

## INFLUENCE PROFITABILITY, LEVERAGE AND COMPANY SIZE ON FIRM VALUE OF CONSUMPTION SECTOR COMPANY

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### ABSTRACT

*This study aims to examine the impact of profitability, leverage, and company size on firm value of consumption sector firms from 2020 to 2023. The research will utilize panel data regression analysis through the EViews application. Profitability will be measured using Return on Equity (ROE), Leverage measured using Debt to Equity Ratio (DER), company size will be represented by the natural logarithm of total assets, and firm value will be measured using the Price to Earning Ratio (PER). The findings from the Chow test indicate a Cross Section Chi-square value of 0.000, while the Hausman test shows a random Cross Section probability value of 0.004. Consequently, the fixed effect model will be employed for the panel data regression analysis. Results from this model reveal that profitability does negative significantly impact firm value, while leverage and Company size have no impact to firm value.*

**Keywords:** Profitability, Leverage, Company Size and Firm Value

### INTRODUCTION

The value of a company is one of the benchmarks for the welfare of its shareholders. A higher company value indicates a greater ability for the company to enhance the welfare of its shareholders (Dessriadi, Harsuti, Muntahanah, & Murdijaningsih, 2022). A high company value also reflects strong company performance, as better performance leads to a more favorable evaluation by external parties. A good company value encourages investors to pay more for shares in that company. This willingness of investors to pay more can be seen

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through the company's price-to-earnings (P/E) ratio (Ngayadi & Soegiarto, 2023). This is reflected in the comparison between the company's stock price and its earnings per share, indicating how much investors are willing to pay for each share of earnings the company generates.

Profitability indicates the extent to which assets contribute to generating net income (Thian, 2021). Signaling theory indicates that companies with high earnings per share will see an increase in their value, signaling to investors that they can expect to gain from their investments (Ngayadi & Soegiarto, 2023). Research conducted by Nagayu & Mujiyati (2022) and Shalini W. et al. (2020) explains that profitability has a significant positive effect on company value. Conversely, a study by Tiara Indah Febiyanti (2022) states that profitability does not affect company value, while research by Hidayat & Khotimah (2022) indicates that profitability has a significant negative effect on company value.

Leverage ratio is used to measure the extent to which a company's assets are financed by debt. Leverage ratios can be assessed by comparing total debt to total equity (Debt to Equity Ratio, or DER) (Nursalim, Rate, & Baramuli, 2021). Signaling theory which shows that the decision regarding the selection of corporate financing will impact the firm value. Research conducted by (Putri & Hascaryani, 2023) indicates that leverage has a significant negative impact on firm value, while another study by (Ngayadi & Soegiarto, 2023) states that leverage does not affect firm value.

Company size refers to the scale of the company, which can be seen from the amount of assets owned (Kammagi & Veny, 2023). Research by Hidayat & Khotimah (2022) shows that company size has a significant positive effect on company value. The larger the company size, the more resources it has to develop, which will increase the company's value. However, different results are presented in studies by Kammagi & Veny (2023) and (Ngayadi & Soegiarto, 2023), which state that size does not affect company value.

In 2023, PT Unilever reported an increase in profit of 4.8 trillion Rupiah (Saputra B., 2024). This resulted in a return on equity of 91.84% for the year. However, on a less positive note, the price-to-earnings ratio of PT Unilever did not see a significant increase, rising from 12.93% in 2022 to 12.97% in 2024 (<https://idx.co.id/>, 2024). This phenomenon shows that while the substantial increase in return on equity did boost the price-to-earnings ratio, the rise was not drastic.

## **LITERATURE REVIEW AND HYPOTHESES**

### ***Signaling Theory***

The signaling theory elucidates how firms communicate indicators to investors about their future potential (Brigham & F., 2019). Organizations aim to project optimistic messages to the public to generate a favorable reaction (Setiawan & Venona, 2023). Factors such as profitability, leverage, and company size can act as important signals for investors. A firm that exhibits strong profitability, less leverage and large scale of company size can be the signals to investors regarding its future prospects. Favorable signals from the firm are likely to enhance its value, whereas unfavorable signals may result in a decrease in the company's worth.

#### **The Effect of Profitability on Firm Value**

Profitability refers to a company's ability to generate profits and improve efficiency in utilizing its assets (Widyastuti, Wijayanti, & W, 2022). High profitability sends a positive signal to investors that the company is in a favorable condition with good future prospects (Nagayu & Mujiyati, 2022). Continuous improvement in profitability is likely to be accompanied by an increase in company value (Inggrida, Setiawan, & Veny, 2023). The level of profitability generated by a company will enhance trust and the perceived value of that company.

H1: Profitability has a significant positive effect on company value.

#### **The Effect of Leverage on Firm Value**

Leverage indicates the comparison between borrowed funds and the total equity of a company (Kimmel et al., 2023). A higher leverage suggests that the capital structure relies more on debt compared to equity, reflecting lower solvency for the company. This means that the company's ability to repay its debts is diminished, which increases the relative risk for the company (Andika, Chomsatu, & Wijayanti, 2021). An increasing DER can decrease investor confidence, potentially leading to a decline in stock prices and the price-to-earnings ratio.

H2: Leverage has a significant negative effect on company value

#### **The Effect of Company Size on Firm Value**

Company size is a scale that indicates the magnitude of a company (Hery, 2017). A large company suggests that it has the resources to advance its operations, thereby increasing its value and boosting investor confidence. Larger companies also instill long-term trust, which can enhance investor interest and subsequently increase company value. Research conducted

by Kristiadi & Herijawati (2023) and Suardana, Endiana, & Arizona (2020) indicates that company size has a significant positive effect on company value.

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

## RESEARCH METHODOLOGY

### Research Procedure

This study employs a quantitative research design using secondary data from the financial reports of consumer companies from 2020 to 2023. The research will utilize two types of variables: independent variables and a dependent variable. The independent variables in this study are profitability, leverage, and company size, while the dependent variable is firm value.

The analysis will be conducted using panel data regression analysis. The results from the panel data regression will serve as the basis for hypothesis testing in this research. The sampling method used in this study is purposive sampling, where the companies included as research samples are those with complete financial reports from 2020 to 2023 and have sufficient data for the measurement of the variables.

### Variable Definition

The measurement of variables used in this study is as follows:

Variable	Measurement	Scale
Firm Value	Market Price	Ratio
	EPS	
Profitability	Net Income	Ratio
	Total Equity	
Leverage	Total Debt	Ratio
	Total Equity	
Company Size	Ln(total Assets)	Ratio

## Descriptive Statistical

Descriptive statistics provide an overview or description of data based on the mean, standard deviation, variance, maximum, and minimum values. (Gozali, 2021). These values are useful for giving a general picture of the variables being studied, thus explaining the characteristics of the data

## Model Fit Testing for Panel Data Regression

In panel data regression, there are three types of panel data regression models: pooled least squares, fixed effect model, and random effect model. This testing will be conducted using three levels of tests: Chow test, LM test, and Hausman test. These tests aim to determine whether the panel data regression in this study is based on the fixed effect model or the random effect model (Nuryanto, 2018).

The decision-making criteria for the Chow Test, LM Test, and Hausman Test are as follows:

Chow Test (cross-section f)	
Prob. > 0.05	pooled least square
Prob. < 0.05	fixed effect model
LM Test (cross-section chi-square)	
Prob. > 0.05	pooled least square
Prob. < 0.05	random effect model
Hausman Test (cross section random)	
Prob. > 0.05	random effect model
Prob. < 0.05	fixed effect model

## Analysis of Panel Data Regression

This study will conduct a panel data regression test to examine the relationship between institutional ownership, public ownership, profitability, and growth on company value, using the following formula:

$$NP = \alpha + \beta_1.PF + \beta_2.LEV + \beta_3.SIZE + \varepsilon$$

NP = Firm Value

PF = Profitability

LEV = Leverage

SIZE = Company Size

## Correlation Coefficient

The Correlation Coefficient Test ( $R^2$ ) is used to determine how well the model explains the

variation in the dependent variable. The result of  $R^2$  ranges from 0 to 1. If the  $R^2$  value approaches 1, it indicates that all the information needed to explain the dependent variable is provided by the independent variables. Conversely, if  $R^2$  approaches 0, the independent variables have limited ability to explain the dependent variable (Ghozali, 2017).

### Simultaneous Significance Test

The F-statistic test shows whether all the independent variables included in the model have a joint effect on the dependent variable. If the Prob.(F-Statistic) value is less than 0.05, it indicates that the independent variables collectively influence the dependent variable. Conversely, if the Prob.(F-Statistic) value is greater than 0.05, the independent variables do not collectively influence the dependent variable (Ghozali, 2017).

### Individual Significance Test

The Individual Significance Test, or t-test, is used to observe whether there is an individual effect of each independent variable on the dependent variable. If the probability value for each independent variable is less than 0.05, it indicates that the independent variables have a significant individual effect on the dependent variable. Conversely, if the probability value for each independent variable is greater than 0.05, the independent variables do not have an individual effect on the dependent variable (Ghozali, 2017).

## Results and Discussion

### Description Analysis

The Results of Descriptive Analysis are as Follows:

#### Table 2: Description Analysis

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Mean	1.946667	0.186056	0.973468	29.41783
Median	1.334635	0.135571	0.703436	29.35031
Maximum	235.7190	1.450.882	7.940695	32.85992
Minimum	0.026730	0.002161	0.102822	25.70336
Std. Dev.	2.799081	0.219651	1.034931	1.548521

Source: Eviews 9

The results of the descriptive analysis, it can be observed that:

- A. The average of price earning ratio in this research data 1.3346%. The maximum value is 235,7190% and it is from PT Diamond Food Indonesia,Tbk 2021. The Minimum 2,6730% and with a standard deviation 2,799081
- B. The average profitability in this research data is 18,61% The maximum value is 145.08% and the minimum value is 0,2161% with a standard deviation of 0.219651.



C. The average leverage in this research data is 97,34%. The maximum value is 794,0695% and the minimum value is 10,2822% with a standard deviation 1,034931.

D. The average size of company in this research data is 29,41783. The maximum value is 32,85992 and the minimum value is 25.70336 with a standard deviation 1,548521.

### **Panel Data Model Suitability Test**

#### **Chow Test**

The Results of the Chow Test in This Study Are as Follows:

**Table 3: Uji Chow**

Effects Test Prob.  
Cross-section F 0.0000  
Cross-section Chi-square 0.0000

Source: Eviews 9

From the results above the probability of the cross-section F is below 0.05, indicating that the Fixed Effects Model (FEM) is preferred over the Common Effects Model (CEM). This suggests that there are significant differences across the individual cross-sections, making FEM the more appropriate choice for this analysis.

#### **Hausman Test Results**

The results of the Hausman test in this study are as follows:

**Table 4: Uji Chow**

Test Summary Prob.  
Cross-section random 0.0000

Source: Eviews 9

From the results above, it can be observed that the probability for the cross-section random is below 0.05. Therefore, between the Random Effects Model (REM) and the Fixed Effects Model (FEM), the model that will be chosen is FEM.

#### **F Test Results**

The results of the F test in this study are as follows:

**Table 5: F Test**

Prob (F-Statistic) 0.0000

Source: Eviews 9

From this research, it can be observed that the value of Prob (F-Statistic) is 0.000, which is less than 0.05. This indicates that the research model is suitable for use.

### **Correlation Coefficient Test Results**

The results of the correlation coefficient test in this study are as follows:

**Table 6: Correlation Coefficient Test**

Adjusted R-squared	0.960557
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Source: Eviews 9

From the results above, it can be observed that the dependent variable in this study can be explained by the independent variables by 96,06%, while the remaining 1,04% is explained by other variables outside the research model.

### Panel Data Regression Test Results

The results of the panel data regression in this study are as follows:

**Table 7: Uji Regresi Data Panel**

	Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.647.725	3.485.829	-0.472692	0.6372	
PROF	3.852.281	1.801.712	2.138.123	0.0344	
LEV	-0.563105	2.481.441	-0.226927	0.8208	
SIZE	0.655287	1.178.408	0.556079	0.5791	

Source: Eviews 9

### Conclusions Based on Coefficients and Probability Values

1. **Profitability** has a positive but insignificant effect on firm value. As the company's profit level increases, it sends a positive signal to investors, causing them to react and potentially increase the company's stock price and value. However, this effect is insignificant because investors also consider the company's ability to survive under various conditions.
2. **Leverage** has a insignificant effect on firm value. The high or low level of a company's debt does not directly impact its value, as investors believe that as long as the company continues to operate, it will have the ability to repay that debt.. This result aligns with research by Fauziah & Sudiyatno (2019), which states that company growth negatively and significantly affects firm value.
3. **Company Size** has a insignificant effect on firm value. The size of a company does not impact its value. This is because the size of a company does not always indicate its future potential. A company's success in the future can be seen in its ability to maintain business continuity and continue to grow positively.

### Conclusion and Suggestions

In this study, it can be concluded that: Profitability has a positive significant effect, while



leverage and company size have insignificant effect on the firm value of consumption sector companies from 2020 to 2023.

This research focused solely on consumption sector companies using the variables of profit ability, leverage, and company size. Future research could explore additional factors such as corporate actions, including merger decisions and dividend policies.

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