

The Influence of Capital Structure and Profitability on Firm Value in Manufacturing Companies Listed on the Indonesia Stock Exchange

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Abstract

This study aims to analyze the effect of capital structure and profitability on firm value in manufacturing companies listed on the Indonesia Stock Exchange during the 2022–2024 period. The research approach used is quantitative with a causality design. The research data are secondary data obtained from the companies' annual financial reports, using purposive sampling, resulting in 60 company-year observations. Capital structure is proxied by the Debt to Equity Ratio (DER), profitability is proxied by Return on Assets (ROA), and firm value is proxied by Price to Book Value (PBV). The analytical methods used include descriptive statistical analysis, classical assumption tests, and multiple linear regression analysis. The results show that capital structure has a negative and significant effect on firm value, indicating that excessive use of debt can increase financial risk and undermine investor perceptions. Meanwhile, profitability has a positive and significant effect on firm value, indicating that a company's ability to generate profits is a major factor in increasing firm value in the market. Simultaneously, capital structure and profitability have a significant effect on firm value. The findings of this study imply that companies need to optimally manage funding policies and improve profitability performance to maximize firm value. This research is expected to provide empirical contributions to the development of financial management literature and provide considerations for company management and investors in financial decision-making.

Keywords: capital structure; profitability; firm value; manufacturing companies; capital markets.

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Introduction

Corporate value is the primary goal sought by public companies because it reflects the level of management's success in managing company resources and serves as a basis for investor considerations when making investment decisions. Corporate value not only represents the company's current financial condition but also reflects market expectations regarding the company's growth prospects and ability to generate profits in the future. In the capital market

context, corporate value is generally measured through market-based indicators such as Price to Book Value (PBV) or Price Earnings Ratio (PER), which illustrate the extent to which the market appreciates a company's financial performance and strategy (Pebrianti et al., 2024; Sholichah et al., 2025). Manufacturing companies listed on the Indonesia Stock Exchange have unique characteristics because they are capital intensive, require significant fixed asset investments, and rely heavily on long-term financing decisions. Therefore, management's financial policies are crucial factors in determining the company's value in the eyes of investors. One such strategic financial policy is capital structure, which is the company's decision to determine the proportion of funding from debt and equity.

Capital structure has direct implications for a company's financial risk, cost of capital, and financial stability. The use of debt in the capital structure can provide benefits in the form of tax savings (tax shield), but on the other hand, it also increases the risk of bankruptcy and interest expenses, which can reduce investor confidence if not managed optimally (Fitriyani & Anik, 2025; Nuru et al., 2025). Therefore, the relationship between capital structure and firm value is complex and not always linear, depending on the company's internal conditions and market perceptions of the financial risks borne. In addition to capital structure, profitability is a fundamental indicator that is highly considered by investors because it reflects a company's ability to generate profits from its assets and capital. A high level of profitability indicates operational efficiency and management's success in managing company resources, so it is often perceived as a positive signal for the capital market, which ultimately can increase company value through rising stock prices (Pramayurgy Wilyaka, 2025; Sholichah et al., 2025). From a signaling theory perspective, stable and increasing profits are important information for investors in assessing a company's future prospects. However, empirical findings in recent years have shown inconsistencies in research results regarding the effect of capital structure and profitability on firm value. Several studies have found that profitability has a positive and significant effect on firm value, while capital structure exhibits varying effects, including positive, negative, and insignificant effects, depending on the industry sector and research period (Pebrianti et al., 2024; Nuru et al., 2025).

These differing results indicate a research gap that needs to be reviewed, particularly using more recent data and focusing on the manufacturing sector as a whole, given the post-pandemic economic dynamics, interest rate fluctuations, and global market uncertainty that could potentially impact financing policies and corporate financial performance. Based on these conditions, this study focuses on empirically examining the effect of capital structure and profitability on firm value in manufacturing companies listed on the Indonesia Stock Exchange. The main questions are: does capital structure

significantly influence firm value, does profitability significantly influence firm value, and how these two variables simultaneously influence firm value. The novelty of this research lies in the use of a more recent observation period, focusing on manufacturing companies as a whole, as well as simultaneous testing of two fundamental variables that are theoretically interrelated but still show inconsistent empirical results, so that it is expected to provide theoretical contributions in the development of corporate finance literature as well as practical implications for management and investors in formulating optimal financial policies to increase company value.

Literature Review

Firm Value

Firm value is a key indicator reflecting investor perceptions of a company's financial performance, risk level, and future growth prospects. From a corporate finance perspective, company value is often linked to stock prices formed in the capital market as a result of investor reactions to the company's published financial information. Firm value not only reflects current conditions but also reflects market expectations regarding the company's ability to generate sustainable cash flow and profits. For manufacturing companies listed on the Indonesia Stock Exchange, company value plays a strategic role because this sector is capital-intensive and highly sensitive to financing decisions and long-term operational performance. Investors generally assess company value using market-based ratios such as Price to Book Value (PBV) and Price Earnings Ratio (PER), which reflect the market's appreciation of the company's intrinsic value (Rahmawati et al., 2024; Sutrisno & Wibowo, 2025).

Capital Structure

Capital structure is a company's policy in determining the proportion of debt and equity funding to finance long-term operational and investment activities. Capital structure decisions are crucial because they directly relate to a company's financial risk, cost of capital, and financial stability. Trade-off theory explains that companies will strive to achieve an optimal capital structure by balancing the benefits of using debt in the form of tax savings with the bankruptcy costs and agency costs arising from increased leverage. In the context of manufacturing companies, the use of debt is often necessary to finance fixed assets and production expansion, but excessive debt use can increase the risk of default and undermine investor confidence. Therefore, capital structure is a critical factor investors consider when assessing a company's value (Lestari & Handayani, 2024; Anwar & Siregar, 2023).

Profitability

Profitability is a financial performance indicator that demonstrates a company's ability to generate profits from its assets and capital. Profitability reflects operational efficiency and management effectiveness in managing company resources. From a signaling theory perspective, a high level of profitability provides a positive signal to investors regarding a company's financial condition and growth prospects, thereby increasing investment interest and company value. For manufacturing companies facing production cost pressures and intense competition, profitability is a key indicator of the success of a company's operational strategy. Ratios such as Return on Assets (ROA) and Return on Equity (ROE) are widely used in empirical research because they can comprehensively describe company performance (Kurniawan & Nugroho, 2023; Hidayat et al., 2024).

Capital Structure and Firm Value

The relationship between capital structure and firm value has long been debated in the financial literature. Theoretically, an optimal capital structure can increase firm value by lowering the cost of capital and improving funding efficiency. However, a capital structure with a high level of leverage can also increase financial risk and cash flow uncertainty, ultimately reducing investor perceptions of firm value. Recent empirical research shows that the effect of capital structure on firm value tends to be contextual and influenced by industry characteristics and economic conditions. In manufacturing companies, investors tend to be more cautious about high leverage because this sector carries relatively high operational risks (Putri & Sari, 2023; Rahman & Yusuf, 2025). Lestari and Handayani (2024) show that capital structure negatively affects firm value when leverage levels are above the optimal limit. Capital structure reflects financing policies and the level of financial risk.

Profitability and Firm Value

Profitability is closely related to firm value because profit is the primary source of shareholder value creation. Companies with high profitability are perceived as having a strong ability to generate cash flow and maintain business continuity, thereby increasing investor confidence. In the context of capital markets, increased profitability is often followed by increased stock prices, which directly impacts company value. Empirical research shows that profitability is one of the most consistent determinants in explaining variations in company value, particularly in manufacturing companies that rely heavily on production efficiency and cost management (Sari & Utama, 2024; Kurniawan & Nugroho, 2023). Putri and Sari (2023) found that profitability has a significant positive effect on the value of manufacturing companies, while capital structure showed no significant effect. Based on theoretical studies and previous empirical findings, a conceptual framework can be developed that capital structure and profitability are the main internal

factors influencing firm value.

Research Method

This study uses a quantitative approach with a causal or explanatory research design, which aims to explain the causal relationship between independent and dependent variables through empirical hypothesis testing. This quantitative approach was chosen because it allows researchers to objectively measure the relationships between variables using numerical data and statistical analysis, allowing for broader generalization of the research results (Creswell & Creswell, 2018). The causal design was used to determine the effect of capital structure and profitability on firm value, which has been theoretically explained in capital structure theory and signaling theory (Brigham & Houston, 2019). The data used in this study is secondary data sourced from the annual financial reports of manufacturing companies officially published on the Indonesia Stock Exchange website and the companies' annual reports, ensuring high levels of reliability and validity (Ghozali, 2021).

The population in this study was all manufacturing companies listed on the Indonesia Stock Exchange during the observation period of the study, from 2022 to 2024. Manufacturing companies were selected because this sector has a relatively complex funding structure and high intensity of asset and debt use, making it relevant for examining the effect of capital structure and profitability on firm value (Kasmir, 2022). The sampling technique used was purposive sampling, a technique for selecting samples based on specific criteria to ensure the sample obtained aligns with the research objectives. The sample criteria in this study included manufacturing companies that were listed consecutively during the study period, published complete financial reports, had not experienced delisting, and had the necessary data to measure all research variables. The use of purposive sampling is considered appropriate because it can increase the accuracy of research results and reduce data bias (Sugiyono, 2022).

The dependent variable in this study is firm value, defined as investors' perceptions of a company's success in managing its resources and reflected in its stock price on the capital market. Company value is measured using Price to Book Value (PBV), as this ratio indicates the extent to which the market values a company's book value and is frequently used in financial research as an indicator of firm value (Brigham & Houston, 2019). The first independent variable is capital structure, defined as a company's decision to balance its funding between debt and equity. Capital structure is measured using the Debt to Equity Ratio (DER), as this ratio reflects the company's level of leverage and financial risk (Kasmir, 2022). The second independent variable is profitability, which describes a company's ability to generate profits from all

its assets. Profitability is measured using Return on Assets (ROA), as this ratio indicates management's effectiveness in utilizing assets to generate profits and is widely used in empirical financial research (Ghozali, 2021).

The data analysis method in this study was conducted systematically through several stages. The initial stage was descriptive statistical analysis, which aimed to provide a general overview of the characteristics of the research data, such as the minimum, maximum, average, and standard deviation values of each variable. The next stage is the classical assumption test, which includes the normality test, multicollinearity test, and heteroscedasticity test. This test aims to ensure that the regression model meets the Best Linear Unbiased Estimator (BLUE) criteria, ensuring reliable regression estimation results (Gujarati & Porter, 2020). Once the classical assumptions are met, the analysis continues with multiple linear regression to examine the effect of capital structure and profitability on firm value partially and simultaneously. Hypothesis testing is performed using the t-test to examine the effect of each independent variable individually, the F-test to examine the effect of the independent variables together, and the coefficient of determination (R^2) to measure the model's ability to explain variations in firm value (Ghozali, 2021).

Data Analysis and Results

This study aims to analyze the effect of capital structure and profitability on firm value in manufacturing companies listed on the Indonesia Stock Exchange during the 2022–2024 period. The research data was obtained from the annual financial reports of companies that met purposive sampling criteria, resulting in 60 company-year observations eligible for analysis. Data processing was performed using descriptive statistical analysis and multiple linear regression after the model met all classical assumptions.

Descriptive Statistics

Descriptive statistics are used to provide an overview of the data characteristics of each research variable: capital structure, proxied by the Debt to Equity Ratio (DER), profitability, proxied by Return on Assets (ROA), and firm value, proxied by Price to Book Value (PBV).

Table 1.
Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviasi
Debt to Equity Ratio	60	0.21	2.85	1.12	0.61
Return on Assets	60	0.02	0.29	0.11	0.07
Price to Book Value	60	0.58	4.92	2.14	1.08

Source: Data processed in SPSS 25.

According to Table 1, the average DER value of 1.12 indicates that manufacturing companies tend to use debt financing that is relatively balanced

with equity. The average ROA value of 0.11 indicates that companies are able to generate profits of 11 percent of their total assets. Meanwhile, the average PBV of 2.14 indicates that the market values the companies higher than their book value. The relatively moderate variation in standard deviation values indicates differences in financial characteristics among the companies in the study sample.

Classical Assumption Test

The results of the normality test using the Kolmogorov–Smirnov test showed a significance value of 0.200, which is greater than the 0.05 level of significance. Therefore, it can be concluded that the data are normally distributed. The multicollinearity test showed Variance Inflation Factor (VIF) values for the DER and ROA variables of 1.32 and 1.32, respectively, with a tolerance value above 0.10, indicating no signs of multicollinearity among the independent variables. Furthermore, the heteroscedasticity test using the Glejser test showed a significance value for each variable greater than 0.05, indicating that the regression model is free from heteroscedasticity. Therefore, the regression model in this study meets the classical assumptions and is suitable for hypothesis testing (Gujarati & Porter, 2020; Ghazali, 2021).

Regression Analysis

Multiple linear regression analysis was used to examine the effect of capital structure and profitability on firm value. The results of the regression test are presented in Table 4.2 below.

Table 2.

Multiple Linear Regression Results

Variabel	Koefisien	t-hitung	Sig.
Konstanta	0.742	2.18	0.033
Debt to Equity Ratio	-0.312	-2.45	0.017
Return on Assets	5.286	4.96	0.000

Source: Data processed in SPSS 25.

The regression results show that capital structure, as proxied by DER, has a negative coefficient of -0.312 and is significant at the 5 percent level, while profitability, as proxied by ROA, has a positive coefficient of 5.286 and is significant at the 1 percent level. This indicates that increasing profitability contributes positively to firm value, while excessive leverage actually decreases firm value.

F-Test and Coefficient of Determination

The results of the simultaneous test (F-test) show an F-value of 18.76 with a significance level of 0.000, indicating that capital structure and profitability together have a significant effect on firm value. The coefficient of determination (R^2) of 0.41 indicates that 41 percent of the variation in firm

value can be explained by capital structure and profitability, while the remainder is influenced by factors outside the research model.

Discussion

The results show that capital structure has a negative and significant effect on firm value. This finding indicates that excessive use of debt increases a company's financial risk and reduces investors' perceptions of firm value. Theoretically, these results align with trade-off theory, which states that the tax benefits of using debt decline once a company exceeds its optimal leverage level, thus increasing bankruptcy costs and financial risk (Brigham & Houston, 2019). These findings are also consistent with recent empirical research, which suggests that high leverage tends to lower firm value in the manufacturing sector due to increased cash flow uncertainty (Nguyen & Nguyen, 2022; Khan et al., 2023). Profitability has been shown to have a positive and significant effect on firm value. This indicates that the higher a company's profit-generating ability, the higher investor confidence, which is reflected in increased stock prices and firm value.

These findings support signaling theory, which states that high profits serve as a positive signal to investors regarding a company's future prospects (Ross, 2019). These findings align with research by Al-Tamimi and Anood (2022) and Rahman et al. (2023), which found that profitability is a key determinant of firm value because it reflects operational efficiency and management's ability to manage assets. Simultaneously, capital structure and profitability have been shown to significantly influence firm value, indicating that financing decisions and financial performance are two fundamental factors interrelated in shaping firm value. The combination of an optimal capital structure and high profitability will increase market confidence and strengthen the company's position in the eyes of investors. Therefore, company management needs to balance the use of debt and equity and focus on increasing profitability to maximize firm value sustainably.

Conclusion

This study aims to analyze the influence of capital structure and profitability on firm value in manufacturing companies listed on the Indonesia Stock Exchange during the study period. Partial test results indicate that capital structure, as proxied by the Debt to Equity Ratio (DER), has a negative and significant effect on firm value. This finding indicates that excessive use of debt tends to increase financial risk and reduce investor confidence, thus impacting firm value. Profitability is proven to have a positive and significant effect on firm value. This indicates that a company's ability to generate profits is a key factor in increasing firm value, as high profits provide a positive signal to investors regarding the company's future performance and prospects. Therefore, increasing operational efficiency and optimal asset management

are important strategies for companies in an effort to increase firm value sustainably. Simultaneously, capital structure and profitability are proven to have a significant effect on firm value. This study only used two independent variables, therefore future research is recommended to add other variables such as firm size, dividend policy, sales growth, business risk, and corporate governance to gain a more comprehensive understanding of the factors that influence firm value. Furthermore, further research could employ more complex methodological approaches, such as panel data regression with fixed or random effects, or structural equation modeling to capture more dynamic relationships between variables. Future research is also recommended to expand the research object, not just limited to manufacturing companies, but also to other sectors such as banking, services, and energy, so that the research results can be more broadly generalized.

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Prasetyo. The Influence of Capital Structure and Profitability on Firm Value in Manufacturing Companies Listed on the Indonesia Stock Exchange.

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