

Balancing Debt and Profitability: How Financial Drivers Shape Firm Value in the Indonesian Consumer Goods Sector

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Article Info	Abstract
Keywords: ○ Firm Size ○ Capital Structure ○ Profitability ○ Firm Value	Purpose – This study aims to obtain empirical evidence regarding the effect of Firm Size, Capital Structure, and Profitability on Firm Value. Design/methodology/approach – This study employs a quantitative research design. The sample consists of 41 companies from the non-cyclical consumer goods sector listed on the Indonesia Stock Exchange during the 2022-2024 period, selected using purposive sampling. Panel data regression analysis, performed using Eviews 9 software, was used to test the hypotheses. Based on the results of the Chow Test, Hausman Test, and Lagrange Multiplier Test, The Random Effects Model was determined to be the most appropriate model. Findings – The research results indicate that Firm Size has a positif and insignificant effect on Firm Value. Capital Structure has a negative and significant effect on Firm Value. Profitability has a positive and significant effect on Firm Value. Research limitations/implications – The research findings offer implications for management regarding to optimization of capital structure and the enhancement of profitability to boost firm value, while also serving as a consideration for investors when assessing the company's financial condition. The first limitation of this study concerns the data used specifically, secondary data obtained from company-published annual reports. However, the data obtained were incomplete because many companies did not upload their reports consistently on an annual basis. Furthermore, the components of the formulas were incomplete or ambiguous, and certain figures were missing from the financial statements. Another limitation relates to the sample size, which was reduced from 166 to 41, the reduction was due to incomplete financial statement data and the fact that many companies has incurred losses. Finally, the study was conducted over a specific timeframe (2022-2024), precluding long-term analysis.
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 Copyright: © 2026 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY SA) license (https://creativecommons.org/licenses/by-sa/4.0/)	JEL : G30, G32, L25, M21

INTRODUCTION

The non-primary consumer goods sector is one of the important sectors in Indonesia's economy, covering various industries with secondary or non-essential products, such as automotive, clothing, tourism, and durable goods. The performance of this sector is heavily influenced by the economy and people's purchasing power, making it prone to fluctuations. After declining during the Covid-19 pandemic, this sector is starting to show recovery and is once again catching the attention of investors in the stock market. This phenomenon can be seen from the performance growth of the non-primary consumer goods sector on the Indonesia Stock Exchange. The stock index of this sector once rose by as much as 3.30% and became one of the best-performing sectors compared to others. This situation shows opportunities for growth, but companies still face tough competition as well as changes in economic conditions and consumer behavior.

Along these lines, (*Badan Pusat Statistik*, 2024) data indicates that household consumption remains one of the largest contributors to Indonesia's economic growth. However, the rise in consumer spending is not always accompanied by improved performance across all companies in the non-essential consumer goods sector. This is because demand for non-essential products is relatively sensitive to changes in consumer purchasing power, meaning companies continue to face challenges in maintaining their performance and corporate value. This situation is also reflected in the firm value—measured by the Price-to-Book Value (PBV) ratio—of several companies in the consumer discretionary sector during the 2022–2024 period. Changes in PBV indicate that improvements in consumption conditions and overall sector performance are not always accompanied by an increase in firm value at the individual level; some companies experienced a rise in PBV, while others saw a decline during the same period. These disparities demonstrate that firm value is not solely influenced by overall sector conditions but can also be linked to internal company characteristics, such as firm size, capital structure, and profitability.

This situation is related to the company's value, which is investors' perception of the company's success, generally reflected in stock prices and the company's future prospects. According to Brigham and Houston (2019), an increase in company value indicates the company's ability to provide optimal returns to shareholders. Therefore, companies need to manage resources and financial performance effectively to boost investor confidence and company value. One factor that can affect a company's value is its size. The size of a company reflects how big or small it is, which can be seen through total assets, sales, or operational scale. Larger companies tend to have more resources and wider access to funding, which can send a positive signal about the company's stability and prospects to investors (Wardila et al., 2023).

Besides the size of the company, capital structure is also an important factor because it relates to the company's decisions in using debt and equity as funding sources. An optimal capital structure can support operational activities and business development, while excessive use of debt can increase financial risk. Therefore, capital structure can influence investor perception and ultimately impact the company's value (Agusfianto et al., 2022). The next factor is profitability, which is the company's ability to generate profit by managing the resources it has. A high level of profitability reflects good company performance and the ability to provide returns to shareholders. This condition can boost investors' confidence in the company's prospects, so profitability is suspected to have an influence on the company's value (Alifedrin

& Firmansyah, 2023). Research on the impact of company size, capital structure, and profitability on firm value still shows inconsistent results. Some studies find a positive effect, while others show a negative effect. These differing results indicate a research gap, so this study was conducted to analyze the influence of company size, capital structure, and profitability on firm value in the non-primary consumer goods sector listed on the Indonesia Stock Exchange during the 2022–2024 period.

LITERATUR REVIEW

Signaling Theory

Signaling theory explains the existence of information asymmetry between corporate management and investors, necessitating that companies convey signals through information disclosed to the market. Investors can utilize this information to assess a company's condition, performance, and prospects. In this study, high profitability serves as a positive signal, demonstrating the company's ability to generate profits and manage resources effectively, there by enhancing investor confidence and firm value (Spence, 1973).

Trade Off Theory

In the journal (Fahri et al., 2022), the Trade-off theory according to Brigham & Houston (2011) is a capital structure theory that states that companies trade off the tax benefits of debt financing with the problems caused by potential bankruptcy. Based on this definition, it can be said that if a company funds itself using debt, it can gain the benefit of reducing the taxes it pays, but alongside the advantage of tax benefits, the company also has a potential risk of bankruptcy.

Firm Size

Firm size refers to the scale of a company – whether large or small – as indicated by its resources, such as total assets, sales, workforce size, and market capitalization. In this study, firm size is measured using total assets, as they reflect the economic resources a company possesses to support its operational activities and business development. Companies with larger total assets generally possess greater operational capacity and more extensive resources, as well as superior access to funding and business opportunities. Theoretically, these conditions can enhance investor confidence and firm value, provided the assets are managed effectively to generate economic benefits. (Wardila et al., 2023).

Capital Structure

According to Gitman and Zutter (2012) – as cited in (Agusfianto et al., 2022) capital structure is the combination of a company's long-term debt and equity. A company's capital structure reflects the ratio between the long-term debt and equity utilized by the firm. Capital structure describes how a company determines its sources of financing to support operational activities, investments, and business expansion. The use of debt can provide additional funds

for the company, but it also creates financial obligations in the form of interest and principal payments. Therefore, companies need to determine an appropriate balance between debt and equity to support business activities while maintaining financial stability, managing financial risk, and increasing firm value.

Profitability

Profitability can be defined as a bank's ability to generate maximum profit while conducting its operational activities. The primary objective of analyzing profitability is to determine how efficiently a bank generates profit. A bank's efficiency can be assessed by comparing the profit earned against the capital or assets used to generate that profit (Alifedrin & Firmansyah, 2023).

Firm Value

Corporate value serves as a reflection of a company's condition. It is indicated by the company's share price in the capital market. A strong corporate value can signal the prosperity of its shareholders. For publicly traded companies, corporate value is crucial because it reflects the company's performance and influences investor interest in its shares (Yeni et al., 2024).

Hypotheses development

The Effect of Firm Size on Firm Value

Firm size is a factor that can influence firm value, as it reflects the scale of operations and the resources possessed by the company. Firm size can be assessed through total assets, total sales, or other indicators that illustrate the company's capacity to conduct its operations. Larger firms generally possess greater assets and resources, enabling them to support operational activities and facilitate broader business expansion. Furthermore, large firms tend to exhibit more stable financial and operational conditions than small firms, as they are better equipped to withstand various business risks and fluctuations in economic conditions. Large companies generally enjoy easier access to funding sources, whether internal or external. This ease of securing funding enables companies to increase investment, expand business operations, and enhance their profitability. Furthermore, the size of a company's assets serves as a factor for investors when assessing its stability and operational capabilities. Consequently, the larger the company, the greater the resources and capabilities it can leverage to ensure business continuity and improve performance. Based on Signaling Theory, a large firm size can send a positive signal to investors regarding the company's condition and future prospects. Companies with substantial assets are perceived as having a superior capacity to conduct operations and manage business risks, thereby boosting investor confidence. Increased investor confidence can stimulate investment interest, ultimately driving up demand for the company's shares. Rising share demand can push up the share price, which in turn reflects an increase in firm value. Thus, the larger the firm size, the greater the likelihood of an increase in firm value. This research is in line with some previous studies (Nailufar et al., 2025), (Farhan & Manda, 2026), (Budiantini, 2023), (Nasihin et al., 2025).

H₁: Firm size has a positive effect on firm value.

The Effect of Capital Structure on Firm Value

Capital structure is a crucial factor in determining a company's sustainability and growth, as it relates to decisions regarding sources of funding. It represents the mix of debt and equity used to finance operational activities, investments, and business expansion. While utilizing debt provides additional funds without diluting shareholder ownership, it also entails obligations such as interest and principal repayments; consequently, a company must assess its capacity to meet these commitments. Therefore, capital structure decisions must be made judiciously to support business activities without incurring excessive financial risk. The effective use of debt can benefit a company by boosting productivity and expanding business operations. Additionally, debt offers tax savings, as the associated interest expenses reduce the company's taxable income. This can enhance financing efficiency and create opportunities for greater profitability. However, excessive debt levels increase financial burdens and the risk of financial distress. Therefore, companies must determine an optimal debt level by weighing the benefits against the risks associated with debt financing. Based on Trade-Off Theory, companies need to determine an optimal capital structure by balancing the benefits of debt – specifically tax savings – against the costs associated with financial risk and potential bankruptcy. Utilizing debt at an optimal level can benefit the company and enhance its value. Conversely, excessive debt usage can heighten corporate risk, thereby eroding investor confidence and diminishing firm value. Thus, an optimally managed capital structure can positively influence investor perception and increase the company's value. This research is in line with some previous studies (Lestiyadi & Ghazali, 2025), (Wijaya & Susilowati, 2024), (Santoso & Widjaja, 2022), (Fahri et al., 2022), (Rachmadevi et al., 2023), (Melati et al., 2025).

H₂: Capital Structure has a positive effect on firm value.

The Effect of Profitability on Firm Value

Profitability is a key factor influencing a company's value, as it demonstrates the firm's ability to generate profit using its available resources – such as assets, equity, and sales. It also reflects the effectiveness and efficiency of management in overseeing the company's operational activities. High profitability indicates that a company is successfully leveraging its resources to generate earnings. Such performance reflects a strong corporate standing and serves as a significant factor for investors when evaluating the company's current condition and future prospects. High profitability demonstrates a company's ability to generate profits effectively and efficiently, thereby strengthening its financial position. The profits earned can serve as an internal source of funds to finance operational activities and business expansion, reducing the company's reliance on external funding sources. Furthermore, high profitability enhances the company's capacity to provide returns to shareholders. Such conditions boost investor confidence and interest in investing in the company, as it is perceived to have favorable prospects and the ability to deliver higher investment returns. Based on Signaling Theory, high profitability can serve as a positive signal to investors regarding a company's ability to generate profits and manage resources effectively. Such a positive signal can boost investor confidence in the company's future prospects. Increased investor confidence and

interest can drive up demand for the company's shares, subsequently raising the share price. This rise in share price reflects an increase in the company's value. Thus, the higher the company's profitability, the greater the likelihood of an increase in its value. This research is in line with some previous studies (Nadhilah et al., 2022), (Kusumaningrum & Iswara, 2022), (Trisnawaty et al., 2024), (Bulan & Syarif, 2024), (Uzzulfa & Imronudin, 2025), (Hasanah & Hasnawati, 2024)

H₃: Profitability has a positive effect on firm value.

RESEARCH METHOD

Types and Sources of Research Data

The type of data used in this study is secondary data – data provided by other parties rather than obtained from direct sources. The data consists of financial reports from companies in the raw materials sector, published by the Indonesia Stock Exchange (IDX) for the years 2022–2024. The study population comprises companies in the Non-Cyclical Consumer Goods sector listed on the Indonesia Stock Exchange (IDX). Sampling was conducted using the purposive sampling method; the total population consisted of 166 companies, of which 41 met the criteria. Meanwhile, the variable measurements applied to each variable are as follows:

Table 1. Operationalization of Research Variable

Type	Variable	Measurement	Source
Independent Variables	Firm Size	Firm Size = Ln (Total Assets)	(Nasihin et al., 2025)
	Capital Structure	$DER = \frac{total\ debt}{Total\ Equity}$	(Fahri et al., 2022)
	Profitability	$ROE = \frac{Net\ profit}{Total\ Equity}$	(Bulan & Syarif, 2024)
Dependent Variable	Firm Value	$PBV = \frac{Share\ price\ per\ share}{Book\ Value\ per\ Share}$	(Trisnawaty et al., 2024)

RESULTS

Table 2. Descriptive Analysis

Variable	N	Min	Max	Mean	Std. Dev
FS	123	25.72000	31.85000	28.71390	1.402662
CS	123	0.040000	190.3100	2.617886	17.14501

PRF	123	0.010000	548.1600	10.26520	69.34956
FV	123	0.150000	563510.9	16494.55	82186.70

FS: Firm Size, CS: Capital Structure, PRF: Profitability, FV: Firm Value

Best Requirments Testing

1. Chow Test

- If the Probability (Prob) of the Cross-section F-test is less than 0.05, then the Fixed Effects model is the better choice.
- If the Probability (Prob) for the Cross-section F-test is greater than 0.05, then the Common Effect model is the better model.
-

Table 1. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	41.480768	(40,79)	0.0000
Cross-section Chi-square	380.214548	40	0.0000

Source: Processed Data (2026)

The results of the Chow test conducted using EViews 9 indicate that the cross-section F-statistic probability value is 0.0000, which is below the significance level ($\alpha = 0.05$). This implies that the Fixed Effect Model (FEM) is the most appropriate model. Consequently, a Hausman test is required to select the best model between the fixed effect model and the random effect model.

2. Hausman Test

- If the probability (Prob) is less than 0.05, the fixed effects model is the better choice.
- If the probability (Prob) > 0.05 , then the random effects model is the better model.

Table 2. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.178626	3	0.9810

Source: Processed Data (2026)

Based on the Hausman test results, the probability value is 0.9944, which exceeds the significance level ($\alpha = 0.05$). This indicates that the Random Effects Model is the best model.

3. Lagrange Multiplier Test

- If the probability for "Both" is greater than 0.05, then the better model is the common effect model.
- If the probability for "Both" is less than 0.05, then the random effects model is the better choice.

Table 3 Lagrange Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	106.6115 (0.0000)	1.375215 (0.2409)	107.9868 (0.0000)
Honda	10.32529 (0.0000)	-1.172695 --	6.471859 (0.0000)
King-Wu	10.32529 (0.0000)	-1.172695 --	1.108729 (0.1338)
Standardized Honda	10.69931 (0.0000)	-0.935806 --	2.438619 (0.0074)
Standardized King-Wu	10.69931 (0.0000)	-0.935806 --	-1.064659 --
Gourierieux, et al.*	--	--	106.6115 (< 0.01)
*Mixed chi-square asymptotic critical values:			
1%	7.289		
5%	4.321		
10%	2.952		

Source: Processed Data (2026)

Based on the Lagrange Multiplier test results, the Breusch-Pagan probability value is 0.0000, which is below the significance level ($\alpha = 0.05$). This indicates that the Random Effect Model (REM) is the best model.

Hypothesis Test

Table 4. Partial Test (Random Effect Model)

Variable	Prediction	Coefficient	T-Statistik	Prob.	Explanation
C		-17449.81	-0.093179	0.9259	
FS	+	983.5596	0.151058	0.4401	FS has no effect on FV and shares the same direction,

Variable	Prediction	Coefficient	T-Statistik	Prob.	Explanation
CS	+	-369.3048	-2.894386	0.00225	meaning it does not support the theory. CS has an effect on FV and shows a different direction, which means it supports the theory.
PRF	+	649.7022	15.91279	0.0000	PRF influences FV and shares the same direction, meaning it supports the theory.
R-Squared					0.685733
Adjusted R-Squared					0.677810
F-Statistic					86.55287
Prob (F-Statistic)					0.000000

Source: Processed Data (2026)

FS: Firm Size, CS: Capital Structure, PRF: Profitability

DISCUSSIONS

Firm Size of Firm Value

The results of the first hypothesis (H1) test show that company size has a coefficient value of 983.5596, a t-statistic of 0.151058, and a probability value of 0.4401 after using a one-tailed test. A probability value greater than 0.05 indicates that company size doesn't have a significant effect on firm value. Even so, the positive regression coefficient shows that the relationship direction aligns with the initial hypothesis. In this study, company size is measured using total assets, while firm value is measured by Price to Book Value (PBV). Total assets show the magnitude of resources a company has, while PBV reflects investors' perception and confidence in the company's prospects by comparing the stock price with its book value. Conceptually, companies with large assets should have stronger operational capabilities, access to funding, and competitiveness. This situation is expected to boost investor confidence and eventually raise stock prices and PBV value. However, research results show that having large assets does not necessarily significantly increase the company's value. This can happen because investors don't just consider the size of the company, but also look at the company's ability to make profits, create growth, and manage resources efficiently. Companies with large assets may face higher operating costs, maintenance expenses, and management complexities, so having big assets doesn't necessarily mean they will perform optimally. This situation is relevant for companies in the non-primary consumer goods sector, which are greatly affected by changes in purchasing power and consumer preferences. In such conditions, investors tend to focus more on profit growth, company growth, and the company's ability to maintain competitiveness rather than just looking at the amount of assets they have.

The results of this study do not align with Signaling Theory, which views a company's assets as a positive signal for investors. On the contrary, the findings are better explained through Barney's (1991) Resource-Based View (RBV), which emphasizes that a company's

advantage does not lie in the amount of resources it has, but in its ability to manage and utilize them effectively to create a competitive edge. In line with (Amanda et al., 2024), the quality of management and the optimization of internal resources are key factors in creating a company's advantage and value. So, having big assets doesn't automatically boost a company's value if they can't improve profitability, operational efficiency, and growth prospects that investors care about. That's why the market values how effectively assets are used more than just the amount of assets a company has. Based on the explanation, it can be concluded that company size, measured by total assets, does not affect company value, which is measured by PBV. This finding is supported by (Rivandi & Petra, 2022), (Carolyn & Susilawati, 2024), as well as (Wijaya & Susilowati, 2024), but it is not in line with the research of (Nailufar et al., 2025), (Farhan & Manda, 2026), (Budiantini, 2023), and (Nasihin et al., 2025), who found that company size does affect company value.

Capital Structure of Firm Value

The results of testing the second hypothesis (H2) show that the capital structure has a coefficient value of -368.3048, a t-statistic of -2.894386, and a probability value of 0.00225. A probability value smaller than 0.05 indicates that the capital structure significantly affects the company's value. However, the negative regression coefficient shows that the direction of the relationship is opposite to the initial hypothesis, which predicted a positive relationship. In this study, capital structure is measured using the Debt to Equity Ratio (DER), while company value is measured with the Price to Book Value (PBV). DER shows the comparison between the use of debt and equity in financing the company's activities, while PBV reflects investors' perception and confidence in the company's value and prospects. Conceptually, using debt can be an extra source of funding that helps a company expand, invest, innovate, and boost its operational capacity. If the funds are used productively and generate profit, it can improve the company's performance and prospects. However, excessive use of debt can also raise financial risks and lower investors' evaluation of the company. Research results show that capital structure has a negative and significant effect on firm value. This finding indicates that increasing the use of debt can raise a company's financial burden and risk, which may lower investor confidence and the company's value. Therefore, investors consider not only the funding benefits of debt but also the risks and the company's ability to meet its obligations. This situation is relevant for the non-essential consumer goods sector, which faces high competition and rapidly changing consumer preferences. Companies need funding to innovate, improve product quality, expand markets, and stay competitive. However, relying too much on debt in such competitive conditions can increase risks if the income and profits generated aren't enough to cover debt obligations. Academically, research shows that investors consider how effectively debt is used and the risks it brings. Debt can be beneficial if used for productive activities that generate profits, but increasing debt without a company's ability to generate cash flow and earnings can lead to negative reactions from investors. So, balancing debt and equity is important in determining a company's value. The results of this study can be explained through the Trade-Off Theory, which says that companies need to weigh the benefits and costs of using debt to achieve an optimal capital structure. Using debt can bring benefits, like extra funding and tax savings, but these benefits can decrease if the risks of financial trouble and debt costs get too high. So, taking on more debt beyond the optimal level

can lead to a drop in the company's value. Based on this explanation, it can be concluded that the capital structure measured by DER has a negative and significant effect on the company's value measured by PBV. This finding suggests that increasing the use of debt needs to be balanced with the company's ability to manage risks and meet its obligations. This study is supported by (Lestiyadi & Ghazali, 2025), (Santoso & Widjaja, 2022), as well as (Melati et al., 2025), but it is not in line with (Ridayanti et al., 2025) and (Gusmiarni & Mawar, 2024), who stated that the capital structure has no effect on the company's value.

Profitability of Firm Value

The test results for the third hypothesis (H3) show that profitability has a coefficient value of 649.7022, a t-statistic of 15.91279, and a probability value of 0.0000. A probability value smaller than 0.05 indicates that profitability has a significant effect on firm value. Additionally, the positive regression coefficient shows that the direction of the relationship between profitability and firm value is in line with the initial hypothesis. In this study, profitability is measured using Return on Equity (ROE), while the company's value is measured with Price to Book Value (PBV). ROE shows how good a company is at making profit based on the capital invested by shareholders. Meanwhile, PBV reflects investors' perception and level of confidence in the company's value and prospects. Conceptually, a high level of profitability shows that a company is able to manage its capital and resources effectively to make a profit. This ability gives the company opportunities to fund its operations, expand, boost innovation, and provide better returns to shareholders. Ultimately, this situation can increase investor confidence and the company's value. Research results show that profitability has a positive and significant effect on a company's value. From a business logic perspective, investors consider a company's ability to generate profits as one of the main factors in making investment decisions. The higher the profits a company can generate, the better the investors' assessment of the company's performance and future prospects. This condition is relevant in the non-essential consumer goods sector, which has high competition and rapidly changing consumer preferences. Companies that can maintain profitability show they can adapt to market changes, innovate, expand market share, and keep the business going. Therefore, investors tend to give higher ratings to companies with high profitability. Academically, this research shows that investors care more about a company's ability to generate profits than just looking at the size of its assets or debt usage. PBV as a measure of company value reflects the market's appreciation for companies that can consistently earn profits. So, an increase in ROE can boost investor confidence, stock demand, stock prices, and ultimately the company's value. The results of this study align with Signaling Theory, which explains that information about high profitability is a positive signal from management to investors about the company's performance and prospects. A high ROE shows that the company can manage capital effectively to generate profit, so investors respond positively to that information by showing more interest in the company's stock. Based on the explanation, it can be concluded that profitability measured by Return on Equity (ROE) has a positive and significant impact on firm value measured by Price to Book Value (PBV). This finding is supported by (Bulan & Syarif, 2024), (Uzzulfa & Imronudin, 2025), and Hasanah and Hasnawati (2024), but it is not in line with (Nur utami & Widati, 2022), (Wulandari & Efendi, 2022), and (Hidayat & Khotimah, 2022), who stated that profitability does not affect firm value.

CONCLUSIONS

Based on the data analysis and discussion that has been described in the previous chapter regarding the influence of Environmental Disclosure and Hedging Policy on Firm Value in companies in the transportation, logistics, and energy sectors listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period, the following empirical conclusions can be drawn:

1. Firm size does not have a significant influence on firm value. Partial test results show a probability value of 0.4401 (> 0.05). This indicates that the size of a company does not affect its value, as investors focus on the companies that are most effective at generating profits.
2. Capital structure has a significant negative influence on firm value. Partial test results show a probability value of 0.00225 (< 0.05). This indicates that as long as the company is able to manage debt and meet its payment obligations effectively, the use of debt as an additional source of funding enables the company to expand its scale of operations and generate greater profits.
3. Profitability has a significant influence on firm value. Partial test results show a probability value of 0.0000 (< 0.05). This indicates that a company's ability to generate profit is a factor closely monitored by investors. The higher the company's profitability, the greater the investor confidence, which in turn leads to an increase in share price and firm value.

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