

FIRM SIZE AND FIRM VALUE IN MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE: DOES PROFITABILITY MEDIATE THE RELATIONSHIP?

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Abstract:

Background: Firm value is a measure of an investor's opinion of a business's overall performance and is frequently directly related to stock prices. Increased market trust in the company's future potential as well as its present performance might result from a strong firm value.

Purpose: Research objective is to confirm the effect of company size -listed on the Indonesia Stock Exchange within the manufacturing sector- on the firm value. Furthermore, this study also investigate the role of profitability as an intervening factor.

Design/methodology/approach: The focus of the investigation is on the manufacturing firms that have disclosed their financial reports up to the year 2018. To ensure a comprehensive sample for research purposes, we selected a saturated sample of 14 firms from this population, resulting in 98 observations. Path analysis is employed to test the hypotheses.

Finding/Result: The research findings indicate that company size exerts both a direct and indirect influence on firm value, with profitability acting as a moderating factor in this relationship. Specifically, an increase in profitability has a positive impact on a company's value.

Conclusion: The size of a business can enhance investor confidence, as larger companies are typically more visible and accessible sources of information, and" they have the potential to achieve greater profitability, consequently contributing to their overall value.

Originality/Value: Profitability acts as a crucial mediator that enhances our understanding of how firm size influences firm value.

Keywords: firm size, profitability, firm value, Indonesia Stock Exchange, manufacturing companies

How to Cite:

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INTRODUCTION

Firm value represents investors' assessment of company's overall success and is closely tied to its stock prices. A robust firm value can drive up stock prices, instilling greater market confidence not just in the company's current performance but also in its future potential. This aspect holds particular importance for investors as an increase in a company's value translates to a growth in shareholder wealth (Brigham, 2011). The evaluated worth of a company is heavily influenced by the information available about its financial components (Tandelilin, 2010). Among the various sources of information that guide investment and credit decisions, financial reports stand out as the most widely used. Financial information is widely recognized as a driving force behind both markets and enterprises (Lev & Gu, 2016). One of the previous studies reported that a sustainable value proposition has a significant impact on financial performance of a company, studied using Tobin's Q (Ilyas & Osiyevskyy, 2022). Another study on 204 firms also revealed a significant and direct association between environmental management accounting/EMA and company performance (Gerged et al. 2024). Interactive management control systems/MCS use enhance managerial real earnings management REM actions that maintain the company focus on the strategic objectives, for which the higher performance can be reached in the future (Osma et al. 2022).

Nevertheless, "it's crucial to emphasize that investors often hold a unique perspective on a company's value that may deviate from what is portrayed in its financial statements. From an investor's stand point, a company's true worth may differ from its book value as documented in its financial records. Various factors, including stock prices, total debt, and total assets, can significantly influence the fluctuations in a company's actual value (Chung & Pruitt, 1994). The research time horizon of 2012 to 2018 reflects the period of economic stabilization and growth after the global crisis and economic consolidation that allows for medium-term performance analysis. Company data has been presented consistently and in accordance with applicable accounting standards. In addition, the time span is sufficient to observe trends, fluctuations, and patterns related to the medium-term effect of firm size variables on firm value, by involving profitability as the intervening variable.

Numerous "countries have conducted research on the association between profitability and a company's value, yielding diverse outcomes, including studies conducted in Vietnam, Kenya, the Philippines, and Indonesia. The results of these investigations suggest a correlation between profitability and firm value, as evaluated by enterprise value/EV, Tobin's q, or share price (Ngoc Hung et al. 2018). In the Kenyan context, similar findings emerged when Tobin's q was used as a gauge of firm value (Kodongo et al. 2014). Sucuahi & Cambarihan (2016) uncovered analogous results in their examination of 86 companies in the Philippines, employing Tobin's q as an indicator of company value. Likewise, Hermuningsih (2014), who scrutinized 150 Indonesian enterprises using Tobin's q as a measure of firm value, revealed empirical evidence that aligns with these findings. According to these studies, an increase in profitability has a positive impact on a company's value.

Profitability is a key indicator of company's financial performance, as it shows how well a company can manage its resources and make money. It is often seen as an important factor in determining firm value (Ross et al. 2016). Moreover, larger firms may achieve higher profitability due to operational efficiencies and competitive advantages, which in turn can lead to increased firm value (Majumdar & Chhibber, 1999). Therefore, profitability serves as a mediating variable in the relationship between firm size and firm value, especially in capital-intensive and competitive industries such as manufacturing. As indicated in the statement above, profitability plays a significant role in determining a firm's value. Consequently, company management consistently pursues profitability as a means to enhance the overall worth of the firm. Profitability is of paramount importance when it comes to augmenting a company's value. However, prior research findings on the relationship between various research variables contradict the conclusions regarding the impact of firm size on firm value. There is a likelihood that profitability exerts an indirect influence on a company's value. In "the context of this study, profitability assumes the role of a mediating variable, bridging the connection between a company's size and its overall value. This choice is substantiated by prior research, which consistently indicates a positive correlation between the scale of a business and its profitability, as well as the subsequent favorable impact of profitability on the firm's value. Building upon these foundational principles, this study aspires to make

a meaningful contribution to the field of financial literature by delving into a model that promises novel perspectives on the influence of firm size on firm value, with profitability as a mediator.

This study is important to confirm the gaps found in previous studies regarding the influence of firm size on firm value and the influence of profitability on firm value. However, there is still a research gap related to the intervening role of profitability in this relationship, especially in the manufacturing sector which has unique characteristics such as large production scale, high capital requirements, and sensitivity to economic conditions. The novelty is profitability as a filler of the existing research gap as a mediating variable from firm size to firm value. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) are the right objects to analyze because this sector is one of the main contributors to national GDP and has a significant contribution to capital market activities in Indonesia. In addition, financial data from manufacturing companies is openly available, making it possible to analyze empirically. This study is expected to strengthens the theory -by confirming the findings of previous research with the most updated empirical data. Furthermore, this study is also designed to produce a valuable reference for organizations, especially in the manufacturing sector, to increase firm value through a financial approach, operational approach, managerial and governance approach, market and business strategy approach, ESG (Environmental, Social and Governance) approach and a holistic technology and digitalization approach.

This research problem-solving approach prioritizes a systematic and comprehensive strategy in several main stages that include conceptual, methodological and analytical approaches. By implementing these steps, the Manufacturing Industry can effectively increase firm value through profitability, all of which are interrelated and have a significant impact on firm value. The expected results of the study can provide insight for management that to increase company value, increasing the size of the company alone is not enough, but must be followed by increasing profitability. Investors can also use this information for strategic considerations in decision making related to expansion, operational efficiency, and financial management.

The aim of study is to test the influence of firm size on firm value by considering the mediating role of profitability in manufacturing companies listed on the

IDX. Knowing the factors that influence firm value can provide insight for company management in designing a company growth strategy that not only increases size but also maintains profitability in order to increase company value. Investors can also use this information to analyze potential companies based on their size and profitability.

METHODS

The study's target population comprises manufacturing companies listed on the Indonesian Stock Exchange that have made their Corporate Governance Reports available up to the year 2018. However, it's worth noting that some companies were not consistent in providing these reports between 2012 and 2018, as there is no requirement for annual issuance. Consequently, the study relied on available data, resulting in a population of 14 companies that were included as research samples (a saturated sample), totaling 98 observations. The type of data used is quantitative data.

Generally, "this study aims to investigate and elucidate the association between firm size, profitability, and firm value within the context of manufacturing companies listed on the Indonesian Stock Exchange. The study's target population comprises manufacturing firms that have made their Corporate Governance Reports available up to the year 2018. However, it's worth noting that some companies were not consistent in providing these reports between 2012 and 2018, as there is no requirement for annual issuance. Consequently, the study relied on available data, resulting in a population of 14 companies that were included as research samples (a saturated sample), totaling 98 observations. The study outcomes are expected to shed light on the factors, specifically intellectual capital and profitability, that influence a company's overall value. This research evaluate the dynamics of corporate valuation in the manufacturing" sector.

In "this investigation, the data will be analyzed using path analysis, a method employed to explore the intricate relationships among variables. Path analysis enables the determination of both the direct and indirect effects of a set of independent variables on a dependent variable. Each path in the causal relationship between the independent variables and the dependent variable is depicted by a path coefficient, indicating the influence of that specific path (Riduwan, 2006). Path analysis

serves as a tool to assess the impact of mediating variables, offering insights into how these factors play a role in the association between independent and dependent variables. Essentially, path analysis extends the principles of multiple regression analysis to investigate causal relationships among variables that are theoretically defined. The construction of causal relationships based on theoretical foundations is then analyzed through path analysis to discern the intricate patterns of relationships among three or more variables. According to Sunyoto (2012), the path analysis equation in research can be expressed as" follows:

$$\text{Profitability} = b_1, \text{Firm Size} + E_1$$

$$\text{Firm Value} = b_1, \text{Firm Size} + b_2 \text{ Profitability} + E_2$$

In "the provided equation, b_1 and b_2 represent the coefficients of the independent variables, while E_1 and E_2 denote the standard errors associated with those coefficients. To analyze this equation and its underlying structure, the statistical software IBM SPSS version 24 was employed. Before conducting the regression test, comprehensive instrument tests were conducted on all measurement tools used in the study. Following these assessments, the instruments were deemed valid and reliable, affirming their suitability for use in the subsequent analysis. This rigorous validation and reliability testing ensured the robustness and trustworthiness of the research" instruments.

Ownership"of a company's total assets can serve as a representation of its firm size. It is anticipated that a larger total asset base will lead to more substantial profits. This expectation arises from the fact that larger corporations possess greater resources to support their operational activities. In alignment with the critical resources theory (Ardiana et al. 2018), it is posited that as a corporation's scale increases, so does its profitability. The research findings of Dewi et al. (2019) and Ardiana et al. (2018) corroborate this assertion, asserting that firm size indeed exerts a positive influence on profitability. Larger firm sizes possess the capacity to significantly enhance both profitability and overall firm value (Hansen & Juniarti, 2014). According to Niresh & Velamampy (2014), business size exerts a strongly favorable impact on profitability, with larger corporations tending to exhibit greater stability and profitability. Conversely, smaller companies may experience lower efficiency but a higher degree of financial leverage. Therefore, the first hypothesis is: H1: Firm size determines firm profitability, positively.

From "the perspective of a company owner, having a substantial number of assets may appear to decrease the company's value. However, from a management standpoint, the simplicity of controlling the organization can enhance its value (Astakoni et al. 2020). The size of a company is often regarded as a positive signal by investors, suggesting that the company holds promising prospects. Consequently, larger companies tend to be more attractive to investors, resulting in higher share prices and an elevated firm value (Ardiana et al. 2018). The research findings of Ardiana et al. (2018) affirm that firm size indeed exerts a favorable influence on firm value. Furthermore, Gill & Obradovich (2012) found that business size has a substantial positive impact on a company's value, a conclusion supported by Prasetyorini (2013), who asserts that firm size significantly enhances firm value. Therefore, the second hypothesis is: H2: Firm size determines firm value, positively.

Profitability "represents the level of net profit a company can achieve through its operations. A company's favorable corporate outlook is typically reflected in higher profitability levels. Greater profitability not only signifies enhanced operational efficiency but also leads to robust company performance. Profitability acts as a magnet for potential investors, enticing them to engage with the company. The influx of numerous investors purchasing company shares drives up stock prices, thereby elevating the overall value of the company. Various countries have conducted research on the association between profitability and business value, yielding diverse results. These studies span countries such as Vietnam, Kenya, the Philippines, and Indonesia, consistently showing a positive connection between profitability and business value, whether measured by Enterprise Value (EV), Tobin's Q, or stock price (Ngoc Hung et al. 2018). In the Kenyan context, similar findings emerged when Tobin's Q was used as a gauge of business value (Kodongo et al. 2014). Sucuahi & Cambarihan (2016) arrived at parallel results when they analyzed 86 companies in the Philippines, employing Tobin's Q as a measure of company value. Likewise, Hermuningsih (2014), who scrutinized 150 Indonesian enterprises using Tobin's Q as a measure of company value, discovered the same empirical evidence. The third hypothesis is: H3: Company profitability determines firm value, positively.

Firm “size represents the dimensions of a company, determined through specific metrics. As per Purnomosidhi (2006), larger corporations are typically obligated to disclose more comprehensive information than their smaller counterparts. Firm size is a variable used to gauge a company’s worth, and it can be assessed through criteria such as total assets, sales, workforce size, and market capitalization. According to research conducted by Sadewo et al. (2017), larger companies tend to exhibit superior performance. This aligns with signal theory, which posits that actions taken by company management determine how investors forecast the prospects. In this context, a larger company size sends a positive signal to investors, indicating strong company performance, subsequently boosting the company’s value. The study by Sadewo et al. (2017) further suggests that profitability has a potential to be the mediator in the association between company size and firm value.” Finally, the fourth hypothesis is: H4: Profitability mediate the effect of firm size on firm value.

Following the background and empirical review, it is known that the firm size plays a role as the independent variable (X), firm value as the dependent variable (Y), and profitability as the mediating variable (Z). The conceptual framework is explained visually by Figure 1.

RESULTS

A descriptive test is a valuable analytical tool for obtaining an overview and summary of research data. In this particular study, the descriptive test was applied to offer insights into firm size, profitability, and firm value. The following key statistical metrics were utilized:

1. Mean (Average Value). “This statistic provides the average or central tendency of the data, offering a sense of the typical” value.
2. Standard Deviation (SD). “The standard deviation measures the degree of variability or dispersion within the data, indicating how much individual data points deviate from the” mean.
3. Minimum Value (Min). “This represents the smallest value observed within the dataset, highlighting the lower” limit.
4. Maximum Value (Max). “The maximum value is the largest observed value within the dataset, indicating the upper” limit.

These “statistical measures were used to characterize and summarize the key variables of firm size, profitability, and firm value, enabling a comprehensive understanding of the data distribution and key” characteristics.

The “descriptive statistics for the key variables from 14 organizations over the period of 2012 to 2018 are demonstrated in Table 1 above. These statistics provide a snapshot of the central tendencies, variabilities, and the range of values for each of the variables during the specified time frame, offering valuable insights into the characteristics of the” data.

Classic Assumption Test

In this study, “which incorporates three key variables firm size, profitability, and firm value before proceeding with the path analysis to verify the research hypothesis, it’s essential to ensure that the classical assumptions pertaining to the data are met. These assumptions are fundamental to ascertain that the independent variable serves as an unbiased estimator of the dependent variable. Several traditional assumption tests are typically conducted to assess the data’s suitability for analysis, including normality test, heteroscedasticity, multicollinearity, and” autocorrelation.

Normality Test. “This test evaluates whether the data follows a normal distribution. Deviations from normality can affect the accuracy of statistical analyses. The result of normality test is demonstrated in Table 2. The Kolmogorov-Smirnov test is used to validate the assumption of’ normality.

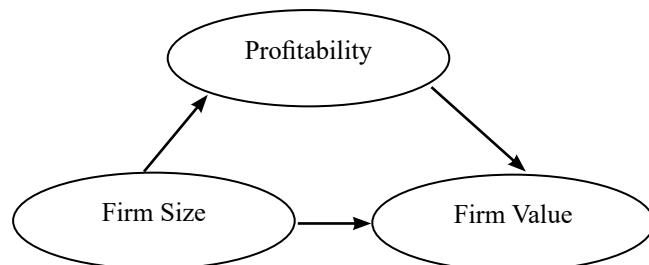


Figure 1. The research model

Table 1. The results of descriptive analysis

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
Firm Size	98	32.79	34.89	33.6930	.49708
Profitability	98	.00	.23	.1089	.05083
Firm Value	98	.50	4.05	2.0618	1.06280
Valid N (listwise)	98				

Tabel 2. Normality Test

		One-Sample Kolmogorov-Smirnov Test	
		Unstandardized Residual 1	Unstandardized Residual 2
N		98	98
Normal Parameters ^{a,b}	Mean	.0000000	.0000000
	Std. Deviation	.87910892	.84550494
Most Extreme Differences	Absolute	.084	.067
	Positive	.060	.059
	Negative	-.084	-.067
Test Statistic		.084	.067
Asymp. Sig. (2-tailed)		.083 ^c	.200 ^{c,d}

Note: ^aTest distribution is Normal; ^bCalculated from data; ^cLilliefors Significance Correction; ^dThis is a lower bound of the true significance

The results “of the residual normality test using the Kolmogorov-Smirnov test indicate that the significance values (p-values) are 0.083 for the first equation and 0.200 for the second equation. Since both p-values are greater than the commonly used significance level of 0.05 ($p > 0.05$), it suggests that the residuals follow a normal distribution, and the assumption of normality is met. This means that the data used for the analysis does not significantly deviate from a normal distribution in terms of the residuals, supporting the validity of this assumption for the” analysis.

Heteroscedasticity Test. “Heteroscedasticity refers to the unequal variance of errors across different levels of the independent variable. Detecting heteroscedasticity is important as it can impact the reliability of regression results. The result of heteroscedasticity test is demonstrated in Table 3. The Glejser test is used to examine the assumption of” heteroscedasticity.

The results “of the heteroscedasticity test using the Glejser test have provided significance values (p-values) for each independent variable, and in each case, these p-values are greater than 0.05 ($p > 0.05$). This outcome suggests that there are no significant heteroscedasticity issues present in the model. Consequently, it can be inferred that the assumption of homoscedasticity,

where the variance of the residuals is constant across different levels of the independent variables, is upheld in the analysis. This is a positive finding as it ensures that the variability of the errors does not systematically change as a function of the independent variables, which is crucial for reliable regression” results.

Multicollinearity Test.“Multicollinearity occurs when two or more independent variables in a regression model are highly correlated. It can make it challenging to determine the individual effect of each variable. The result of multicollinearity test is demonstrated in Table 4. The Variance Inflation Factor (VIF) test is used to examine the assumption of” multicollinearity.

The “results of the VIF (Variance Inflation Factor) test indicate that for each independent variable in each equation, the VIF value is less than 10 ($VIF < 10$). This finding is significant because it suggests that there are no significant multicollinearity issues within the model. Multicollinearity occurs when independent variables in a regression model are highly correlated, which can make it challenging to discern the individual contributions of each variable. In this case, with VIF values below 10, it can be concluded that the assumption of low multicollinearity has been met, enhancing the reliability of the regression” analysis.

Table 3. Heteroscedasticity test

Glejser Test			
Model		t	Sig.
1	(Constant)	12.050	.000
	Firm Size	-.315	.754
a. Dependent Variable: Absolute Residual 1			
2	(Constant)	14.059	.000
	Firm Size	-1.189	.237
	Profitability	1.644	.104
a. Dependent Variable: Absolute Residual 2			

Tabel 4. Multicollinearity Test

VIF Test ^a			
Model	Collinearity Statistics		
	Tolerance	VIF	
1	Firm Size	1.000	1.000
a. Dependent Variable: Profitability			
2	Firm Size	.773	1.294
	Profitability	.773	1.294
a. Dependent Variable: Firm Value			

Autocorrelation Test. “Autocorrelation examines whether the residuals (errors) in a time-series dataset are correlated with each other, which can violate the independence assumption. The result of autocorrelation test is demonstrated in Table 5. The Durbin-Watson (DW) test is used to test the autocorrelation” assumption.

The results “of the autocorrelation test using the Durbin-Watson test have yielded DW (Durbin-Watson) values of 1.990 for equation 1 and 2.393 for equation 2. Additionally, the dU value was found to be 1.713, while the 4-dU value was calculated as 2.287 for” comparison. The “key observation here is that the DW values fall within the range of the dU values and 4-dU values (dU < DW < 4-dU). This alignment between the DW values and the comparison values indicates that no significant autocorrelation issues are present in the model. In other words, the autocorrelation assumptions have been satisfied, signifying that the residuals in the model do not exhibit substantial autocorrelation, supporting the reliability of the regression” analysis. By “conducting these classical assumption tests, researchers can ensure that the data meets the necessary criteria for accurate and reliable path analysis, helping to establish the robustness of the” study’s findings.

The path “analysis method has been employed in this study to explore the relationships between business size, profitability, and firm value, with profitability serving as a mediator. The path analysis in the testing process is divided into three distinct parts; testing the direct effect of firm size on profitability, testing the direct effect of firm size and profitability on firm value, and testing the indirect effect of firm size on firm value via profitability. By breaking down the analysis into these three components, the study can gain a comprehensive understanding of the intricate relationships between these variables and how they collectively contribute to explaining firm” value.

The “path analysis has generated the following results for assessing the impact of business size on” profitability:

$$\text{Profitability} = 0.477 * \text{Firm Size} + e1$$

In “Part 1 of the path analysis is demonstrated in Table 6, it is observed that firm size exerts a direct effect on profitability, as indicated by the path coefficient of 0.477. Moreover, this effect is statistically significant with a significance value (p) of 0.000 (p < 0.05). This signifies that firm size has a substantial and positive influence on profitability, suggesting that as the firm size increases, profitability also tends to” increase.

Table 5. Autocorrelation Test

		DW Test ^b	
Model		Durbin-Watson	
1		1.990 ^a	
a. Predictors: (Constant), Firm Size			
b. Dependent Variable: Profitability			
2		2.393 ^a	
a. Predictors: (Constant), Profitability, Firm Size			
b. Dependent Variable: Firm Value			

Table 6. Direct effect of firm size on profitability

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate					
1	.477 ^a	.227	.219	.88367575					
a. Predictors: (Constant), Firm Size									
Coefficients ^a									
Model	Unstandardized Coefficients	Standardized Coefficients Beta	t	Sig.					
	B	Std. Error							
1	(Constant) 1.011E-14	.089		.000	1.000				
	Firm Size .477	.090	.477	5.312	.000				
a. Dependent Variable: Profitability									

The “coefficient of determination (R-squared) for the direct effect of business size on profitability is calculated as 0.227. This value indicates that firm size can explain approximately 22.7 percent of the variability in profitability. In other words, business size accounts for about 22.7 percent of the observed changes in profitability in the model, highlighting its significance in shaping profitability” levels.

The path analysis results for assessing the impact of business size on firm value and profitability are as” follows:

$$\text{Firm value} = 0.339 * \text{Firm Size} + 0.282 * \text{Profitability} + e2$$

In Section 2 of the path analysis is demonstrated in Table 7, several key findings are observed:

1. Direct “Effect of Firm Size on Firm Value: Business size has a direct and significant impact on firm value, as indicated by the path coefficient of 0.339 and a significance value (p) of 0.001 ($p < 0.05$). This implies that firm size has a substantial positive effect on firm value, suggesting that as the firm size increases, firm value tends to increase as” well.
2. Direct “Effect of Profitability on Firm Value: Profitability also exerts a direct and significant

effect on firm value, with a path coefficient of 0.282 and a significance value (p) of 0.005 ($p < 0.05$). This indicates that profitability significantly contributes to firm value, suggesting that higher profitability leads to higher firm” value.

3. Coefficient “of Determination (R-squared): The coefficient of determination for the combined direct effects of business size and profitability on firm value is calculated as 0.285. This value implies that business size and profitability together can explain approximately 28.5 percent of the variability in firm value. In other words, these two variables collectively account for about 28.5 percent of the observed changes in firm value in the model, highlighting their combined influence on firm” value.

These “findings provide insights into how both business size and profitability independently and collectively contribute to the determination of firm value in the context of the”study.

In Section 3 of the path analysis is demonstrated in Table 8, it is revealed that firm size has an indirect effect on firm value through profitability, with a path coefficient of 0.135 and a significance value (p) of 0.015 ($p < 0.05$). This indicates that firm size has a significant positive influence on firm value, and this

effect is mediated by profitability. In simpler terms, as the firm size increases, it has a significant impact on increasing profitability, which in turn has a significant effect on increasing firm" value.

This finding "highlights the mediating role of profitability in the relationship between firm size and firm value. Specifically, profitability acts as a partial mediator, meaning that it partially explains how firm size influences firm value. This suggests that while firm size has a direct effect on firm value, a portion of its influence operates indirectly through its impact on profitability. In essence, profitability plays a key role in transmitting the positive effects of firm size to firm value within the context of the" study.

In summary, the findings from the path analysis suggest the following" key relationships:

1. Firm size has a strong and direct positive effect on profitability, meaning that as the firm size increases, profitability also increases.

- Both firm size and profitability have substantial and direct positive effects on firm value. In other words, higher values of business size and profitability lead to higher firm" value.
- Firm size also has a significant positive effect on firm value, but this influence is mediated by profitability. In simpler terms, as firm size increases, it significantly affects profitability, which, in turn, has a significant positive impact on firm value. This indirect effect underscores the importance of profitability as a mediator in the relationship between business size and firm" value. Path charts in Figure 2.

In essence, "firm size plays a pivotal role in shaping both profitability and firm value. While it has a direct impact on both variables, its influence on firm value is partially mediated by profitability. This suggests that firm size contributes to firm value not only through its direct effect but also through its influence on profitability, highlighting the complexity of these interrelated factors in explaining firm" value.

Tabel 7. Direct effect of firm size and profitability on firm value

Model Summary							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate			
1	.534 ^a	.285	.270	.85435864			
a. Predictors: (Constant), Firm Size							
Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients Beta		t		
	B	Std. Error			Sig.		
1	(Constant)	8.091E-15	.086		.000		
	Firm Size	.339	.099	.339	3.433		
	Profitability	.282	.099	.282	2.855		
a. Dependent Variable: Profitability							

Table 8. Indirect effect of firm size on firm value through profitability

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients Beta		t
	B	Std. Error			Sig.
1	(Constant)				
	Firm Size	.135	.054	.135	2.475
a. Intervening Variable: Profitability					
b. Dependent Variable: Firm Value					

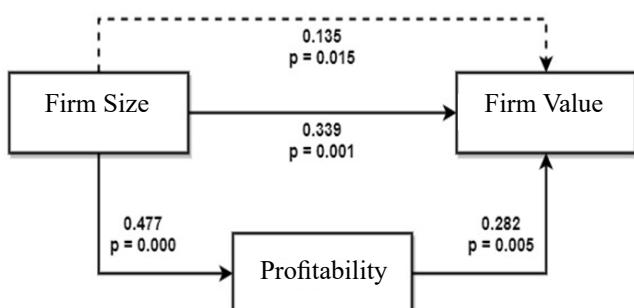


Figure 2. Path charts

Effect of Firm size on Profitability

The test “results is demonstrated in Table 9 have validated the first research hypothesis, as indicated by a path coefficient of 0.477 and a significant value (p) of 0.000 ($p < 0.05$). This acceptance of the hypothesis indicates that business size indeed has a favorable and significant effect on profitability. In other words, the findings of this study support the notion that business size has a positive and substantial impact on” profitability. This “positive trend suggests that larger firms tend to exhibit greater profitability, while smaller firms may have lower profitability. In essence, the size of the firm plays a significant role in influencing and contributing to its overall profitability. These findings are in line with previous research, such as that conducted by Niresh & Velnampy (2014), which has also observed a positive relationship between business size and” profitability. Profitability is influenced by Firm Size in Manufacturing Companies listed on the Indonesia Stock Exchange.

Effect of firm size on firm value

The test “results is demonstrated in Table 9 have confirmed the research hypothesis, with a path coefficient of 0.339 and a significance value (p) of 0.001 ($p < 0.05$). This acceptance of the hypothesis indicates that firm size indeed has a significant effect on firm value. These findings align with and are consistent with previous research conducted by Ngoc Hung et al. (2018), Jonsson (2007), and Ekayana (2007), all of whom have found that firm size has a positive and substantial relationship with firm” value.

In other words, “this study’s results reinforce the notion that larger firm sizes are associated with higher firm values. This connection suggests that, in the context of the study, firm size plays a pivotal role in influencing and contributing to the overall value of the firm. The larger the firm, the more it is perceived as valuable by investors and” stakeholders. In line with the analysis results, Firm Value is influenced by Firm Size in Manufacturing Companies listed on the Indonesia Stock Exchange.

Effect of Profitability on Firm value

The test “results is demonstrated in Table 9 have validated the research hypothesis, as evidenced by a path coefficient of 0.282 and a significance value (p) of 0.005 ($p < 0.05$). This acceptance of the hypothesis indicates that profitability indeed has an effect on company value. These findings align with and support previous research by Bartram et al. (2011), Naito & Laux (2011), Ngoc Hung et al. (2018), Santika & Ratnawati (2002), Soliha & Taswan (2002), and Sucuah & Cambarihan (2016), which have consistently shown that profitability has a positive and significant impact on business” value. In “practical terms, higher profitability signifies that a company is effectively utilizing its assets and revenues, as reflected in a high Return On Assets (ROA) ratio. This efficiency leads to overall success, resulting in higher stock prices and making it easier for the company to attract new investments. Consequently, the company can expand its operations, establish favorable market conditions, and ultimately increase its earnings. These positive factors collectively contribute to higher company value and long-term wealth accumulation for its” stakeholders. Investors “often use a company’s profitability as a valuable indicator of its future prospects, following the principles of signaling theory. High profitability serves as a signal of high efficiency and a promising outlook, making the company an attractive investment option. In summary, profitability plays a crucial role in both financial performance and investor perception, influencing the company’s value and potential for” growth. In line with the analysis results, Firm Value is influenced by Profitability in Manufacturing Companies listed on the Indonesia Stock Exchange.

Table 9. Summary of hypothesis testing results

Relationship	Path Coef.	T	p	Interpretation
Firm size on profitability	0.726	10.442	0.000	Significant
Firm size on firm value	0.428	4.956	0.000	Significant
Profitability on firm value	0.446	5.163	0.000	Significant
Firm size on firm value through profitability	0.324	4.635	0.000	Significant

Effect of Firm size on Firm value through Profitability

The “analysis demonstrated in Table 9 have confirmed the research hypothesis, as indicated by the path coefficient of 0.135 and a significance value (p) of 0.015 ($p < 0.05$). This acceptance of the hypothesis suggests that firm size indeed has an effect on firm value through its influence on profitability. In simpler terms, the study’s findings provide support for the fourth hypothesis, which posits that business size has a positive and significant impact on firm value when mediated by” profitability. This “finding aligns with signal theory, a concept that reflects actions taken by company management to signal to investors how they perceive the company’s prospects. In this context, a larger company size is interpreted as a positive signal of good company performance, thereby increasing the company’s value. The findings are consistent with previous research findings, such as those from Sadewo et al. (2017), which suggest that profitability plays a moderating role in the relationship between company size and firm value. In essence, profitability acts as a crucial mediator that enhances our understanding of how firm size influences firm value within the context of the” study. The analysis conducted concluded that Firm Size influences Firm Value through Profitability in Manufacturing Companies listed on the Indonesia Stock Exchange.

Managerial Implications

The implications of these findings suggest that organizations and investors should take into account not only firm size but also profitability and firm value when making investment decisions. These variables play crucial roles in understanding and assessing the performance and value of manufacturing companies listed on the Indonesia Stock Exchange.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This “study provides strong empirical evidence of a significant relationship between firm size, profitability, and firm value in Manufacturing Companies listed on the Indonesia Stock Exchange. Larger companies are more attractive to investors because of their stability, market dominance, and access to capital markets that can increase the ability to generate profitability, thereby increasing firm” value. This finding is in line with previous studies, such as those conducted by Niresh & Velhampy (2014). Furthermore, “both firm size and profitability have a direct and significant impact on firm value. These findings are in line with and consistent with previous studies conducted by Ngoc Hung et al. (2018), Jonsson (2007), and Ekayana (2007), Bartram et al. (2011), Naito & Laux (2011), Ngoc Hung et al. (2018), Santika & Ratnawati (2002), Soliha & Taswan (2002), and Sucuahi & Cambarihan (2016). This implies that higher firm size and greater profitability contribute directly to higher firm” value. Finally, “firm size also affects firm value indirectly, mainly through its impact on profitability. In essence, when firm size increases, it significantly affects profitability, which in turn has a positive impact on firm value. This finding is consistent with previous research” findings, such as from Sadewo et al. (2017).

Recommendations

Organizations “and investors should take into account not only firm size but also profitability and firm value when making investment decisions. It’s worth noting that this study has certain limitations and scope restrictions that should be considered. For future research, it would be beneficial to delve deeper into these relationships and incorporate additional references related to corporate value to provide a more comprehensive understanding of the subject”” matter.

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