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DYNAMICS OF FIRM SIZE: MODERATION ANALYSIS OF PROFITABILITY AND CAPITAL STRUCTURE IN ASSESSING FIRM VALUE

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Abstract. Investors often have difficulty making careful investment policies, because they must first evaluate the company's prospects for future growth. This causal research is intended to show the extent to which profitability and capital structure can strengthen firm value through moderating firm size variables in automotive and component companies in the Indonesian capital market in 2018-2022. This quantitative research involved 12 companies determined based on a purposive sampling approach. The information for this study stems from the financial reports of the sample entities which were collected by browsing the website www.idx.co.id using a documentation approach. Furthermore, multiple linear regression techniques were applied in analyzing research data. Research reveals that firm value can be influenced by profitability and capital structure positively and significantly, while firm size has the opposite impact. However, firm size does not affect the relationship between capital structure and firm value; rather, it influences the relationship between profitability and firm value. Increasing profitability and improving capital structure are necessary to follow up on the research's composition and ensure that firm value keeps rising.

Keywords: Capital Structure; Financial Performance; Firm Size; Firm Value; Profitability

Abstrak. Investor sering kali kesulitan mengambil kebijakan investasi yang cermat, sebab harus mengevaluasi nilai perusahaan secara keseluruhan. Studi kausal ini bermaksud untuk menunjukkan bagaimana profitabilitas serta struktur modal mampu memengaruhi nilai perusahaan melalui moderasi variabel ukuran perusahaan pada perusahaan otomotif dan komponen di pasar modal Indonesia tahun 2018-2022. Studi kuantitatif ini melibatkan 12 perusahaan yang dipilih melalui proses purposive sampling. Informasi untuk studi ini berpangkal pada laporan keuangan entitas sampel yang dihimpun menyelusuri website www.idx.co.id menggunakan pendekatan dokumentasi. Lebih lanjut, teknik regresi linear berganda diterapkan dalam menganalisis data penelitian. Penelitian mengungkapkan bahwa tingkat profitabilitas serta struktur modal mempunyai dampak pada nilai perusahaan secara positif dan signifikan. Sementara, ukuran perusahaan mempunyai efek negatif serta tidak signifikan pada nilai perusahaan. Di sisi lain, ukuran perusahaan berperan dalam memoderasi efek profitabilitas terhadap nilai perusahaan, namun tidak berperan dalam memoderasi dampak struktur modal terhadap nilai perusahaan. Mendindaklanjuti temuan pada studi ini, peningkatan profitabilitas dan optimalisasi struktur modal harus dilakukan agar nilai perusahaan semakin meningkatkan.

Kata Kunci: Kinerja Keuangan; Nilai Perusahaan; Profitabilitas; Struktur Modal; Ukuran Perusahaan

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INTRODUCTION

Investors must conduct extensive research on the company they are funding. This information can be obtained through evaluating the performance of company stock. This is done so that investors can predict the maximum profit that can be obtained (Nti, *et al.*, 2020). Apart from that, this evaluation is needed to find out the elements that can influence the company's future productivity. That way, investors' decisions in making investments will depend on fluctuations in firm value. Investors will face less risk as the firm value increases (Guo, *et al.*, 2020).

Firm value and stock price have a direct correlation. The price at which a company's shares are sold on the capital market provides insight into the significance of its worth. Stock valuation involves multiplying the total number of shares and the market price per share (Shikumo, *et al.*, 2020). High share value can directly increase firm value (Antoro, *et al.*, 2020). Therefore, investors want growth in firm value and envision it as a path to increasing the owner's wealth through their investment.

The reason companies offer shares on the stock exchange is to create high firm value. Because of this, it is hoped that management can achieve optimal company financial performance in order to maximize firm value. Financial performance itself can be assessed based on the company's level of profitability. This measurement manifests the company's productivity in generating profits through the resources it owns. Increasing profitability indicates that the company has achieved greater profits, which also encourages an increase in firm value (Tantra, *et al.*, 2021). Several studies reveal that that profitability contains a strong relationship with firm value (Margono & Gantino, 2021; Mubyarto, 2020). Meanwhile, other research informs that profitability is not correlated with firm value (Chen, *et al.*, 2021).

Another component that has an affect on expanding firm value incorporates capital structure. This factor describes the balance between company capital and loans received. Investors use this financial framework as a basis for injecting capital into the company. For management, capital structure policy making must consider the level of risk and potential returns. These considerations can influence demand for shares and are likely to influence firm value (Amin, 2021). A few studies have discovered a favorable correlation between capital structure and firm value (Huda, *et al.*, 2020; Suzulia & Saluy, 2020). Meanwhile, other considers uncover that capital structure and firm value are not related (Luu, 2021).

Starting from various previous studies, it was identified that they had provided inconsistent findings. This raises a research gap for further research. Interestingly, this research tries to integrate firm size factors as a moderating variable. Firm size is involved as a moderating factor because it gives management the option to decide between adding assets or increasing shareholder welfare. The scale of a company reflects the estimated number of assets it owns, so the need for funds to maintain the continuity of the company's operations is increasing. The right funding decisions can optimize achieving higher firm value (Malherbe, 2020). In line with that, it is important to carry out this research because it provides information to decision makers to be able to optimize company strategy to increase firm value. Likewise , these findings can form the basis of studies advanced in the context of business and financial policy. The results can also be a strong basis for management to develop financial policies that suit the company's characteristics. The purpose of this study is to investigate how firm size affects firm value by examining the relationship between profitability and capital structure.

The ability of a business to turn a profit from the management of its assets is measured by profitability. The company's high profitability level indicates that it is also achieving high earnings. This condition also indicates high efficiency in utilizing company assets. Furthermore, profits that tend to increase can contribute to increasing firm value (Lambey, *et al.*, 2021). Numerous considers have found profitability encompasses a critical affect on firm value (Alvian & Munandar, 2022; Mulyadi & Sinaga, 2020).

H$_1$: Firm value is significantly positively impacted by profitability.

A company's capital structure can be used to determine the financial mix of the business, which includes loans and stock. This ratio shows how much the company is financially dependent on creditors compared to owners. A company is more likely to utilize external funding sources than internal capital if the resulting ratio is high. On the other hand, greater debt utilization encourages an intensification in the company's operating capacity (Suwandi, *et al.*, 2022). Thus, increasing capital will increase firm value (Krisnando & Novitasari, 2021). A few ponders suggest that firm value growth is significantly driven by capital structure (Pohan, *et al.*, 2020; Syamsudin, *et al.*, 2021).

H$_2$: Firm value is significantly positively by capital structure.

A company's asset count serves as a benchmark for determining its size. An increase in assets can arouse investors' attention to allocate their funds to the company. Larger scale companies generally have excess resources and are able to encourage increased company performance. In effect, rising share prices have positive consequences for increasing firm value (Arsal, 2021). Based on a few research, it is expressed that firm size and firm value produce a positive direction (Gustinyomansintyaadnyani & Suaryana, 2020; Jannah & Sartika, 2022).

H3: Firm value is significantly positively impacted by firm size.

Profitability is measured by ROA which is an indicator of how well the company in question is able to create profits using the assets it owns. Companies that are growing certainly have freedom in managing resources, so they can increase profits (Secinaro, *et al.*, 2020). Large companies often have a strong reputation in the eyes of the public, which can increase trust in the products they produce. The impact will increase sales and potentially increase company profits, as well encourage increased firm value (Natsir & Bangun, 2021).

H4: Firm size moderates profitability in influencing firm value.

Capital structure refers to two components, namely the ratio between loan funds and funds from share ownership. Optimal capital structure is required to align the level of risk and return on investment (Eliasy & Przychodzen, 2020). Large-scale companies have the opportunity to build creditor trust, so they tend to increase the use of funds through loans. The increase in company assets will have an impact on management decisions in determining the best way to obtain funds. The bigger the company, the more likely it is to produce positive signs to investors which can then drive improvement the value of the company (Kyere & Ausloos, 2021).

H5: Firm size moderates capital structure in influencing firm value.

Figure 1 presents the study's scheme, which begins with a description of the problem.

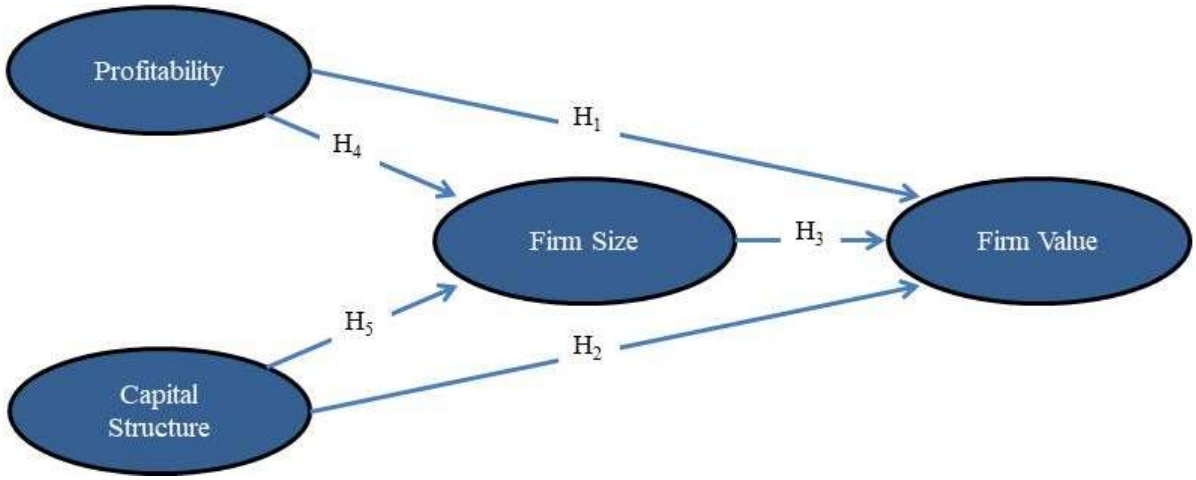

Figure 1. Research scheme

METHOD

This inquire about is categorized as causal inquire about which was conducted from January 2024 to February 2024. This research covers 12 industrial companies practicing in the automotive and components subsector on the Indonesian stock market in 2018-2022. The sample of this quantitative research was selected intentionally through a purposive sampling approach. Barometers for determining this sample include: (1) companies that submit complete financial reports; (2) companies that earn profits every year; and (3) companies that record positive capital every year. Overall, there were 12 companies included in the sample this thinking test (Table 1).

Table 1. Research sample

No.	Code	Name of company
1.	AUTO	PT Astra Otoparts, Tbk
2.	MASA	PT Multistrada Arah Sarana, Tbk
3.	SMSM	PT Selamat Sempurna, Tbk
4.	IMAS	PT Indomobil Sukses International, Tbk
5.	GJTL	PT Gajah Tunggal, Tbk
6.	PRAS	PT Prima Alloy Steel Universal, Tbk
7.	INDS	PT Indospring, Tbk
8.	BRAM	PT Indo Kordsa, Tbk
9.	GDYR	PT Goodyear Indonesia, Tbk
10.	ASII	PT Astra International, Tbk
11.	LPIN	PT Multi Prima Sejahtera, Tbk
12.	BOLT	PT Garuda Metalindo, Tbk

Secondary data is an integral component this research. The data in question are financial reports that have been declared by the sample company. This data was gotten from the site www.idx.co.id through the documentation method. Time series data is part of this data group, covering the 2018-2022 period.

This research involves forming variables including profitability and capital structure, while firm value is the variable that is influenced. Furthermore, firm size is a moderating variable. ROA, or Return on Assets, is a metric used to gauge profitability. Net profit and total assets are compared in this calculating system (AÇIKGÖZ & KILIÇ, 2021). In the meantime, one method of gauging capital structure is the Debt to Equity Ratio (DER). This metric is derived from contrasting the total debt and equity of the business (Olayinka & Mustapha, 2022). Price to Book Value (PBV) then turns into a firm value metric. This measurement is obtained by comparing the share price with the book value per share (Gharaibeh, *et al.*, 2022). Furthermore, the total number of assets becomes a measurement function of firm size (SIZE) (Drempetic, *et al.*, 2020). The variables and their measurements are shown in Table 2.

Table 2. Variables and their measurement

Variable	Measurement	Scale
Profitability	$ROA = \frac{\text{Net Profit}}{\text{Total Assets}}$	Ratio
Capital Structure	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$	Ratio
Firm Size	$SIZE = LN\ (\text{Total Assets})$	Ratio
Firm Value	$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$	Ratio

The research data that has been collected is processed using Microsoft Excel software as well as Statistical Product and Service Solutions (SPSS). The resulting data processing is then presented in table format. The method for analyzing the data involves the use of multiple linear regression.

RESULTS

It is important to test classical assumptions in this study to ensure that the use of the regression model provides a reliable interpretation. The classical assumption testing process is needed to verify the accuracy and validity of the applied regression model. The tests carried out included normality, multicollinearity and heteroscedasticity tests (Table 3). The data is normally distributed, according to the findings of the Kolmogorov-Smirnov normality statistical test (p-value > 0,05). Meanwhile, from statistical testing of multicollinearity, a regression model was produced that was free from multicollinearity problems (*VIF* < 10; *Tolerance* > 0,10). Furthermore, through the Glejser test on the heteroscedasticity statistical test, a regression model was produced that was free from heteroscedasticity interference (*p-value* > 0,05).

Table 3. Classic assumption test

Variable	Normality	Multicollinearity		Heteroscedasticity
		Tolerance	VIF	
ROA		0,788	1,213	0,669
DER	0,200	0,607	1,776	0,211
SIZE		0,761	1,275	0,422

The aim of carrying out a multiple regression test is to assess the correlation between variables. Based on regression testing in model 1 (Table 4), it can be concluded that the regression equation is: $\text{PBV} = 7{,}355 + 10{,}115\text{ROA} + 0{,}477\text{DER} - 0{,}289\text{SIZE} + e$. A constant value of 7,355 means that the firm value will grow by that value if the profitability, capital structure and firm size variables produce a zero. The profitability coefficient of 10,115 indicates that every increase in profitability causes an increase in firm value of 10,115, if other variables remain constant. Positive correlation between the two variables is indicated by the positive value. The capital structure coefficient of 0,477 explains that for every one unit increase in capital structure, there will be a corresponding increase in firm value of 0,477, provided there are no changes in other variables. A positive correlation between the two variables is indicated by this positive coefficient value. The firm value will fall by 0,289 when the firm size expands by one unit while the other variables stay constant, according to the firm size coefficient value of -0,289. This negative coefficient value indicates that there is a unidirectional relationship between the two variables.

Table 4. Model 1 regression test

Variable	Coefficient value	Standard error
Constant	7,355	1,199
ROA	10,115	0,443
DER	0,477	0,299
SIZE	-0,289	0,233

Formulation of the regression equation $\text{PBV} = 3{,}464 + 0{,}483\text{ROA.SIZE} - 0{,}034\text{DER.SIZE} + e$ can be inferred from the regression test of model 2 (Table 5). A constant value of 3,464 shows that the firm value will grow by that value if profitability and firm size as well as capital structure and firm size produce a zero. The interaction coefficient between profitability and firm size which is 0,483, indicates that every one unit increase in this interaction will encourage firm value to grow by 0,483, provided that the interaction of other variables remains unchanged. The presence of a positive correlation between the profitability variables, firm size, and firm value is indicated by the positive coefficient number. The capital structure and firm size interaction coefficient value is -0,034, meaning that for every unit rise in the interaction of these variables, the firm value will fall by 0,034, as long as the other factors' interaction stays constant. This negative coefficient value manifests that the interaction relationship between these variables is not in the same direction.

Table 5. Model 2 regression test

Variable	Coefficient value	Standard error
Constant	3,464	0,435
ROA*SIZE	0,483	1,167
DER*SIZE	-0,034	0,021

Presentation of hypothesis testing results (Table 6). It is concluded that hypotheses H_1 and H_2 are accepted since the results of testing capital structure and profitability demonstrate a significant impact on firm value, with each producing a significance value of 0,004 < 0,05 and 0,001 < 0,05. Conversely, the firm size test findings indicate a negligible effect on firm value (0,533 > 0,05); so, hypothesis H_3 is declared to be rejected. Furthermore, the correlation between profitability and firm value (0,000 < 0,05) is significantly impacted by the results of the firm size interaction test; so, hypothesis H_4 is deemed to be accepted. However, the firm value and profitability connection is not significantly affected by the firm size interaction test findings (0,177 > 0,05); as a result, hypothesis H_5 is rejected.

Table 6. Hypothesis test (t test)

Variable	(Sig. < 0.05)	Conclusion
H_1 (ROA)	0,001	Accepted
H_2 (DER)	0,004	Accepted
H_3 (SIZE)	0,533	Rejected
H_4 (ROA*SIZE)	0,000	Accepted
H_5 (DER*SIZE)	0,177	Rejected

DISCUSSION

Review of Hypothesis Testing Results (H_1)

These results validate that profitability has a favorable and considerable impact on firm value. This research demonstrates that a large percentage of profitability can greatly boost a firm value. Management's success in managing company resources is demonstrated by the level of company profitability, which is the main indicator of company performance. According to signaling theory, good performance provides a positive indication for investors to inject their funds into the company (Zhong, *et al.*, 2022). Increasing company performance has the potential to increase firm value, even in the long term (Renaldo & Putri, 2023). Many studies support this idea that when a company produces high profitability, the value of the company will increase accordingly (Indy & Uzliawati, 2023; Natalia, *et al.*, 2021).

Review of Hypothesis Testing Results (H_2)

These findings confirm that firm value is influenced by capital structure positively and significantly. It is shown by this finding that the company's growing capital structure is accompanied by a tendency for firm value to increase. A greater use of funds originating from loans compared to equity is reflected by the high capital structure (Brown, *et al.*, 2021). This indicates that optimizing the use of loan sources tends to encourage an increase in firm value. Many studies show that companies through their high capital structure can create high firm value (Dang & Do, 2021; Pratiwi, 2020).

Review of Hypothesis Testing Results (H_3)

The study's findings show that firm size has no bearing on a firm's value. Larger organizations tend to have better returns generation chances (Edmans, 2023). However, it is proven by these findings that changes in firm value in a higher direction are not encouraged by company scale. There is a strong reason that investors often ignore firm size when investing funds. It is considered by them that opportunities for the company to generate maximum profits are not provided by the size of the company. As a result, there was a decline in share prices which also resulted in a decline in firm value. Several studies report the same thing that the two variables studied do not appear to be related (Oktaviani, 2020; Pradana, 2021).

Review of Hypothesis Testing Results (H_4)

The results of this study demonstrate that a relationship between profitability and firm value can be established based on firm size. These results suggest that profitability demonstrates the company's capacity to generate profits through efficient resource management. Large companies have strong capabilities in managing resources with high flexibility. In addition, the large scale of the company tends to increase public trust in the products produced. As a result, increased sales and the potential for achieving optimal profits can be achieved (Suwandi & Darmawansah, 2023). This condition encourages the company's ability to increase profitability (Liozu & Hinterhuber, 2022). Thus, the welfare of shareholders as a measure of firm value can increase. Other research finds that firm size has helped drive profitability in increasing firm value (Avista, *et al.*, 2021; Zahrani, *et al.*, 2023).

Review of Hypothesis Testing Results (H_5)

The study's conclusions show that the relationship between capital structure and firm value cannot be moderated by firm size. This study demonstrates that a company's financing structure may not be able to grow just because it appears to be broad in scope. Large companies certainly require large loan funds to support their operations. However, if the loan is too large and is followed by a large increase in assets, then asset management tends to be inefficient (Legesse & Guo, 2020). As a result, a company's high capital structure may not always be able to promote a rise in firm value. Many studies have found that moderation between the variables studied does not produce significant correlations (Akhmadi, *et al.*, 2021; Rahmawati, *et al.*, 2021).

CONCLUSION

This study looks into how firm size modifies the effects of profitability and capital structure on firm value in automotive and component companies listed on the Indonesian capital market. It is shown by the analysis that firm value is positively and significantly impacted by profitability. High profitability has an impact on share prices and provides optimal company performance results. Similarly, capital structure has a large and favorable influence on firm value. The propensity for a rise in firm value is encouraged by the capital structure's growing percentage of loan funds. However, firm size does not appear to have a major impact; in fact, it appears to have a negative impact on firm value. Companies that get bigger actually cause a decrease in firm value. Moreover, firm size has the power to regulate the link between profitability and firm value. The opportunity to gain maximum profits and increase firm value is available to large-scale companies. In the meantime, firm size has no moderating effect on the link between capital structure and firm value. The decline in firm value was due to an increase in the number of loans accompanied by unproductive asset management.

RECOMMENDATIONS

With regard to the findings obtained in this study, encouraging increased firm value by increasing profitability and optimizing the company's capital structure is highly recommended. On the other hand, optimal utilization of profit potential to encourage company scale growth is prioritized. Evaluation of business development and diversification strategies that can support company scale growth is also needed to increase firm value. Management must pay attention to operational efficiency aspects so that large scale does not become a detrimental burden for the company. In addition, further research is needed that explores comparisons of other moderating factors. It is expected that more comprehensive information about the elements that can encourage an increase or decrease in firm value will be provided by the results.

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