity are more appealing to investors and more capable of generating long-term value.

Capital structure also plays a critical role. While moderate use of debt can enhance firm value through tax benefits and financial leverage, excessive reliance on debt increases financial risk and may adversely affect firm value. Several studies suggest that capital structure can act as a mediating variable between profitability and firm value.

Firm size yields mixed results. While some studies show that larger firms benefit from economies of scale and improved investor perception, others find a negative or insignificant impact on firm value. This suggests that size alone does not guarantee value creation; efficiency and financial health remain crucial.

Liquidity and leverage, in specific contexts, also contribute to firm value, although their influence is often secondary to profitability and capital structure.

Overall, the findings emphasize the importance of strategic financial management. Companies aiming to enhance firm value must not only focus on profitability but also maintain a balanced capital structure and operational efficiency, regardless of their size. These insights are vital for corporate managers, investors, and policymakers in fostering value-oriented financial strategies across industries.

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